

# TORNILLO

---

INDEPENDENT SCHOOL DISTRICT



## Annual Financial Report

FOR THE YEAR ENDED AUGUST 31, 2017

**TORNILLO INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORTS**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2017

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# TORNILLO INDEPENDENT SCHOOL DISTRICT

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CERTIFICATE OF BOARD

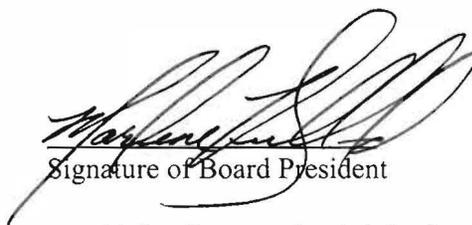
Tornillo Independent School District  
Name of School District

El Paso County  
County

071-908  
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 18th day of January 2018.

  
Signature of Board Secretary

  
Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is(are):  
(attach list as necessary)

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## **FINANCIAL SECTION**

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## Independent Auditor's Report

To the Board of Trustees  
Tornillo Independent School District

### **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 Tornillo Independent School District (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 of 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 preparation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provides 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 Tornillo Independent School District, as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information and pension information on pages 9 through 18 and 64 through 68 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.

### *Supplementary and Other Information*

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

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The required TEA schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2018, on our consideration of the 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 Tornillo Independent School District's internal control over financial reporting and compliance.

*Gibson Ruddock Patterson LLC*

Gibson Ruddock Patterson LLC  
El Paso, Texas  
January 12, 2018

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we the managers of Tornillo Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

### **USING THIS 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, which 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 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 what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about the 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 statement provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major 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 in compliance with the terms of grants.

### **Reporting the District as a Whole**

#### **The Statement of Net Position and the Statement of Activities**

The primary purpose of the analysis of the District's overall financial condition and operations is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U.S. Department of Education to assist children with disabilities 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 non-financial 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.

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 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).

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

### **The District as Trustee**

#### **Reporting the District's Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. 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.

## **FINANCIAL HIGHLIGHTS**

Total assets and total deferred outflows and resources of the Tornillo Independent School District exceeded its liabilities for fiscal year 2017 by \$17,358,476 (net position). Of this amount, \$5,399,157 (unrestricted net position) may be used to meet the District's ongoing obligations to creditors and residents.

Total Net Position of the District decreased from \$18,037,899 in fiscal year 2016 to \$17,358,476 at year-end 2017. Of this total amount, unrestricted increased by \$94,117 from \$5,305,040 to \$5,399,157. Total revenues decreased \$1,005,426 from \$15,469,223 in fiscal year 2016, to \$14,463,797 in fiscal year 2017. Total expenses decreased \$1,016,727 from \$14,960,266, to \$13,943,539.

The District's governmental funds financial statements reported a combined ending fund balance in fiscal year 2017 of \$8.9 million. The combined ending fund balance of the District decreased \$9 million

from \$17.9 million in fiscal year 2016. Of this total amount, \$6,931 is Nonspendable, \$1,651,872 is Restricted, \$23,618 is Committed, \$660,630 is Assigned and \$6,614,150 is Unassigned and is available for spending at the District's discretion.

The fund balance in the Debt Service Fund is \$393,370. The Interest and Sinking tax rate for fiscal year 2017 is \$.3107 - \$1.0901 for Maintenance and Operations. A combined total of \$1.4008 per 100 valuation.

On January 27, 2016, the Board of Trustees passed an order calling a bond election. During Election Day, May 7, 2016, the Tornillo Community voted in favor of passing the \$10 million bond for the construction of a track and field as well as other repairs to district's facilities. As a result of the bond passing, I&S tax rate increased from \$0.2136 to \$0.3107 for fiscal year 2016-2017. The M&O tax rate will remain at \$1.0901 per every \$100 valuation for a total combined tax rate of \$1.4008.

In 2015, the Superintendent assigned \$900,000 in addition to the \$100,000 assigned in 2014 for any other construction needs of the district. As of August 31, 2017, the assigned fund balance is \$660,630 after construction-related expenses and an assessment of District's facilities.

Furthermore, of the \$296,520 committed by the Board of Trustees for the Athletic Program, \$273,130 were spent during 2017. As of year-end, the commitment for this fund is \$23,390. Funds will be used to recondition athletic equipment during 2018. As of August 31, 2017, a commitment in the amount of \$228 remains due to the resolution approved by the Board of Trustees during 2017 to purchase a tractor. The amount of the total purchase was less than the amount committed by the Board of Trustees. These funds will be uncommitted during 2018.

The District scored 86 out of 100 possible points for 2016-2017 Financial Integrity Rating System of Texas (FIRST) based on 2015-2016 data, which resulted in an "Above Standard" rating.

### **Government-Wide Financial Analysis**

Our analysis of comparative balances and changes therein compares both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District decreased from \$18,037,899 in fiscal year 2016 to \$17,358,476 in 2017. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$5.4 million at August 31, 2017. The decrease in governmental net position is mainly attributed to the prior period adjustment recorded to the accumulated depreciation of buildings.

**Table I**  
**The District's Net Position**  
(in thousands)

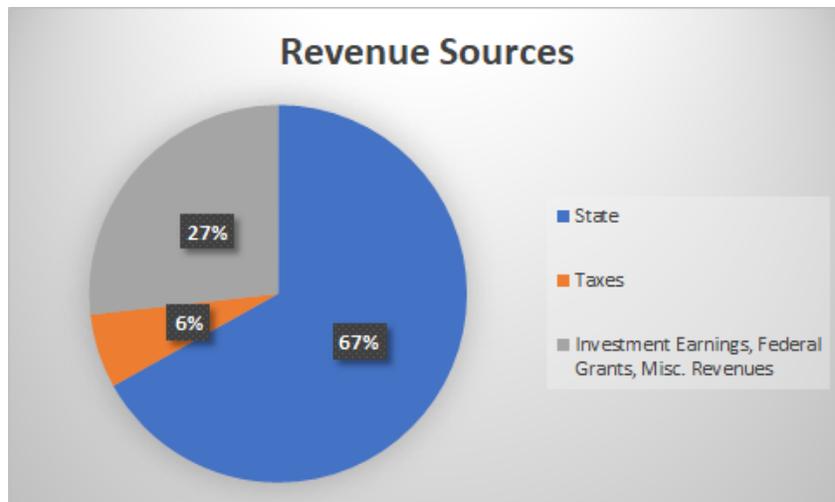
Governmental Activities

|   | <u>2016</u>          | <u>2017</u>         |
|---|----------------------|---------------------|
| Current and Other Assets                          | \$19,487             | \$12,329            |
| Non-Current Assets                                | 22,729               | 30,931              |
| Deferred Outflows of Resources                    | <u>1,808</u>         | <u>1,930</u>        |
| Total Assets and Deferred Outflows                | <u>44,024</u>        | <u>45,190</u>       |
| Current Liabilities                               | 1,413                | 3,225               |
| Long Term Liabilities                             | 24,314               | 24,372              |
| Deferred Inflow                                   | <u>260</u>           | <u>235</u>          |
| Total Liabilities and Deferred Inflows            | <u>25,987</u>        | <u>27,832</u>       |
| Net Position:                                     |                      |                     |
| Invested in capital assets<br>net of related debt | 11,399               | 10,818              |
| Restricted  | 1,334                | 1,141               |
| Unrestricted*                                     | <u>5,305</u>         | <u>5,399</u>        |
| <br>Total Net Position                            | <br><u>\$ 18,038</u> | <br><u>\$17,358</u> |

**Changes in Net Position**

The District's total revenues were \$14.4 million. A significant portion, 67 percent, of the district's revenues comes from state aid formula grants. Approximately 6 percent comes from taxes. The remaining 27 percent comes from investment earnings, federal grants and miscellaneous services. (See figure A-1 below.)

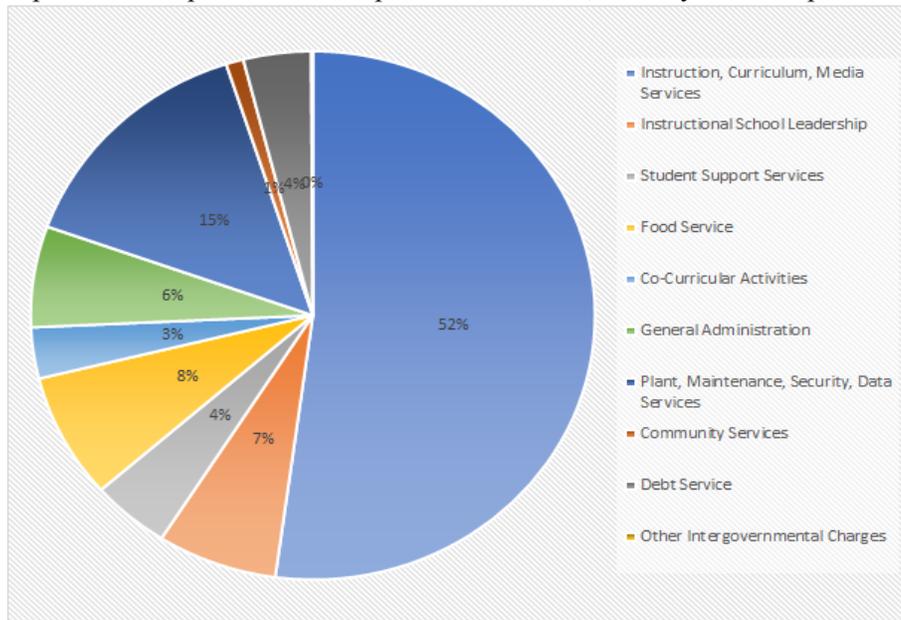
**Figure A-1 Sources of Revenues for Fiscal Year 2017**



**Table II**  
**Changes In Net Position**  
(in thousands)  
Governmental  
Activities

|  | <u>2016</u>      | <u>2017</u>      |
|--|------------------|------------------|
| Revenues:  |                  |                  |
| <u>Program Revenues:</u>   |                  |                  |
| Charges for Services   | \$ 140           | \$ 127           |
| Operating Grants and Contributions                               | 4,125            | 3,545            |
| <u>General Revenues:</u>   |                  |                  |
| Maintenance & Operations Taxes                                   | 681              | 727              |
| Debt Service Taxes   | 122              | 192              |
| State Aid-Formula Grants   | 10,341           | 9,673            |
| Grants and Contributions not<br>Restricted to specific functions | -                | -                |
| Investment Earnings  | 39               | 150              |
| Miscellaneous  | 21               | 49               |
| Special Item - Litigation Settlement                             | -                |                  |
| <b>Total Revenues</b>  | <b>15,469</b>    | <b>14,463</b>    |
| Expenses:  |                  |                  |
| Instruction, curriculum and<br>Media services                    | 8,390            | 7,269            |
| Instructional and school leadership                              | 967              | 960              |
| Student support services   | 525              | 628              |
| Food Services  | 956              | 1,064            |
| Co-curricular activities   | 441              | 436              |
| General Administration   | 877              | 862              |
| Plant maintenance, security, and<br>data processing              | 2,055            | 2,031            |
| Community services   | 121              | 140              |
| Debt service   | 616              | 541              |
| Other Intergovernmental Charges                                  | 12               | 12               |
| Facilities acquisition and construction                          | -                | -                |
| Payments to fiscal agent/member district                         | -                | -                |
| Other business-type activities                                   | -                | -                |
| <b>Total Expenses</b>  | <b>14,960</b>    | <b>13,943</b>    |
| Increase in net position   | 509              | 520              |
| <u>Beginning net position</u>                                    | <u>17,529</u>    | <u>18,038</u>    |
| Prior Period Adjustment  | -                | (1,200)          |
| <u>Ending net position</u>                                       | <u>\$ 18,038</u> | <u>\$ 17,358</u> |

The total cost of all programs and services was \$13.9 million. Fifty-two percent of these costs were for instructional student services. Seven percent for all programs and services cost was for instructional and school leadership and fifteen percent was for plant maintenance, security and data processing services.



## THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported combined fund balances of \$8.9 million which is below last year's total of \$17.9 million. Included in this year's total change is decrease of \$9,105,216 related to obligations paid in the capital projects account due to the construction of the bond projects which are expected to be completed by 2018.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2017, the District had \$30,931,491 invested in a broad range of capital assets. Included with this year's increase of capital assets is an increase of \$10,091,818 related to the construction in progress of the 2016 bond-related projects (safety, ADA Accessibility, overall facility upgrades to include the new athletic facility (track, field, bleachers, press box, and field house).

During 2017, a reconciliation of assets and real property was conducted. The reconciliation allowed for audit records and the district's third-party data system (RCI) to reflect accurate inventory values. As a result, the accumulated depreciation was adjusted by \$1,199,681.

### Debt

At year-end, the District had \$19.2 million in bonds outstanding versus \$19.4 million last year. Bond capacity from Bond Issue 2016 remained at the end of 2016. Bond 2017 was issued to finance the bond capacity in the amount of \$395,000 during 2017.

The District issued a principal amount of \$9,380,000, but investors paid a premium of \$618,051 on top of the principal amount. Thus, the District received \$9,998,051. We limited to total price the District received to just under \$10 million to take advantage of a federal tax provision that enables tax-exempt bond issuers to achieve lower interest rates if they limit the amount of tax-exempt debt sold in a calendar year to \$10 million or less. Such debt is called "bank-qualified" because of tax benefits banks enjoy when they purchase bank-qualified bonds. The resulting interest rate is usually 25 basis points (one-quarter of 1%) lower for BQ bonds than for non-BQ bonds. A portion of the \$9,998,051 of bond proceeds was used to cover issuance costs (\$92,150) and the winning bidder's discount (\$165,893). The District is expecting to have a surplus in the Debt Service Fund as a result of the IFA award (which was uncertain at the time the bonds were sold).

During 2017, the district sold the remaining \$395,000 of the unused voter-authorized bonds. Series 2017 was approved by the Board of Trustees on June 29, 2017. As of August 31, 2017, there is no more bond capacity remaining related to the issuance of bonds approved by the voters during the election held on May 7, 2016.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's student population continues to show a slight decrease over previous years. Due to the District's proximity to the Border, it is not unusual to see students return to their Country of Origin especially during the last couple of years in which the wave of violence has decreased in our neighboring city of Cd. Juarez, Mexico. In addition, several High School Students continue to transfer to our neighboring school districts who have an open enrollment policy. With the historic enrollment trends in mind, the Board of Trustees and Administration continue to use a conservative budget approach to ensure next year's budget is balanced. Other areas such as staffing ratios and attendance projections are considered during the budget development process.

Our Board always adopts its budget using a conservative growth estimate in ADA. We maintain the local Maintenance & Operations tax rate at \$1.09 in order to maximize the Tier II State Funding. Tornillo ISD currently qualifies for approximately 86% funding by the state for its debt service obligations; with the remaining 14% satisfied through the District's Debt Service Taxes. It has long been the Board's objective to maintain a significant fund balance to make new construction, and/or renovations to existing structures, possible should the need arise.

The Interest and Sinking tax rate has increased from \$0.2136 to \$0.3107 during the current year in order to meet the obligations of the new Bond, Series 2016. The Maintenance and Operation tax rate will remain at \$1.09 per every hundredth valuation for a combined tax rate of \$1.4008.

The District continues to apply for and qualify for various Federal Program Grants that assist in the enhancement of education for students identified with special needs. These funds constitute a significant portion of our operating budget.

## **BUDGETARY HIGHLIGHTS**

GASB Statement 34 required that we provide a discussion on significant variances between the district's original budget, final budget, and actual expenditures, and the impact of these variances on the District's/department's future liquidity.

*General Fund.* The FY 2017 budget was developed by balancing challenges of an increase in operational cost and maintaining an adequate fund balance reserve to ensure financial stability. The most significant fund for the District is the General Fund, funded primarily through state aide and property tax revenue.

Over the course of the year, the District approved several budget amendments. The most significant amendment was related to the expenditures incurred for the upgrade to the bond related projects in function 81. Function 51 also had two significant budget amendments. A budget amendment was necessary due to the increase in the cost of electricity. The second budget amendment is related to the commitment of fund balance for the purchase of a tractor. Budget amendments that increase or decrease the amount in a function are presented to the Tornillo ISD Board of Trustees for approval.

Exhibit G-1 of the financial statements includes a Statement of Revenues, Expenditures, and Changes in Fund Balance report that compares original and final budget amounts to actual amounts as of year-end close. The final column of the report lists of the variance as compared to the final budget.

At the end of the fiscal year, the District's actual revenues exceeded projected revenues by \$538,117.

The District's expenditures as compared to the final budget include several negative variances. The following functions had minimal budget variances attributed to payments made to TRS on behalf of the employees during 2017:

- Function 31 (Guidance and Counseling)
  
- Function 33 (Health Services)
  
- Function 35 (Food Service)
  
- Function 51(Maintenance and Operations)
  
- Function 53 (Data Services)

Total functions within the approved budget did not exceed the total approved appropriation. The significant variances listed above will not significantly impact future services or liquidity.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, 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 any questions about this report or need additional financial information, contact the District's Business Office, at Tornillo Independent School District, 19200 Cobb Avenue, Tornillo, Texas.

## **BASIC FINANCIAL STATEMENTS**

TORNILLO INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2017

EXHIBIT A-1

| Data<br>Control<br>Codes                       | Primary Government         |
|--|----------------------------|
|  | Governmental<br>Activities |
| <b>ASSETS</b>                                  |                            |
| 1110 Cash and Cash Equivalents                 | \$ 11,640,815              |
| 1220 Property Taxes Receivable (Delinquent)    | 226,303                    |
| 1230 Allowance for Uncollectible Taxes         | (11,315)                   |
| 1240 Due from Other Governments                | 352,578                    |
| 1290 Other Receivables, net                    | 795                        |
| 1300 Inventories                               | 22,210                     |
| 1410 Prepayments                               | 98,049                     |
| Capital Assets:                                |                            |
| 1510 Land                                      | 7,243                      |
| 1520 Buildings, Net                            | 20,286,078                 |
| 1530 Furniture and Equipment, Net              | 495,234                    |
| 1560 Library Books and Media, Net              | 51,118                     |
| 1580 Construction in Progress                  | 10,091,818                 |
| 1000 Total Assets                              | 43,260,926                 |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>          |                            |
| 1701 Deferred Charge for Refunding             | 617,504                    |
| 1705 Deferred Outflow Related to TRS           | 1,312,456                  |
| 1700 Total Deferred Outflows of Resources      | 1,929,960                  |
| <b>LIABILITIES</b>                             |                            |
| 2110 Accounts Payable                          | 1,860,200                  |
| 2140 Interest Payable                          | 48,453                     |
| 2150 Payroll Deductions & Withholdings         | 92,282                     |
| 2160 Accrued Wages Payable                     | 262,601                    |
| 2180 Due to Other Governments                  | 25,986                     |
| 2190 Due to Student Groups                     | 410                        |
| 2200 Accrued Expenses                          | 15,707                     |
| 2300 Unearned Revenue                          | 919,301                    |
| Noncurrent Liabilities                         |                            |
| 2501 Due Within One Year                       | 773,000                    |
| 2502 Due in More Than One Year                 | 20,459,400                 |
| 2540 Net Pension Liability (District's Share)  | 3,139,693                  |
| 2000 Total Liabilities                         | 27,597,033                 |
| <b>DEFERRED INFLOWS OF RESOURCES</b>           |                            |
| 2602 Deferred Gain on Refunding                | 54,341                     |
| 2605 Deferred Inflow Related to TRS            | 181,036                    |
| 2600 Total Deferred Inflows of Resources       | 235,377                    |
| <b>NET POSITION</b>                            |                            |
| 3200 Net Investment in Capital Assets          | 10,817,858                 |
| 3820 Restricted for Federal and State Programs | 137,966                    |
| 3850 Restricted for Debt Service               | 991,715                    |
| 3870 Restricted for Campus Activities          | 11,780                     |
| 3900 Unrestricted                              | 5,399,157                  |
| 3000 Total Net Position                        | \$ 17,358,476              |

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

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

EXHIBIT B-1

| Data<br>Control<br>Codes                        | 1             | Program Revenues             |   | 6   |
|---|---------------|------------------------------|---|---|
| Codes   | Expenses      | 3<br>Charges for<br>Services | 4<br>Operating<br>Grants and<br>Contributions | 6<br>Primary Gov.<br>Governmental<br>Activities |
| <b>Primary Government:</b>                      |               |                              |   |   |
| GOVERNMENTAL ACTIVITIES:                        |               |                              |   |   |
| 11 Instruction                                  | \$ 6,954,613  | \$ 8,614                     | \$ 1,219,203                                  | \$ (5,726,796)                                  |
| 12 Instructional Resources and Media Services   | 146,068       | -                            | 20,207  | (125,861)                                       |
| 13 Curriculum and Staff Development             | 168,548       | -                            | 97,262  | (71,286)  |
| 21 Instructional Leadership                     | 221,131       | -                            | 137,544                                       | (83,587)  |
| 23 School Leadership                            | 739,329       | 9,720                        | 46,054  | (683,555)                                       |
| 31 Guidance, Counseling and Evaluation Services | 239,241       | -                            | 21,633  | (217,608)                                       |
| 33 Health Services                              | 160,892       | -                            | 9,166   | (151,726)                                       |
| 34 Student (Pupil) Transportation               | 227,472       | -                            | 7,848   | (219,624)                                       |
| 35 Food Services                                | 1,064,244     | 89,582                       | 791,186                                       | (183,476)                                       |
| 36 Extracurricular Activities                   | 435,770       | 14,100                       | -   | (421,670)                                       |
| 41 General Administration                       | 861,574       | 5,401                        | 163,399                                       | (692,774)                                       |
| 51 Facilities Maintenance and Operations        | 1,373,360     | -                            | 39,878  | (1,333,482)                                     |
| 52 Security and Monitoring Services             | 185,592       | -                            | 11,353  | (174,239)                                       |
| 53 Data Processing Services                     | 472,246       | -                            | 19,138  | (453,108)                                       |
| 61 Community Services                           | 139,938       | -                            | 62,514  | (77,424)  |
| 72 Debt Service - Interest on Long Term Debt    | 483,535       | -                            | 899,069                                       | 415,534   |
| 73 Debt Service - Bond Issuance Cost and Fees   | 57,612        | -                            | -   | (57,612)  |
| 99 Other Intergovernmental Charges              | 12,374        | -                            | -   | (12,374)  |
| [TP] TOTAL PRIMARY GOVERNMENT:                  | \$ 13,943,539 | \$ 127,417                   | \$ 3,545,454                                  | \$ (10,270,668)                                 |

| Data<br>Control<br>Codes | General Revenues:                            |  |               |
|--------------------------|--|--|---------------|
|                          | Taxes:                                       |  |               |
| MT                       | Property Taxes, Levied for General Purposes  |  | 726,813       |
| DT                       | Property Taxes, Levied for Debt Service      |  | 191,459       |
| SF                       | State Aid - Formula Grants                   |  | 9,673,387     |
| IE                       | Investment Earnings                          |  | 150,099       |
| MI                       | Miscellaneous Local and Intermediate Revenue |  | 49,168        |
| TR                       | Total General Revenues                       |  | 10,790,926    |
| CN                       | Change in Net Position                       |  | 520,258       |
| NB                       | Net Position - Beginning                     |  | 18,037,899    |
| PA                       | Prior Period Adjustment                      |  | (1,199,681)   |
| NE                       | Net Position--Ending                         |  | \$ 17,358,476 |

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

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**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

TORNILLO INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2017

| Data<br>Control<br>Codes                                 | 10<br>General<br>Fund | 60<br>Capital<br>Projects | Other<br>Funds    | Total<br>Governmental<br>Funds |
|--|-----------------------|---------------------------|-------------------|--------------------------------|
| <b>ASSETS</b>  |                       |                           |                   |                                |
| 1110 Cash and Cash Equivalents                           | \$ 9,042,016          | \$ 2,144,498              | \$ 454,301        | \$ 11,640,815                  |
| 1220 Property Taxes - Delinquent                         | 180,894               | -                         | 45,409            | 226,303                        |
| 1230 Allowance for Uncollectible Taxes (Credit)          | (9,045)               | -                         | (2,270)           | (11,315)                       |
| 1240 Receivables from Other Governments                  | 250,791               | -                         | 101,787           | 352,578                        |
| 1260 Due from Other Funds                                | 826,046               | -                         | 83,204            | 909,250                        |
| 1290 Other Receivables                                   | 795                   | -                         | -                 | 795                            |
| 1300 Inventories   | 22,210                | -                         | -                 | 22,210                         |
| 1410 Prepayments   | 10,234                | 87,815                    | -                 | 98,049                         |
| 1000 Total Assets  | <u>\$ 10,323,941</u>  | <u>\$ 2,232,313</u>       | <u>\$ 682,431</u> | <u>\$ 13,238,685</u>           |
| <b>LIABILITIES</b>                                       |                       |                           |                   |                                |
| 2110 Accounts Payable                                    | \$ 129,150            | \$ 1,731,050              | -                 | \$ 1,860,200                   |
| 2150 Payroll Deductions and Withholdings Payable         | 82,925                | -                         | 9,357             | 92,282                         |
| 2160 Accrued Wages Payable                               | 240,363               | -                         | 22,238            | 262,601                        |
| 2170 Due to Other Funds                                  | 841,858               | -                         | 67,392            | 909,250                        |
| 2180 Due to Other Governments                            | 12,238                | -                         | 13,748            | 25,986                         |
| 2190 Due to Student Groups                               | 410                   | -                         | -                 | 410                            |
| 2200 Accrued Expenditures                                | 12,907                | -                         | 2,800             | 15,707                         |
| 2300 Unearned Revenues                                   | 840,217               | -                         | 79,084            | 919,301                        |
| 2000 Total Liabilities                                   | <u>2,160,068</u>      | <u>1,731,050</u>          | <u>194,619</u>    | <u>4,085,737</u>               |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                     |                       |                           |                   |                                |
| 2601 Unavailable Revenue - Property Taxes                | 156,442               | -                         | 39,305            | 195,747                        |
| 2600 Total Deferred Inflows of Resources                 | <u>156,442</u>        | <u>-</u>                  | <u>39,305</u>     | <u>195,747</u>                 |
| <b>FUND BALANCES</b>                                     |                       |                           |                   |                                |
| Nonspendable Fund Balance:                               |                       |                           |                   |                                |
| 3410 Inventories   | 6,931                 | -                         | -                 | 6,931                          |
| Restricted Fund Balance:                                 |                       |                           |                   |                                |
| 3450 Federal or State Funds Grant Restriction            | 94,609                | -                         | 43,357            | 137,966                        |
| 3470 Capital Acquisition and Contractual Obligation      | -                     | 501,263                   | -                 | 501,263                        |
| 3480 Retirement of Long-Term Debt                        | 607,493               | -                         | 393,370           | 1,000,863                      |
| 3490 Other Restricted Fund Balance                       | -                     | -                         | 11,780            | 11,780                         |
| Committed Fund Balance:                                  |                       |                           |                   |                                |
| 3530 Capital Expenditures for Equipment                  | 23,618                | -                         | -                 | 23,618                         |
| Assigned Fund Balance:                                   |                       |                           |                   |                                |
| 3550 Construction  | 660,630               | -                         | -                 | 660,630                        |
| 3600 Unassigned Fund Balance                             | 6,614,150             | -                         | -                 | 6,614,150                      |
| 3000 Total Fund Balances                                 | <u>8,007,431</u>      | <u>501,263</u>            | <u>448,507</u>    | <u>8,957,201</u>               |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 10,323,941</u>  | <u>\$ 2,232,313</u>       | <u>\$ 682,431</u> | <u>\$ 13,238,685</u>           |

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

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

|   |           |                   |
|---|-----------|-------------------|
| <b>Total Fund Balances - Governmental Funds</b>   | \$        | 8,957,201         |
| <b>1</b> 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 \$33,922,744 and the accumulated depreciation was (\$11,192,918). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. Note: Beginning Balances related to TRS are not included in this amount. |           | 1,734,952         |
| <b>2</b> Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase net position.  |           | 9,246,577         |
| <b>3</b> Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$1,312,456, a deferred resource inflow in the amount of \$181,036, and a net pension liability in the amount of \$3,139,693. This resulted in a decrease in net position.  |           | (2,008,273)       |
| <b>4</b> The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.   |           | (766,680)         |
| <b>5</b> 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.  |           | 194,699           |
| <b>19 Net Position of Governmental Activities</b>   | <u>\$</u> | <u>17,358,476</u> |

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

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

| Data<br>Control<br>Codes                                       | 10<br>General<br>Fund | 60<br>Capital<br>Projects | Other<br>Funds    | Total<br>Governmental<br>Funds |
|--|-----------------------|---------------------------|-------------------|--------------------------------|
| REVENUES:  |                       |                           |                   |                                |
| 5700 Total Local and Intermediate Sources                      | \$ 957,107            | \$ 59,763                 | \$ 232,339        | \$ 1,249,209                   |
| 5800 State Program Revenues                                    | 10,173,762            | -                         | 953,090           | 11,126,852                     |
| 5900 Federal Program Revenues                                  | 895,081               | -                         | 1,160,726         | 2,055,807                      |
| 5020 Total Revenues  | <u>12,025,950</u>     | <u>59,763</u>             | <u>2,346,155</u>  | <u>14,431,868</u>              |
| EXPENDITURES:  |                       |                           |                   |                                |
| Current:   |                       |                           |                   |                                |
| 0011 Instruction   | 5,377,761             | -                         | 894,915           | 6,272,676                      |
| 0012 Instructional Resources and Media Services                | 112,081               | -                         | 12,835            | 124,916                        |
| 0013 Curriculum and Instructional Staff Development            | 69,822                | -                         | 96,946            | 166,768                        |
| 0021 Instructional Leadership                                  | 72,816                | -                         | 133,095           | 205,911                        |
| 0023 School Leadership   | 699,895               | -                         | 9,757             | 709,652                        |
| 0031 Guidance, Counseling and Evaluation Services              | 223,949               | -                         | 7,490             | 231,439                        |
| 0033 Health Services   | 157,655               | -                         | -                 | 157,655                        |
| 0034 Student (Pupil) Transportation                            | 174,932               | -                         | -                 | 174,932                        |
| 0035 Food Services   | 938,332               | -                         | 16,173            | 954,505                        |
| 0036 Extracurricular Activities                                | 421,077               | -                         | -                 | 421,077                        |
| 0041 General Administration                                    | 839,093               | 122                       | 1,116             | 840,331                        |
| 0051 Facilities Maintenance and Operations                     | 1,389,119             | -                         | -                 | 1,389,119                      |
| 0052 Security and Monitoring Services                          | 179,354               | -                         | -                 | 179,354                        |
| 0053 Data Processing Services                                  | 462,511               | -                         | -                 | 462,511                        |
| 0061 Community Services  | 71,278                | -                         | 62,514            | 133,792                        |
| Debt Service:  |                       |                           |                   |                                |
| 0071 Principal on Long Term Debt                               | 75,000                | -                         | 500,456           | 575,456                        |
| 0072 Interest on Long Term Debt                                | 9,564                 | -                         | 661,588           | 671,152                        |
| 0073 Bond Issuance Cost and Fees                               | -                     | 13,750                    | -                 | 13,750                         |
| Capital Outlay:  |                       |                           |                   |                                |
| 0081 Facilities Acquisition and Construction                   | 273,130               | 9,818,688                 | -                 | 10,091,818                     |
| Intergovernmental:   |                       |                           |                   |                                |
| 0099 Other Intergovernmental Charges                           | 12,374                | -                         | -                 | 12,374                         |
| 6030 Total Expenditures  | <u>11,559,743</u>     | <u>9,832,560</u>          | <u>2,396,885</u>  | <u>23,789,188</u>              |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>466,207</u>        | <u>(9,772,797)</u>        | <u>(50,730)</u>   | <u>(9,357,320)</u>             |
| OTHER FINANCING SOURCES (USES):                                |                       |                           |                   |                                |
| 7911 Capital Related Debt Issued (Regular Bonds)               | -                     | 395,000                   | -                 | 395,000                        |
| 7915 Transfers In  | 481,794               | 272,581                   | -                 | 754,375                        |
| 8911 Transfers Out (Use)                                       | (754,375)             | -                         | -                 | (754,375)                      |
| 7080 Total Other Financing Sources (Uses)                      | <u>(272,581)</u>      | <u>667,581</u>            | <u>-</u>          | <u>395,000</u>                 |
| 1200 Net Change in Fund Balances                               | 193,626               | (9,105,216)               | (50,730)          | (8,962,320)                    |
| 0100 Fund Balance - September 1 (Beginning)                    | <u>7,813,805</u>      | <u>9,606,479</u>          | <u>499,237</u>    | <u>17,919,521</u>              |
| 3000 Fund Balance - August 31 (Ending)                         | <u>\$ 8,007,431</u>   | <u>\$ 501,263</u>         | <u>\$ 448,507</u> | <u>\$ 8,957,201</u>            |

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

TORNILLO 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

|   |           |                |
|---|-----------|----------------|
| <b>Total Net Change in Fund Balances - Governmental Funds</b>   | \$        | (8,962,320)    |
| 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.  |           | 10,492,237     |
| 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.   |           | (766,680)      |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.   |           | (5,301)        |
| GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$238,898. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net pension totaling \$233,325. Finally, the proportionate share of the TRS pension expense of the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$243,251. The net result is a decrease in the change in net position. |           | (237,678)      |
| <b>Change in Net Position of Governmental Activities</b>  | <b>\$</b> | <b>520,258</b> |

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

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**FIDUCIARY FUND FINANCIAL STATEMENTS**

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

|                           | Agency<br>Fund   |
|---------------------------|------------------|
| <hr/>                     |                  |
| ASSETS                    |                  |
| Cash and Cash Equivalents | \$ 23,068        |
| Total Assets              | <u>\$ 23,068</u> |
| LIABILITIES               |                  |
| Accounts Payable          | \$ 350           |
| Due to Student Groups     | 22,718           |
| Total Liabilities         | <u>\$ 23,068</u> |

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

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

---

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tornillo Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

#### A. Reporting Entity

Because the Board of Trustees (the "Board") is elected by the public; has the authority to make decisions, appoint administrators and managers, and significantly influence operations; and has the primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB"). 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 taxes, state foundation funds, grants and other intergovernmental revenues.

In addition to assets, the statement of net financial position may report a separate section of deferred outflows of resources. This separate financial statement category represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. For pensions, this outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over a systematic and rational method over a closed period.

In addition to liabilities, the statement of net financial position may report a separate section of deferred inflows of resources. This separate financial statement category represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. For pensions, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a systematic and rational method over a closed period.

(Continued)

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

---

### **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 outflow 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. The Plan's fiduciary net position has been determined on the same basis as that used by the Plan. 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.

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 teacher certification, staff development, media production, 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 a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

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

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 for District operations, they are not included in the government-wide statements. The District considers some governmental funds as 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 and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

(Continued)

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

---

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the fiduciary fund financial statements. 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 use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, deferred inflows of resources, 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 is 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, except for property tax revenue, available if they are collectible within one year after year end.

Revenues from local sources consist primarily of property taxes. Revenues received from the State are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. The District considers property tax revenue available if they expect the revenue to 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.

Unavailable revenue from property taxes arises only under modified accrual basis of accounting. The governmental funds report this unavailable revenue as deferred inflow of resources, which is recognized revenue in the period that the amounts become 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 deferred 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.

(Continued)

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. Within this measurement focus, assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted, and unrestricted.

#### D. Fund Accounting

The District reports the following major governmental fund:

1. General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. Capital Projects Funds - The proceeds from long-term debt financing will be used to construct, renovate, acquire and equip school buildings in the District and pay any associated costs.

Additionally, the District reports the following fund types:

#### GOVERNMENTAL FUNDS:

1. Special Revenue Funds - The District accounts for resources restricted for specific purposes by the District or a grantor in a special revenue fund. Most federal and state financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances are returned to the grantor at the close of specified project periods.
2. Debt Service Funds - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. Permanent Funds - Account for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no permanent funds.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**PROPRIETARY FUNDS:**

4. Enterprise Funds - The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise funds.
5. Internal Service Funds - Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has no internal service funds.

**FIDUCIARY FUNDS:**

6. Private Purpose Trust Funds - The District accounts donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District has no private purpose trust funds.
7. Pension (and Other Employee Benefit) Trust Funds - These funds are used to account for local pension and other employee benefit funds that are provided by the District in lieu of or in addition to the Teacher Retirement System of Texas. The District has no pension trust funds.
8. Investment Trust Fund - This fund is one in which the District holds assets in trust for other entities participating in an investment program managed by the district. The District has no investment trust funds.
9. Agency Funds - The District accounts for resources held for others in a custodial capacity in agency funds. The District's agency fund is the Student Activity Account.

**E. Other Accounting Policies**

1. For the purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. Investments with an original maturity greater than one year from date of purchase are stated at fair value based on quoted market prices as of year end, except for nonparticipating interest-earning investment contracts which are reported at cost. Investments with an original maturity of less than one year are reported at amortized cost.
3. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities which are received at no cost are recorded as revenue and expenditures at market values supplied by the Texas Department of Agriculture when received. At year end, the commodities inventory is recorded to inventory and unearned revenue.
5. The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.
6. The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.
7. Additional policies and contractual provisions governing deposits and investments for the District are specified below:

***Credit Risk:***

Deposits - The District is not exposed to credit risk.

Temporary Investments - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in public funds investment pools to those that have received top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2017, the District's investments in LoneStar Investment Pool was rated AAAM by Standard & Pools.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

---

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Custodial Credit Risk:***

Deposits - State law required 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. Since the District complies with this law, it has minimal custodial credit risk for deposits.

Temporary 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. Investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book-entry form.

***Concentration of Credit Risk:***

Deposits - The District is not exposed to concentration of credit risk.

Temporary Investments - To limit the risk of loss attributed to the magnitude if a government's investment in a single issuer, the District's policy states that the portfolio must be diversified. Concentration of Credit Risk is not applicable to investment pools since the purpose of these pools is to diversify the District's investment portfolio.

***Interest Rate Risk:***

Deposits - The District is not exposed to interest rate risk.

Temporary Investments - To limit the risk that changes in interest rates will adversely affect the fair value of the investments, the District requires its investment portfolio to have maturities of less than one year on a weighted average maturity (WAM) basis. All of the District's investment pools use amortized cost and therefore the interest rate disclosure is not applicable.

***Foreign Currency Risk:***

Deposits - The District attempts to limit the risk that changes in exchange rates will adversely affect a deposit by avoiding deposits denominated in a foreign currency.

Temporary Investments - The District attempts to limit the risk that changes in exchange rates will adversely affect the fair value of an investment by avoiding investment pools which are denominated in a foreign currency.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

---

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

8. In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type Statement of Net Position. Premiums and discounts are presented as a component of liabilities while deferred charges on refundings are presented as deferred outflows of resources. Both items are deferred and amortized over the life of the related debt using the straight line method. Long-term debt is reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. It is the District's policy to permit some employees to accumulate earned but unused vacation, sick leave, and local days. There is no liability for unpaid accumulated vacation, sick leave, and local days since the District does not have a policy to pay any amounts when employees separate from service with the District.
10. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation.

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

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

| <u>Assets</u>              | <u>Years</u> |
|----------------------------|--------------|
| Buildings and Improvements | 20 to 50     |
| Vehicles                   | 7 to 10      |
| Other Equipment            | 5 to 15      |
| Computer Equipment         | 5            |

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

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**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

11. Net Position on the Statement of Net Position include the following:

*Net investment in capital assets* - this component of net position consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt will be included in this component of net position.

*Restricted for federal and state programs* - this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, which are restricted by federal and state granting agency(s).

*Restricted for Debt Service* - this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The assets arise from bond issuance which have constraints placed on them by the bond covenant(s) for the purpose of future debt service payments.

*Restricted for Campus Activities* - this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, which are restricted transactions related to a principal's activity fund.

*Unrestricted* - this component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

12. The District reports the following fund balance categories which describe the nature and the relative strength of the spending constraints:

*Nonspendable Fund Balance* - Represents amounts that are not in spendable form or are legally or contractually required to be maintained intact, such as inventories.

*Restricted Fund Balance* - Represents amounts that are restricted to specific purposes, with constraints placed on the use of resources by (a) external creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation

*Committed Fund Balance* - Represents amounts that are restricted for purposes which the Board of Trustees, the District's highest level of decision-making authority, has designated their use. These amounts are committed through a formal resolution, requiring funds to be used only for specific purposes. These amounts can only be re-allocated by the same formal action that was take to originally commit those amounts. The Board of Trustees shall take action to commit funds for a specific purpose prior to the end of the fiscal year.

(Continued)

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Assigned Fund Balance* - Represents amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The governing body has delegated authority to the Superintendent or designated managers. Should the Board opt not to commit any balances, it will implicitly defer to the designees to make appropriate assignments.

*Unassigned Fund Balance* - Represents amounts that are available for any purpose and have not been restricted, committed, or assigned for specific purposes. Positive amounts are reported only in the general fund.

The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a formal resolution. Assigned fund balance is established by the Superintendent or designated managers through adoption or amendment of the budget as intended for specific purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed amounts, followed by assigned amounts, and then unassigned amounts when balance classifications could be used, unless the Board of Trustees or designee's have provided otherwise in its commitment or assignment actions.

13. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a state-wide data base for policy development and funding plans.
14. The District receives substantial amounts of funding from special revenue sources. The majority of this money is cost reimbursement to the District by the federal government or Texas Education Agency. The portion of revenue allowable for indirect cost is credited as revenue to the General Fund and as a reduction to revenue in the Special Revenue Fund, as appropriate. The indirect cost revenue is fully allocated to function 41, General Administration, in the Government-wide Statement of Activities as operating grants and contributions.
15. In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets as least the minimum requirements presented by the Texas State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Resource Guide. Mandatory codes are recorded in the order provided in the Resource Guide.

(Continued)

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

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### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. 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 on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 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 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.
17. 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.

### 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 bond payable, and the District's proportionate share of the net pension liability are not due and payable in the current period and are not reported as liabilities in the funds.

#### 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

Exhibit C-4 provides a 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 and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

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**II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS  
(Continued)**

Another element of the reconciliation on exhibit C-4 is 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. In addition, certain pension expenditures were de-expended and the District recorded its proportionate share of the pension expense.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

At August 31, 2017, the carrying amount of the District's deposits (cash, and interest-bearing savings accounts including fiduciary funds cash) was \$381,189 and the bank balance was \$2,675,889. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: WestStar Bank.
- b. The market value of bonds and securities pledged as of the date of the highest combined balance on deposit was \$3,970,834.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$2,917,666 and occurred during the month of August 2017.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

Due to the immediate availability of the funds, the District's temporary investments are presented as cash and cash equivalents as of August 31, 2017 and, include the following:

|   | <u>Account<br/>Balance</u>  |
|---|-----------------------------|
| Lone Star:                                |                             |
| Corporate Overnight Fund (amortized cost) | <u>\$ 11,282,694</u>        |
|   | <u><u>\$ 11,282,694</u></u> |

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

The Lone Star Investment Pool is a member owned, member-governed public funds investment pool. It is managed by an eleven member Board of Trustees and the Board is authorized to adopt and maintain bylaws. There is also an Advisory Board composed of participants that gathers and exchanges information from participants relating to the operation of the Pool. Each fund within the Pool has received the highest rating, that of AAAM, from Standard & Poor’s as required by the Public Fund’s Investment Act. Lone Star Investment Pool issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by calling Lone Star at 1-800-558-8875. Management is not aware of the presence of any limitations or restrictions on withdrawals such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool’s authority to impose liquidity fees or redemption gates.

**B. Receivable 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. A majority of the federal grants are passed through the TEA.

Amounts due from federal and state governments as of August 31, 2017 are summarized below.

|                | General Fund | Nonmajor<br>Governmental<br>Funds | Total      |
|----------------|--------------|-----------------------------------|------------|
| Federal Grants | \$ 15,558    | \$ 98,987                         | \$ 114,545 |
| State Grants   | -            | 2800                              | 2800       |
| State Support  | 228,603      | -                                 | 228,603    |
| Other          | 6,630        | -                                 | 6,630      |
|                | \$ 250,791   | \$ 101,787                        | \$ 352,578 |

**C. Interfund Balances and Transfers**

Interfund balances are a result of normal operations and are eliminated periodically. Management intends to pay out these balances within one year.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

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

|                              | Due From<br>Other Funds | Due To<br>Other Funds |
|------------------------------|-------------------------|-----------------------|
| General Fund                 |                         |                       |
| General Fund                 | \$ 758,654              | \$ 758,654            |
| Nonmajor Governmental Funds  | 67,392                  | 83,204                |
| Total General Fund           | 826,046                 | 841,858               |
| Non Major Governmental Funds |                         |                       |
| General Fund                 | 83,204                  | 67,392                |
| Total                        | \$ 909,250              | \$ 909,250            |

Interfund transfers generally fall within two categories: (1) transfers to cover debt service payments to comply with debt covenants, and (2) transfers to cover operating expenditures/deficits in accordance with District policy or legal requirements.

Interfund transfers for the year ended August 30, 2017, consisted of the following amounts:

|                        | Transfers In | Transfers Out |
|------------------------|--------------|---------------|
| General Fund:          |              |               |
| General Fund           | \$ 481,794   | \$ 481,794    |
| Capital Projects Fund  | -            | 272,581       |
| Total General Fund     | 481,794      | 754,375       |
| Capital Projects Fund: |              |               |
| General Fund           | 272,581      | -             |
| Total                  | \$ 754,375   | \$ 754,375    |

A one-time transfer from the general fund was made to capital projects fund to cover for upgrades to the track field that was not originally included in the bond projects.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Capital Asset Activity**

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

|  | Primary Governments  |              |   |                |
|--|----------------------|--------------|---|----------------|
|  | Beginning<br>Balance | Additions    | Deletion,<br>Reclassification<br>and Adjustment | Ending Balance |
| <u>Governmental activities:</u>                |                      |              |   |                |
| Land   | \$ 7,243             | \$ -         | \$ -  | \$ 7,243       |
| Buildings and Improvements                     | 31,559,665           | -            | 151,508   | 31,711,173     |
| Furniture and Equipment                        | 2,265,948            | 63,373       | 215,763   | 2,545,084      |
| Construction in Progress                       | -                    | 10,091,818   | -   | 10,091,818     |
| Library Books & Media                          | 89,888               | 12,835       | -   | 102,723        |
| Totals at Historic Cost                        | 33,922,744           | 10,168,026   | 367,271   | 44,458,041     |
| Less Accumulated Depreciation for:             |                      |              |   |                |
| Buildings and Improvements                     | 9,476,350            | 573,754      | 1,374,991                                       | 11,425,095     |
| Furniture and Equipment                        | 1,685,508            | 172,381      | 191,961   | 2,049,850      |
| Library Books and Media                        | 31,060               | 20,545       | -   | 51,605         |
| Total Accumulated Depreciation                 | 11,192,918           | 766,680      | 1,566,952                                       | 13,526,550     |
| Governmental Activities Capital<br>Assets, net | \$ 22,729,826        | \$ 9,401,346 | \$ (1,199,681)                                  | \$ 30,931,491  |

A portion of the buildings are located on leased land. See Note Q.

Depreciation expense was charged to governmental functions as follows:

|  |            |
|--|------------|
| Instruction                                  | \$ 509,492 |
| Instructional resources and media services   | 32,808     |
| Instructional leadership                     | 1,943      |
| School leadership                            | 11,238     |
| Guidance, counseling and evaluation services | 1,507      |
| Health services                              | 1,183      |
| Student (pupil) transportation               | 51,079     |
| Food services                                | 88,746     |
| Cocurricular/extracurricular activities      | 10,222     |
| General administration                       | 4,826      |
| Facilities maintenance and operations        | 28,185     |
| Security and monitoring services             | 4,236      |
| Data processing services                     | 18,563     |
| Community services                           | 2,652      |
| Total depreciation expense                   | \$ 766,680 |

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

**E. Unearned Revenue**

Unearned revenue at year end consisted of the following:

|                               | <u>General<br/>Fund</u> | <u>Non Major<br/>Governmental<br/>Funds</u> | <u>Total</u>      |
|-------------------------------|-------------------------|---|-------------------|
| Foundation                    | \$ 824,938              | \$ -  | \$ 824,938        |
| EDA and IFA                   | -                       | 64,765                                      | 64,765            |
| State Grants                  | -                       | 14,319                                      | 14,319            |
| USDA Commodities              | 15,279                  | -   | 15,279            |
| <b>Total Unearned Revenue</b> | <b>\$ 840,217</b>       | <b>\$ 79,084</b>                            | <b>\$ 919,301</b> |

**F. Deferred Outflows and Inflows of Resources**

Deferred losses on refunding of bonds for the year ended August 31, 2017, presented as deferred outflows of resources, were as follows:

|             | <u>Beginning<br/>Balance</u> | <u>New Issues</u> | <u>Amortization</u> | <u>Ending<br/>Balance</u> |
|-------------|------------------------------|-------------------|---------------------|---------------------------|
| Series 2012 | \$ 266,262                   | \$ -              | \$ 19,823           | \$ 246,439                |
| Series 2013 | 395,104                      | -                 | 24,039              | 371,065                   |
|             | <b>\$ 661,366</b>            | <b>\$ -</b>       | <b>\$ 43,862</b>    | <b>\$ 617,504</b>         |

Deferred gain on refunding of bonds for the year ended August 31, 2017, presented as deferred inflows of resources, was as follow:

|             | <u>Beginning<br/>Balance</u> | <u>New Issues</u> | <u>Amortization</u> | <u>Ending<br/>Balance</u> |
|-------------|------------------------------|-------------------|---------------------|---------------------------|
| Series 2015 | \$ 58,385                    | \$ -              | \$ 4,044            | \$ 54,341                 |

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

**G. Changes in Long-Term Liabilities**

Long-term activity for the year ended August 31, 2017 was as follows:

|   | Funded by:           | Beginning<br>Balance | Addition          | Reductions        | Ending<br>Balance   | Due Within<br>One Year |
|---|----------------------|----------------------|-------------------|-------------------|---------------------|------------------------|
| <b>Governmental Activities:</b>                     |                      |                      |                   |                   |                     |                        |
| <u>Bonds Payable:</u>                               |                      |                      |                   |                   |                     |                        |
| Refunding Series                                    | Debt Service<br>Fund | \$ 9,434,996         | \$ -              | \$ 500,456        | \$ 8,934,540        | \$ 499,542             |
| Unlimited Tax Building<br>Bonds                     | Debt Service<br>Fund | 9,380,000            | 395,000           | -                 | 9,775,000           | 70,000                 |
| Limited Tax Refunding<br>Bond                       | General Fund         | 584,000              | -                 | 75,000            | 509,000             | 78,000                 |
| Accretion Payable                                   | Debt Service<br>Fund | 588,328              | 16,011            | 109,544           | 494,795             | 125,458                |
| Unamortized Premium/<br>Discount on Debt            |                      | 1,611,579            | -                 | 92,514            | 1,519,065           | -                      |
| <b>Total Governmental<br/>Long-term Liabilities</b> |                      | <b>\$21,598,903</b>  | <b>\$ 411,011</b> | <b>\$ 777,514</b> | <b>\$21,232,400</b> | <b>\$ 773,000</b>      |

**H. General Long-Term Debt**

Long-term activity for the year ended August 31, 2017 was as follows:

| Description                               | Interest<br>Rate Payable | Amounts<br>Original<br>Issue | Interest<br>Current<br>Year | Outstanding<br>08/31/16 | Issued | Retired    | Outstanding<br>8/31/17 | Due Within<br>One Year |
|---|--------------------------|------------------------------|-----------------------------|-------------------------|--------|------------|------------------------|------------------------|
| Refunding Series 2005                     |                          |                              |                             |                         |        |            |                        |                        |
| Current interest bonds                    | 3% - 4.8%                | \$ 4,225,000                 | \$ 4,202                    | \$ 205,000              | \$ -   | \$ 205,000 | \$ -                   | \$ -                   |
| Limited Tax Refunding<br>Bond Series 2011 | 3.619%                   | 918,000                      | 9,564                       | 584,000                 | -      | 75,000     | 509,000                | 78,000                 |
| Refunding Series 2012                     |                          |                              |                             |                         |        |            |                        |                        |
| Current interest bonds                    | 2% - 3.75%               | 1,940,000                    | -                           | 1,940,000               | -      | -          | 1,940,000              | -                      |
| Current interest term bonds               | 2% - 3.75%               | 860,000                      | 76,819                      | 655,000                 | -      | 45,000     | 610,000                | 255,000                |
| Capital appreciation bonds                |                          | 114,998                      | -                           | 114,998                 | -      | -          | 114,998                | -                      |
| Refunding Series 2013                     |                          |                              |                             |                         |        |            |                        |                        |
| Current interest bonds                    | 2% - 3.5%                | 2,740,000                    | 115,875                     | 2,605,000               | -      | -          | 2,605,000              | -                      |
| Current interest term bonds               | 2% - 3.5%                | 910,000                      | -                           | 910,000                 | -      | -          | 910,000                | -                      |
| Capital appreciation bonds                |                          | 134,998                      | -                           | 134,998                 | -      | 75,456     | 59,542                 | 59,542                 |
| Refunding Series 2015                     |                          |                              |                             |                         |        |            |                        |                        |
| Current interest serial<br>bonds          | 2% - 3%                  | 1,850,000                    | 93,350                      | 1,795,000               | -      | 175,000    | 1,620,000              | 185,000                |
| Current interest term bonds               | 4.0%                     | 1,075,000                    | -                           | 1,075,000               | -      | -          | 1,075,000              | -                      |

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

| Description                             | Interest Rate Payable | Amounts Original Issue | Interest Current Year | Outstanding 08/31/16 | Issued            | Retired           | Outstanding 8/31/17  | Due Within One Year |
|---|-----------------------|------------------------|-----------------------|----------------------|-------------------|-------------------|----------------------|---------------------|
| Unlimited Tax Building Bond Series 2016 |                       |                        |                       |                      |                   |                   |                      |                     |
| Current interest serial bonds           | 3.0%                  | 5,715,000              | 262,640               | 5,715,000            | -                 | -                 | 5,715,000            | 70,000              |
| Current interest term bonds             | 3.0%                  | 3,665,000              | -                     | 3,665,000            | -                 | -                 | 3,665,000            | -                   |
| Unlimited Tax Building Bond Series 2017 | 2.46%                 | 395,000                | -                     | -                    | 395,000           | -                 | 395,000              | -                   |
|   |                       | <u>\$24,542,996</u>    | <u>\$ 562,450</u>     | <u>\$ 19,398,996</u> | <u>\$ 395,000</u> | <u>\$ 575,456</u> | <u>\$ 19,218,540</u> | <u>\$ 647,542</u>   |

Accretion payable for the year ended August 31, 2017 is as follows:

| Description           | Accretion Outstanding 08/31/16 | Accrual of Accretion | Accretion Retired | Accretion Outstanding 8/31/17 | Due Within One Year |
|-----------------------|--------------------------------|----------------------|-------------------|-------------------------------|---------------------|
| Refunding Series 2012 | \$ 358,246                     | \$ 12,381            | \$ -              | \$ 370,627                    | \$ -                |
| Refunding Series 2013 | 230,082                        | 3,630                | 109,544           | 124,168                       | 125,458             |
|                       | <u>\$ 588,328</u>              | <u>\$ 16,011</u>     | <u>\$ 109,544</u> | <u>\$ 494,795</u>             | <u>\$ 125,458</u>   |

Unamortized Premiums/Discounts on Debt for the year ended August 31, 2017 are as follows:

| Description                             | Beginning Balance   | Premiums and Discounts on New Issues | Net Amortization Recognized | Outstanding 8/31/17 |
|---|---------------------|--------------------------------------|-----------------------------|---------------------|
| Refunding Series 2005                   | \$ 2,772            | \$ -                                 | \$ 2,772                    | \$ -                |
| Refunding Series 2012                   | 287,041             | -                                    | 21,367                      | 265,674             |
| Refunding Series 2013                   | 449,067             | -                                    | 27,324                      | 421,743             |
| Refunding Series 2015                   | 255,479             | -                                    | 17,706                      | 237,773             |
| Unlimited Tax Building Bond Series 2016 | 617,220             | -                                    | 23,345                      | 593,875             |
|   | <u>\$ 1,611,579</u> | <u>-</u>                             | <u>\$ 92,514</u>            | <u>\$ 1,519,065</u> |

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

Debt service requirements are as follows:

| Year Ended August 31, | GENERAL OBLIGATIONS |              | Total<br>Requirements |
|-----------------------|---------------------|--------------|-----------------------|
|                       | Principal           | Interest     |                       |
| 2018                  | \$ 647,542          | \$ 703,132   | \$ 1,350,674          |
| 2019                  | 791,200             | 559,689      | 1,350,889             |
| 2020                  | 660,858             | 738,634      | 1,399,492             |
| 2021                  | 664,640             | 737,097      | 1,401,737             |
| 2022                  | 896,300             | 503,486      | 1,399,786             |
| 2023 - 2027           | 4,518,000           | 2,118,674    | 6,636,674             |
| 2028 - 2032           | 4,935,000           | 1,339,088    | 6,274,088             |
| 2033 - 2037           | 2,920,000           | 661,775      | 3,581,775             |
| 2038-2042             | 2,615,000           | 286,575      | 2,901,575             |
| 2043                  | 570,000             | 8,550        | 578,550               |
|                       | \$ 19,218,540       | \$ 7,656,700 | \$ 26,875,240         |

For the year ended August 31, 2017 the District paid \$671,994 in interest costs.

The Board of Trustees and the sole registered bond holder of the Limited Tax and Revenue Refunding Bond, 2011, agreed to an amendment to reduce the interest rate of the Bond pursuant to Section 16 of the Original Order on June 23, 2016. The amendment is effective on August 15, 2016 and reduces the interest rate from 3.610% to 1.750% beginning with the February 15, 2017 interest payment through 2023.

On August 18, 2016, the District issued Unlimited Tax School Building Bonds, Series 2016 in the amount of \$9,380,000. The bonds and interest are payable February 1 and August 1 of each year, commencing February 1, 2017 and ending February 1, 2043. The bond issuance will be used to pay for the construction, renovation, acquisition and equipment of school buildings in the District.

On June 29, 2017, the District issued Unlimited Tax School Building Bonds, Series 2017 in the amount of \$395,000. The bonds and interest are payable February 1 and August 1 of each year, commencing February 1, 2018 and ending February 1, 2017. The bond issuance will be used in conjunction with the Unlimited Tax School Building Bonds, Series 2016 to pay for the construction, renovation, acquisition and equipment of school buildings in the District.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2017.

(Continued)

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

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### IV. DETAILED NOTES ON ALL FUNDS (Continued)

#### I. Defined Benefit Pension Plan

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

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

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

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

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2015 through 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2015 and 2016. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

|  | <u>Contribution Rates</u> |             |
|--|---------------------------|-------------|
|  | <u>Plan Fiscal Year</u>   |             |
|  | <u>2016</u>               | <u>2017</u> |
| Member                                   | 7.2%                      | 7.7%        |
| Non-Employer Contributing Entity (State) | 6.8%                      | 6.8%        |
| Employers                                | 6.8%                      | 6.8%        |

Contributions Required and Made

|   |    |         |
|---|----|---------|
| 2017 Employer Contributions                         | \$ | 238,898 |
| 2017 Member Contributions                           |    | 607,410 |
| 2016 Plan Year NECE On-Behalf Contributions (State) |    | 356,576 |

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

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

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

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

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**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Included in the employer contributions amount listed above for fiscal year 2017, the District paid \$6,978 in retiree surcharges and \$98,326 for non-OASDI employees. These two additional surcharges an employer is subject to are summarized as follows:

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

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

|  |                             |
|--|-----------------------------|
| Valuation Date   | August 31, 2016             |
| Actuarial Cost Method  | Individual Entry Age Normal |
| Asset Valuation Method   | Market Value                |
| Single Discount Rate   | 8.00%                       |
| Long-term expected Investment Rate of Return                                 | 8.00%                       |
| Municipal Bond Rate  | N/A*                        |
| Last year ending August 31 in the 2016 to 2115 projection period (100 years) | 2115                        |
| Inflation  | 2.50%                       |
| Salary Increases including inflation   | 3.50% to 9.50%              |
| Benefit Changes during the year  | None                        |
| Ad hoc post-employment benefit changes                                       | None                        |

\*If a municipal bond rate was to be used, the rate would be 2.84% as of August 2016 (i.e. weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

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.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

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

| Asset Class                   | Target Allocation | Real Return Geometric Basis | Long-Term Expected Portfolio Real Rate of Return* |
|-------------------------------|-------------------|-----------------------------|---|
| <b>Global Equity</b>          |                   |                             |   |
| 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%  |
| <b>Stable Value</b>           |                   |                             |   |
| U.S. Treasuries               | 11%               | 0.7%                        | 0.1%  |
| Absolute Return               | 0%                | 1.8%                        | 0.0%  |
| Stable Value Hedge Funds      | 4%                | 3.0%                        | 0.1%  |
| Cash                          | 1%                | -0.2%                       | 0.0%  |
| <b>Real Return</b>            |                   |                             |   |
| Global Inflation Linked Bonds | 3%                | 0.9%                        | 0.0%  |
| Real Assets                   | 16%               | 5.1%                        | 1.1%  |
| Energy and Natural Resources  | 3%                | 6.6%                        | 0.2%  |
| Commodities                   | 0%                | 1.2%                        | 0.0%  |
| <b>Risk Parity</b>            |                   |                             |   |
| Risk Parity                   | 5%                | 6.7%                        | 0.3%  |
| Inflation Expectation         |                   |                             | 2.2%  |
| Alpha                         |                   |                             | 1.0%  |
| <b>Total</b>                  | <b>100%</b>       |                             | <b>8.7%</b>                                       |

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

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

**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<br>in Discount Rate<br>(7%) | Current<br>Discount<br>Rate 8% | 1% Increase<br>in Discount<br>Rate (9%) |
|---|---|--------------------------------|---|
| District's proportionate share of the net pension liability | \$ 4,859,188                            | \$ 3,139,693                   | \$ 1,681,215                            |

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:** At August 31, 2017, the District reported a liability of \$3,139,693 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

|  |              |
|--|--------------|
| The District's proportionate share of the collective net pension liability | \$ 3,139,693 |
| State's proportionate share that is associated with the District           | 4,232,506    |
| Total  | \$ 7,372,199 |

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 District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0083086% which was an increase of 0.0006263% 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 year ended August 31, 2017, the District recognized pension expense of \$439,233 and revenue of \$439,233 for support provided by the State.

The amount of pension expense recognized by the District in the reporting period was \$512,758.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

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

|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience  | \$ 49,230                            | \$ 93,749                           |
| Changes in actuarial assumptions   | 95,692                               | 87,028                              |
| Net difference between projected and actual investment earnings  | 265,863                              | -                                   |
| Changes in proportion and difference between District's contributions and proportionate share of contributions | 662,773                              | 259                                 |
| District contributions to TRS subsequent to the measurement date   | 238,898                              | -                                   |
| Total  | \$ 1,312,456                         | \$ 181,036                          |

The \$238,898 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018.

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

| Year Ended August 31 | Amount     |
|----------------------|------------|
| 2018                 | \$ 151,794 |
| 2019                 | 151,794    |
| 2020                 | 321,374    |
| 2021                 | 138,761    |
| 2022                 | 90,517     |
| Thereafter           | 38,282     |

**Payable to the Pension Plan:** At August 31, 2017, the District reported a payable of \$67,654 to the pension plan for the outstanding amount of contractually required contributions related to past service costs. Of this amount, \$49,271 represents member's contributions.

**Changes in Net Pension liability:**

|                       | Beginning<br>Balance | Additions  | Reductions | Ending<br>Balance |
|-----------------------|----------------------|------------|------------|-------------------|
| Net Pension Liability | \$ 2,715,591         | \$ 688,087 | \$ 263,985 | \$ 3,139,693      |

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

**J. School District Retiree Health Plan**

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

**Funding Policy:** Contribution requirements are not actuarially determined but are legally established each biennium by the Texas legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are equal to the required contributions for each year and are shown in the table below for fiscal years 2017, 2016, and 2015.

**Contribution Rates**

| Year | Active Member |           | State |           | School District |           |
|------|---------------|-----------|-------|-----------|-----------------|-----------|
|      | Rate          | Amount    | Rate  | Amount    | Rate            | Amount    |
| 2017 | .65%          | \$ 51,299 | 1.0%  | \$ 70,887 | .55%            | \$ 51,257 |
| 2016 | .65%          | \$ 49,162 | 1.0%  | \$ 67,318 | .55%            | \$ 49,912 |
| 2015 | .65%          | \$ 46,791 | 1.0%  | \$ 63,096 | .55%            | \$ 48,482 |

The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

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 provision 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.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

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**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

Medicare Part D contributions made on behalf of the District's employees for the years ended August 31, 2015, 2016, and 2017 were \$29,603, \$29,519 and \$23,980, respectively. These amounts are recorded as equal revenues and expenditures in the governmental fund financial statements of the District.

**K. Health Care Coverage**

During the year ended August 31, 2017, Tornillo Independent School District participated in the TRS - Active Care Health Insurance Program. During the year ended August 31, 2017, employees of the District were covered by the District's insurance Plan (the "Plan"). Under this plan, the District and State (Teacher Retirement System of Texas) contribute approximately \$225 and \$75, respectively to the employee's premium. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement. There were no other liabilities associated with the Plan.

**L. Unemployment Compensation Pool**

During the year ended August 31, 2017, Tornillo ISD met its statutory unemployment compensation obligations by participation as a self-funded member of the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members. For the year ended August 31, 2017, the Fund anticipates that Tornillo ISD has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available at the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

**M. Worker's Compensation Program**

As required by law the District has acquired adequate worker's compensation insurance coverage contracted through Claims Administrative Services, Inc. The District has chosen to participate in a political subdivision risk pool, which means that the District shares its exposure with other school districts and public entities with similar employee populations. Currently, the District employs more than 180 full-time and part-time employees. The District paid \$47,750 in worker's compensation premium for the plan year 2016-2017. This premium is considered sufficient by Claims Administrative Services, Inc. and no contingent liability is required to be reported. This total amount paid for worker's compensation costs is less than 1% of annual payroll.

**N. Fund Balance**

As of August 31, 2017, fund balances are composed of the following:

|   | General Fund        | Capital<br>Projects | Non Major<br>Governmental<br>Funds | Total               |
|---|---------------------|---------------------|------------------------------------|---------------------|
| Nonspendable:                                     |                     |                     |                                    |                     |
| Inventories                                       | \$ 6,931            | \$ -                | \$ -                               | \$ 6,931            |
| Restricted:                                       |                     |                     |                                    |                     |
| Food Service                                      | 94,609              | -                   | -                                  | 94,609              |
| Capital Acquisition and<br>Contractual Obligation | -                   | 501,263             | -                                  | 501,263             |
| Summer Feeding Program                            | -                   | -                   | 43,357                             | 43,357              |
| Advanced Placement Incentives                     | -                   | -                   | 1,600                              | 1,600               |
| Debt Service                                      | 607,493             | -                   | 393,370                            | 1,000,863           |
| Campus Activities                                 | -                   | -                   | 10,180                             | 10,180              |
| Assigned:   |                     |                     |                                    |                     |
| Construction                                      | 660,630             | -                   | -                                  | 660,630             |
| Committed:  |                     |                     |                                    |                     |
| Athletic Equipment                                | 23,618              | -                   | -                                  | 23,618              |
| Unassigned  | 6,614,150           | -                   | -                                  | 6,614,150           |
| Total   | <u>\$ 8,007,431</u> | <u>\$ 501,263</u>   | <u>\$ 448,507</u>                  | <u>\$ 8,957,201</u> |

There were no significant or material encumbrances at year end.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2017

**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

**O. Revenue from Local and Intermediate Sources**

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

|                                  | General Fund      | Capital<br>Projects | Non Major<br>Governmental<br>Funds | Total               |
|----------------------------------|-------------------|---------------------|------------------------------------|---------------------|
| Property Taxes                   | \$ 728,734        | \$ -                | \$ 204,550                         | \$ 933,284          |
| Penalties and Interest on Taxes  | 26,758            | -                   | 6,351                              | 33,109              |
| Investment Income                | 86,449            | 59,763              | 3,886                              | 150,098             |
| Food Sales                       | 89,259            | -                   | 323                                | 89,582              |
| Co-curricular Student Activities | 14,100            | -                   | -                                  | 14,100              |
| Other                            | 11,807            | -                   | 17,229                             | 29,036              |
| <b>Total</b>                     | <b>\$ 957,107</b> | <b>\$ 59,763</b>    | <b>\$ 232,339</b>                  | <b>\$ 1,249,209</b> |

**P. Litigation**

During the normal course of business the District is subject to various legal claims. As of August 31, 2017, management is not aware of any such claim which would have a material adverse effect on the financial statements.

**Q. Construction and Other Significant Commitments and Contingencies**

Construction Commitments - The District had ongoing capital projects under non-cancelable contracts at August 31, 2017. Capital projects commitments as of August 31, 2017 are as follows:

| Project Name                              | Paid To Date        | Remaining<br>Commitment |
|---|---------------------|-------------------------|
| Tornillo High School Athletics Facilities | \$ 4,561,591        | \$ 1,428,315            |
| HVAC/Roofing/Accessibility                | 3,799,178           | 706,050                 |
| <b>Total</b>                              | <b>\$ 8,360,769</b> | <b>\$ 2,134,365</b>     |

Federal and State Funding - Tornillo Independent School District participates in numerous state and federal grant programs that are subject to audit by the Texas Education Agency and various Federal and/or State audit agencies. These programs have complex compliance requirements, and should State or Federal auditors discover areas of material noncompliance, those District funds may be subject to refund if so determined by administrative audit review. In the opinion of administration, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

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**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

Commitments Under Lease - Tornillo Independent School District leases 300 acres (13,068,000 square feet) of land in El Paso County, Texas from the University of Texas System Board of Regents. The term of this lease agreement is for a period of ten years which commenced October 1, 2006. The lease was renewed on June 24, 2015 for an additional ten year period commencing on October 1, 2016. This lease provides for rent of \$5,000 for the entire lease term. The land is only permitted to be used for the purpose of public education facilities and for necessary and desirable purposes incidental thereto, and for no other purpose. The District constructed a new high school facility on this land.

The District entered into an interlocal agreement with County of El Paso on December 14, 2009 for the improvement of facilities and services at Coyote Park playground and baseball park located within the bounds of the Tornillo Independent School District. The County will design, purchase, and install all playground equipment, canopies, basketball equipment and grass for the park and softball field. The District will be responsible for the management, maintenance and security of said park areas including maintenance of all County provided equipment. The agreement remains in effect until September 30, 2029.

**R. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, dishonesty, errors and omissions, boiler and machinery, personal property, and general liability. There have been no significant reductions in insurance coverage from prior years and settlements have not exceeded insurance coverage.

For the year ended August 31, 2017, Tornillo Independent School District carried insurance for building and contents in the amount of \$48,579,739 with a deductible for property of \$5,000 for direct physical loss and \$10,000 for wind and hail. Automobile liability is limited to \$1,000,000 per occurrence with a \$1,000 deductible.

**S. Related Party Transactions**

From time to time, the District may enter into transactions with related parties through the normal course of business. If a Board member has a conflict of interest, proper documentation is completed and he/she is required to abstain from any discussion or voting regarding the matter.

Management is not aware of any significant related party transactions that occurred during the 2016-2017 fiscal year.

**T. New Accounting Pronouncements**

The District has not completed the process of evaluating the impact on its financial position that will result from adopting Governmental Accounting Standards Board (GASB) Statements No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2017

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**IV. DETAILED NOTES ON ALL FUNDS (Continued)**

for fiscal years beginning after June 15, 2017. GASB No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers.

U. Prior Period Adjustment

During fiscal year 2017, the District conducted a review of the accumulated depreciation for buildings and noted the balance in the financial statements needed to be adjusted to agree to the District's records. A prior period adjustment was recorded to increase the accumulated depreciation for buildings and decrease net position in the amount of \$1,199,681.

V. Subsequent Event

Subsequent to year end, the District conducted an internal investigation regarding the misappropriation of grant funds. The District reported the possible misappropriation of grant funds to the local law enforcement authorities. The local law enforcement authorities have an on-going investigation regarding this matter. Since the investigation is on-going, the District has not made any adjustments related to the possible misappropriation. If any funds are determined to be misappropriated, the general fund will repay all amounts. Management does not believe any repayment of monies would have a material adverse effect on the general fund.

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**REQUIRED SUPPLEMENTARY INFORMATION**

TORNILLO 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<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |             |
|--|---|--------------|--------------------------------|--|-------------|
|  | Original  | Final        |                                |  |             |
| <b>REVENUES:</b>                       |   |              |                                |  |             |
| 5700                                   | Total Local and Intermediate Sources                      | \$ 994,600   | \$ 999,600                     | \$ 957,107   | \$ (42,493) |
| 5800                                   | State Program Revenues                                    | 9,610,527    | 9,614,302                      | 10,173,762   | 559,460     |
| 5900                                   | Federal Program Revenues                                  | 873,930      | 873,931                        | 895,081  | 21,151      |
| 5020                                   | Total Revenues  | 11,479,057   | 11,487,833                     | 12,025,950   | 538,117     |
| <b>EXPENDITURES:</b>                   |   |              |                                |  |             |
| Current:                               |   |              |                                |  |             |
| 0011                                   | Instruction   | 5,501,671    | 5,425,677                      | 5,377,761  | 47,916      |
| 0012                                   | Instructional Resources and Media Services                | 131,072      | 130,262                        | 112,081  | 18,181      |
| 0013                                   | Curriculum and Instructional Staff Development            | 61,850       | 92,050                         | 69,822   | 22,228      |
| 0021                                   | Instructional Leadership                                  | 79,895       | 84,565                         | 72,816   | 11,749      |
| 0023                                   | School Leadership   | 722,502      | 726,582                        | 699,895  | 26,687      |
| 0031                                   | Guidance, Counseling and Evaluation Services              | 211,169      | 212,469                        | 223,949  | (11,480)    |
| 0033                                   | Health Services   | 142,358      | 148,650                        | 157,655  | (9,005)     |
| 0034                                   | Student (Pupil) Transportation                            | 256,412      | 256,412                        | 174,932  | 81,480      |
| 0035                                   | Food Services   | 911,530      | 911,530                        | 938,332  | (26,802)    |
| 0036                                   | Extracurricular Activities                                | 427,231      | 427,231                        | 421,077  | 6,154       |
| 0041                                   | General Administration                                    | 961,310      | 932,348                        | 839,093  | 93,255      |
| 0051                                   | Facilities Maintenance and Operations                     | 1,259,614    | 1,376,902                      | 1,389,119  | (12,217)    |
| 0052                                   | Security and Monitoring Services                          | 197,275      | 197,275                        | 179,354  | 17,921      |
| 0053                                   | Data Processing Services                                  | 438,868      | 461,220                        | 462,511  | (1,291)     |
| 0061                                   | Community Services  | 68,300       | 73,300                         | 71,278   | 2,022       |
| Debt Service:                          |   |              |                                |  |             |
| 0071                                   | Principal on Long Term Debt                               | 75,000       | 75,000                         | 75,000   | -           |
| 0072                                   | Interest on Long Term Debt                                | 20,000       | 20,000                         | 9,564  | 10,436      |
| Capital Outlay:                        |   |              |                                |  |             |
| 0081                                   | Facilities Acquisition and Construction                   | -            | 273,130                        | 273,130  | -           |
| Intergovernmental:                     |   |              |                                |  |             |
| 0099                                   | Other Intergovernmental Charges                           | 13,000       | 13,000                         | 12,374   | 626         |
| 6030                                   | Total Expenditures  | 11,479,057   | 11,837,603                     | 11,559,743   | 277,860     |
| 1100                                   | Excess (Deficiency) of Revenues Over (Under) Expenditures | -            | (349,770)                      | 466,207  | 815,977     |
| <b>OTHER FINANCING SOURCES (USES):</b> |   |              |                                |  |             |
| 7915                                   | Transfers In  | 397,231      | 481,794                        | 481,794  | -           |
| 8911                                   | Transfers Out (Use)                                       | (397,231)    | (754,375)                      | (754,375)  | -           |
| 7080                                   | Total Other Financing Sources (Uses)                      | -            | (272,581)                      | (272,581)  | -           |
| 1200                                   | Net Change in Fund Balances                               | -            | (622,351)                      | 193,626  | 815,977     |
| 0100                                   | Fund Balance - September 1 (Beginning)                    | 7,813,805    | 7,813,805                      | 7,813,805  | -           |
| 3000                                   | Fund Balance - August 31 (Ending)                         | \$ 7,813,805 | \$ 7,191,454                   | \$ 8,007,431   | \$ 815,977  |

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

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### **Budgets and Budgetary Accounting**

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General, National School Breakfast and Lunch Program, and Debt Service funds before the beginning of the fiscal year. For fiscal years beginning September 1, the Texas Education Code requires the budget to be adopted by August 31<sup>st</sup> of each year. The District's administration determines budgetary funding priorities and the budgets are prepared on the same basis of accounting that is used for reporting in accordance with generally accepted accounting principles. Final budget allocations are determined by the Board, which subsequently establishes a tax rate sufficient to support the approved budget. The annual budget, which is prepared on the modified accrual basis of accounting, must be adopted by the Board at a scheduled meeting after giving ten days public notice of the meeting. The District annually adopts legally authorized appropriated budgets for the General, National School Breakfast and Lunch Program, and Debt Service funds. On August 24, 2016, the 2016-2017 budget was legally adopted by the Board.

The District's administration performs budget reviews during the year in which budget requirements are re-evaluated and revisions are recommended to the Board. The Board must approve amendments to the budget at the fund and functional expenditure categories or revenue object accounts as defined by the TEA. 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. Several amendments were necessary during the year. However, none of these were significant.

Expenditures may not legally exceed budgeted appropriations, as amended, at the function level by fund. Unexpended appropriations lapse at year-end.

### **Budget Overages**

Exhibit G-1 presents small unfavorable budget variances in functions 31 (Guidance, Counseling and Evaluation Services), 33 (Health Services), 51 (Facilities Maintenance and Operations), and 53 (Data Processing Services) as TRS On-Behalf revenue and expenditures were not included in the budget.

Both Exhibit G-1 and Exhibit J-2 present a unfavorable budget variances in function 35 (Food Service) as a result of an increase in food costs related to the new Child & Adult Care Food Program. Budgeted funds for this program were not enough to cover the increase in cost.

Although the budget variances are small, management has already implemented procedures to avoid unfavorable budget variances in any of the budget categories at the end of the fiscal year. Overall, the general fund reports a favorable budget variance in the amount of \$277,860.

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

|  | Measurement Year Ended August 31, |                     |                     |
|--|-----------------------------------|---------------------|---------------------|
|  | 2016                              | 2015                | 2014                |
| District's Proportion of the Net Pension Liability (Asset)   | 0.0083086%                        | 0.0076823%          | 0.0055566%          |
| District's Proportionate Share of Net Pension Liability (Asset)  | \$ 3,139,693                      | \$ 2,715,591        | \$ 1,484,245        |
| States Proportionate Share of the Net Pension Liability (Asset) associated with the District                           | 4,232,506                         | 4,208,755           | 3,644,005           |
| Total  | <u>\$ 7,372,199</u>               | <u>\$ 6,924,346</u> | <u>\$ 5,128,250</u> |
| District's Covered Employee Payroll  | \$ 7,198,540                      | \$ 7,198,540        | \$ 6,956,232        |
| District's Proportionate Share of the Net Pension Liability (Asset)<br>as a percentage of its Covered Employee Payroll | 43.62%                            | 37.72%              | 21.34%              |
| 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 presented for the Plan's measurement year (September 1st - August 31st) as opposed to the District's fiscal year.

Note: Per GASB 68, paragraph 138, "The information for all periods for the 10-year schedule that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, the 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."

TORNILLO INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
 TEACHER RETIREMENT SYSTEM  
 FOR THE YEAR ENDED AUGUST 31, 2017

|   | Fiscal Year Ended August 31, |                  |                  |
|---|------------------------------|------------------|------------------|
|   | 2017                         | 2016             | 2015             |
| Contractually Required Contribution                                 | \$ 238,898                   | \$ 233,325       | \$ 181,259       |
| Contribution in Relation to the Contractually Required Contribution | <u>(238,898)</u>             | <u>(233,325)</u> | <u>(181,259)</u> |
| Contribution Deficiency (Excess)                                    | <u>\$ -</u>                  | <u>\$ -</u>      | <u>\$ -</u>      |
| District's Covered Employee Payroll                                 | \$ 7,891,834                 | \$ 7,563,210     | \$ 7,198,540     |
| Contributions as a percentage of Covered Employee Payroll           | 3.03%                        | 3.08%            | 2.52%            |

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented for the District's respective fiscal year as opposed to the measurement year.

Note: Per GASB 68, paragraph 138. "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."

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
TEACHER RETIREMENT SYSTEM**

**FOR THE YEAR ENDED AUGUST 31, 2017**

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***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 to assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

**SUPPLEMENTARY INFORMATION**

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

| Data<br>Control<br>Codes                                 | 211<br>ESEA I, A<br>Improving<br>Basic Program | 212<br>ESEA Title I<br>Part C<br>Migrant | 224<br>IDEA - Part B<br>Formula |
|--|--|--|---------------------------------|
| <b>ASSETS</b>  |  |  |                                 |
| 1110 Cash and Cash Equivalents                           | \$ -   | \$ -                                     | \$ -                            |
| 1220 Property Taxes - Delinquent                         | -  | -  | -                               |
| 1230 Allowance for Uncollectible Taxes (Credit)          | -  | -  | -                               |
| 1240 Receivables from Other Governments                  | 52,943   | 9,351                                    | 18,736                          |
| 1260 Due from Other Funds                                | -  | -  | -                               |
| 1000 Total Assets  | <u>\$ 52,943</u>                               | <u>\$ 9,351</u>                          | <u>\$ 18,736</u>                |
| <b>LIABILITIES</b>                                       |  |  |                                 |
| 2150 Payroll Deductions and Withholdings Payable         | \$ 5,993                                       | \$ 903                                   | \$ 2,122                        |
| 2160 Accrued Wages Payable                               | 14,678   | 2,730                                    | 3,662                           |
| 2170 Due to Other Funds                                  | 32,272   | 5,718                                    | 12,952                          |
| 2180 Due to Other Governments                            | -  | -  | -                               |
| 2200 Accrued Expenditures                                | -  | -  | -                               |
| 2300 Unearned Revenues                                   | -  | -  | -                               |
| 2000 Total Liabilities                                   | <u>52,943</u>                                  | <u>9,351</u>                             | <u>18,736</u>                   |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                     |  |  |                                 |
| 2601 Unavailable Revenue - Property Taxes                | -  | -  | -                               |
| 2600 Total Deferred Inflows of Resources                 | <u>-</u>                                       | <u>-</u>                                 | <u>-</u>                        |
| <b>FUND BALANCES</b>                                     |  |  |                                 |
| Restricted Fund Balance:                                 |  |  |                                 |
| 3450 Federal or State Funds Grant Restriction            | -  | -  | -                               |
| 3480 Retirement of Long-Term Debt                        | -  | -  | -                               |
| 3490 Other Restricted Fund Balance                       | -  | -  | -                               |
| 3000 Total Fund Balances                                 | <u>-</u>                                       | <u>-</u>                                 | <u>-</u>                        |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 52,943</u>                               | <u>\$ 9,351</u>                          | <u>\$ 18,736</u>                |

| 225<br>IDEA - Part B<br>Preschool | 242<br>Summer<br>Feeding<br>Program | 244<br>Career and<br>Technical -<br>Basic Grant | 255<br>ESEA II,A<br>Training and<br>Recruiting | 263<br>Title III, A<br>English Lang.<br>Acquisition | 289<br>Texas<br>Literacy<br>Initiative | 397<br>Advanced<br>Placement<br>Incentives | 404<br>Student<br>Success<br>Initiative |
|-----------------------------------|-------------------------------------|---|--|---|--|--|---|
| \$ -                              | \$ -                                | \$ -  | \$ -   | \$ -  | \$ -                                   | \$ -                                       | \$ -                                    |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | 15,730   | 2,227   | -                                      | -  | -                                       |
| -                                 | 43,357                              | -   | -  | -   | -                                      | 1,600                                      | 13,748                                  |
| <u>\$ -</u>                       | <u>\$ 43,357</u>                    | <u>\$ -</u>                                     | <u>\$ 15,730</u>                               | <u>\$ 2,227</u>                                     | <u>\$ -</u>                            | <u>\$ 1,600</u>                            | <u>\$ 13,748</u>                        |
| \$ -                              | \$ -                                | \$ -  | \$ -   | \$ 339  | \$ -                                   | \$ -                                       | \$ -                                    |
| -                                 | -                                   | -   | -  | 1,168   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | 15,730   | 720   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | 13,748                                  |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | 15,730   | 2,227   | -                                      | -  | 13,748                                  |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | 43,357                              | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | 1,600                                      | -                                       |
| -                                 | 43,357                              | -   | -  | -   | -                                      | 1,600                                      | -                                       |
| <u>\$ -</u>                       | <u>\$ 43,357</u>                    | <u>\$ -</u>                                     | <u>\$ 15,730</u>                               | <u>\$ 2,227</u>                                     | <u>\$ -</u>                            | <u>\$ 1,600</u>                            | <u>\$ 13,748</u>                        |

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

| Data<br>Control<br>Codes             | 410<br>State<br>Textbook<br>Fund                               | 429<br>Math and<br>Literacy<br>Achievement | 461<br>Campus<br>Activity<br>Funds | Total<br>Nonmajor<br>Special<br>Revenue Funds |
|--------------------------------------|--|--|------------------------------------|---|
| <b>ASSETS</b>                        |  |  |                                    |   |
| 1110                                 | Cash and Cash Equivalents                                      | \$ -                                       | \$ -                               | \$ -  |
| 1220                                 | Property Taxes - Delinquent                                    | -  | -                                  | -   |
| 1230                                 | Allowance for Uncollectible Taxes (Credit)                     | -  | -                                  | -   |
| 1240                                 | Receivables from Other Governments                             | -  | 2,800                              | 101,787                                       |
| 1260                                 | Due from Other Funds   | 14,319                                     | -                                  | 83,204  |
| 1000                                 | <b>Total Assets</b>  | <u>\$ 14,319</u>                           | <u>\$ 2,800</u>                    | <u>\$ 184,991</u>                             |
| <b>LIABILITIES</b>                   |  |  |                                    |   |
| 2150                                 | Payroll Deductions and Withholdings Payable                    | \$ -                                       | \$ -                               | \$ 9,357                                      |
| 2160                                 | Accrued Wages Payable  | -  | -                                  | 22,238  |
| 2170                                 | Due to Other Funds   | -  | -                                  | 67,392  |
| 2180                                 | Due to Other Governments                                       | -  | -                                  | 13,748  |
| 2200                                 | Accrued Expenditures   | -  | 2,800                              | 2,800   |
| 2300                                 | Unearned Revenues  | 14,319                                     | -                                  | 14,319  |
| 2000                                 | <b>Total Liabilities</b>                                       | <u>14,319</u>                              | <u>2,800</u>                       | <u>-</u>                                      |
| <b>DEFERRED INFLOWS OF RESOURCES</b> |  |  |                                    |   |
| 2601                                 | Unavailable Revenue - Property Taxes                           | -  | -                                  | -   |
| 2600                                 | <b>Total Deferred Inflows of Resources</b>                     | <u>-</u>                                   | <u>-</u>                           | <u>-</u>                                      |
| <b>FUND BALANCES</b>                 |  |  |                                    |   |
| Restricted Fund Balance:             |  |  |                                    |   |
| 3450                                 | Federal or State Funds Grant Restriction                       | -  | -                                  | 43,357  |
| 3480                                 | Retirement of Long-Term Debt                                   | -  | -                                  | -   |
| 3490                                 | Other Restricted Fund Balance                                  | -  | 10,180                             | 11,780  |
| 3000                                 | <b>Total Fund Balances</b>                                     | <u>-</u>                                   | <u>10,180</u>                      | <u>55,137</u>                                 |
| 4000                                 | <b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b> | <u>\$ 14,319</u>                           | <u>\$ 2,800</u>                    | <u>\$ 184,991</u>                             |

| 599<br>Debt<br>Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------------------|--|
| \$ 454,301                     | \$ 454,301                                 |
| 45,409                         | 45,409                                     |
| (2,270)                        | (2,270)                                    |
| -                              | 101,787                                    |
| -                              | 83,204                                     |
| <u>\$ 497,440</u>              | <u>\$ 682,431</u>                          |
| <br>                           |  |
| \$ -                           | \$ 9,357                                   |
| -                              | 22,238                                     |
| -                              | 67,392                                     |
| -                              | 13,748                                     |
| -                              | 2,800                                      |
| 64,765                         | 79,084                                     |
| <u>64,765</u>                  | <u>194,619</u>                             |
| <br>                           |  |
| 39,305                         | 39,305                                     |
| <u>39,305</u>                  | <u>39,305</u>                              |
| <br>                           |  |
| -                              | 43,357                                     |
| 393,370                        | 393,370                                    |
| -                              | 11,780                                     |
| <u>393,370</u>                 | <u>448,507</u>                             |
| <br>                           |  |
| <u>\$ 497,440</u>              | <u>\$ 682,431</u>                          |

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

| Data<br>Control<br>Codes | 211<br>ESEA I, A<br>Improving<br>Basic Program | 212<br>ESEA Title I<br>Part C<br>Migrant | 224<br>IDEA - Part B<br>Formula |
|--------------------------|--|--|---------------------------------|
| REVENUES:                |  |  |                                 |
| 5700                     | \$ -   | \$ -                                     | \$ -                            |
| 5800                     | -  | -  | -                               |
| 5900                     | 618,506  | 124,150                                  | 198,792                         |
| 5020                     | <u>618,506</u>                                 | <u>124,150</u>                           | <u>198,792</u>                  |
| EXPENDITURES:            |  |  |                                 |
| Current:                 |  |  |                                 |
| 0011                     | 543,770  | 74,995                                   | 98,972                          |
| 0012                     | -  | -  | -                               |
| 0013                     | 18,416   | 236                                      | 1,960                           |
| 0021                     | 792  | 41,933                                   | 90,370                          |
| 0023                     | -  | -  | -                               |
| 0031                     | -  | -  | 7,490                           |
| 0035                     | -  | -  | -                               |
| 0041                     | -  | -  | -                               |
| 0061                     | 55,528   | 6,986                                    | -                               |
| Debt Service:            |  |  |                                 |
| 0071                     | -  | -  | -                               |
| 0072                     | -  | -  | -                               |
| 6030                     | <u>618,506</u>                                 | <u>124,150</u>                           | <u>198,792</u>                  |
| 1200                     | -  | -  | -                               |
| 0100                     | <u>-</u>                                       | <u>-</u>                                 | <u>-</u>                        |
| 3000                     | <u>\$ -</u>                                    | <u>\$ -</u>                              | <u>\$ -</u>                     |

| 225<br>IDEA - Part B<br>Preschool | 242<br>Summer<br>Feeding<br>Program | 244<br>Career and<br>Technical -<br>Basic Grant | 255<br>ESEA II,A<br>Training and<br>Recruiting | 263<br>Title III, A<br>English Lang.<br>Acquisition | 289<br>Texas<br>Literacy<br>Initiative | 397<br>Advanced<br>Placement<br>Incentives | 404<br>Student<br>Success<br>Initiative |
|-----------------------------------|-------------------------------------|---|--|---|--|--|---|
| \$ -                              | \$ 323                              | \$ -  | \$ -   | \$ -  | \$ -                                   | \$ -                                       | \$ -                                    |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| 487                               | 13,308                              | 18,305  | 64,722   | 33,591  | 88,865                                 | -  | -                                       |
| 487                               | 13,631                              | 18,305  | 64,722   | 33,591  | 88,865                                 | -  | -                                       |
| 487                               | -                                   | 18,305  | -  | 33,591  | 62,663                                 | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | 12,835                                 | -  | -                                       |
| -                                 | -                                   | -   | 64,722   | -   | 11,612                                 | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | 639                                    | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | 16,173                              | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | 1,116                                  | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | -                                   | -   | -  | -   | -                                      | -  | -                                       |
| 487                               | 16,173                              | 18,305  | 64,722   | 33,591  | 88,865                                 | -  | -                                       |
| -                                 | (2,542)                             | -   | -  | -   | -                                      | -  | -                                       |
| -                                 | 45,899                              | -   | -  | -   | -                                      | 1,600                                      | -                                       |
| \$ -                              | \$ 43,357                           | \$ -  | \$ -   | \$ -  | \$ -                                   | \$ 1,600                                   | \$ -                                    |

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

| Data<br>Control<br>Codes                            | 410<br>State<br>Textbook<br>Fund | 429<br>Math and<br>Literacy<br>Achievement | 461<br>Campus<br>Activity<br>Funds | Total<br>Nonmajor<br>Special<br>Revenue Funds |
|---|----------------------------------|--|------------------------------------|---|
| REVENUES:   |                                  |  |                                    |   |
| 5700 Total Local and Intermediate Sources           | \$ -                             | \$ -                                       | \$ 17,229                          | \$ 17,552                                     |
| 5800 State Program Revenues                         | 47,721                           | 6,300                                      | -                                  | 54,021  |
| 5900 Federal Program Revenues                       | -                                | -  | -                                  | 1,160,726                                     |
| 5020 Total Revenues                                 | <u>47,721</u>                    | <u>6,300</u>                               | <u>17,229</u>                      | <u>1,232,299</u>                              |
| EXPENDITURES:                                       |                                  |  |                                    |   |
| Current:  |                                  |  |                                    |   |
| 0011 Instruction                                    | 47,721                           | 6,300                                      | 8,111                              | 894,915                                       |
| 0012 Instructional Resources and Media Services     | -                                | -  | -                                  | 12,835  |
| 0013 Curriculum and Instructional Staff Development | -                                | -  | -                                  | 96,946  |
| 0021 Instructional Leadership                       | -                                | -  | -                                  | 133,095                                       |
| 0023 School Leadership                              | -                                | -  | 9,118                              | 9,757   |
| 0031 Guidance, Counseling and Evaluation Services   | -                                | -  | -                                  | 7,490   |
| 0035 Food Services                                  | -                                | -  | -                                  | 16,173  |
| 0041 General Administration                         | -                                | -  | -                                  | 1,116   |
| 0061 Community Services                             | -                                | -  | -                                  | 62,514  |
| Debt Service:                                       |                                  |  |                                    |   |
| 0071 Principal on Long Term Debt                    | -                                | -  | -                                  | -   |
| 0072 Interest on Long Term Debt                     | -                                | -  | -                                  | -   |
| 6030 Total Expenditures                             | <u>47,721</u>                    | <u>6,300</u>                               | <u>17,229</u>                      | <u>1,234,841</u>                              |
| 1200 Net Change in Fund Balance                     | -                                | -  | -                                  | (2,542)                                       |
| 0100 Fund Balance - September 1 (Beginning)         | <u>-</u>                         | <u>-</u>                                   | <u>10,180</u>                      | <u>57,679</u>                                 |
| 3000 Fund Balance - August 31 (Ending)              | <u>\$ -</u>                      | <u>\$ -</u>                                | <u>\$ 10,180</u>                   | <u>\$ 55,137</u>                              |

| 599<br>Debt<br>Service<br>Fund | Total<br>Nonmajor<br>Governmental<br>Funds |
|--------------------------------|--|
| \$ 214,787                     | \$ 232,339                                 |
| 899,069                        | 953,090                                    |
| -                              | 1,160,726                                  |
| 1,113,856                      | 2,346,155                                  |
| -                              | 894,915                                    |
| -                              | 12,835                                     |
| -                              | 96,946                                     |
| -                              | 133,095                                    |
| -                              | 9,757                                      |
| -                              | 7,490                                      |
| -                              | 16,173                                     |
| -                              | 1,116                                      |
| -                              | 62,514                                     |
| 500,456                        | 500,456                                    |
| 661,588                        | 661,588                                    |
| 1,162,044                      | 2,396,885                                  |
| (48,188)                       | (50,730)                                   |
| 441,558                        | 499,237                                    |
| \$ 393,370                     | \$ 448,507                                 |

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**OTHER INFORMATION - REQUIRED TEA SCHEDULES**

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

| Last 10 Years Ended<br>August 31 | (1)         | (2)          | (3)  |
|----------------------------------|-------------|--------------|--|
|                                  | Tax Rates   |              | Assessed/Appraised<br>Value for School<br>Tax Purposes |
|                                  | Maintenance | Debt Service |  |
| 2008 and prior years             | Various     | Various      | \$ Various   |
| 2009                             | 1.090000    | 0.261600     | 42,688,246   |
| 2010                             | 1.090000    | 0.249000     | 47,183,284   |
| 2011                             | 1.090100    | 0.246000     | 51,720,943   |
| 2012                             | 1.090100    | 0.218700     | 52,230,579   |
| 2013                             | 1.090100    | 0.213600     | 55,057,509   |
| 2014                             | 1.090100    | 0.213600     | 57,985,327   |
| 2015                             | 1.090100    | 0.213600     | 62,229,604   |
| 2016                             | 1.090100    | 0.213600     | 61,401,358   |
| 2017 (School year under audit)   | 1.090100    | 0.310700     | 66,480,248   |
| 1000 TOTALS                      |             |              |  |

| (10)<br>Beginning<br>Balance<br>9/1/2016 | (20)<br>Current<br>Year's<br>Total Levy | (31)<br>Maintenance<br>Collections | (32)<br>Debt Service<br>Collections | (40)<br>Entire<br>Year's<br>Adjustments | (50)<br>Ending<br>Balance<br>8/31/2017 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 86,253                                | \$ -                                    | \$ 846                             | \$ 192                              | \$ -                                    | \$ 85,215                              |
| 6,037                                    | -                                       | 202                                | 49                                  | -                                       | 5,786                                  |
| 7,079                                    | -                                       | 405                                | 92                                  | -                                       | 6,582                                  |
| 7,219                                    | -                                       | 374                                | 84                                  | -                                       | 6,761                                  |
| 8,847                                    | -                                       | 678                                | 136                                 | (79)                                    | 7,954                                  |
| 12,285                                   | -                                       | 2,619                              | 513                                 | (75)                                    | 9,078                                  |
| 19,720                                   | -                                       | 5,843                              | 1,145                               | (130)                                   | 12,602                                 |
| 28,174                                   | -                                       | 9,332                              | 1,828                               | (410)                                   | 16,604                                 |
| 44,385                                   | -                                       | 14,804                             | 2,901                               | (1,732)                                 | 24,948                                 |
| -  | 931,255                                 | 685,189                            | 195,293                             | -                                       | 50,773                                 |
| <u>\$ 219,999</u>                        | <u>\$ 931,255</u>                       | <u>\$ 720,292</u>                  | <u>\$ 202,233</u>                   | <u>\$ (2,426)</u>                       | <u>\$ 226,303</u>                      |

TORNILLO 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<br>Control<br>Codes                    | Budgeted Amounts  |                   | Actual Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |
|---|-------------------|-------------------|--------------------------------|--|
|   | Original          | Final             |                                |  |
| REVENUES:                                   |                   |                   |                                |  |
| 5700 Total Local and Intermediate Sources   | \$ 75,000         | \$ 75,000         | \$ 89,259                      | \$ 14,259  |
| 5800 State Program Revenues                 | 2,600             | 2,600             | 5,118                          | 2,518  |
| 5900 Federal Program Revenues               | 833,930           | 833,930           | 772,759                        | (61,171)   |
| 5020 Total Revenues                         | <u>911,530</u>    | <u>911,530</u>    | <u>867,136</u>                 | <u>(44,394)</u>  |
| EXPENDITURES:                               |                   |                   |                                |  |
| 0035 Food Services                          | <u>911,530</u>    | <u>911,530</u>    | <u>938,332</u>                 | <u>(26,802)</u>  |
| 6030 Total Expenditures                     | <u>911,530</u>    | <u>911,530</u>    | <u>938,332</u>                 | <u>(26,802)</u>  |
| 1200 Net Change in Fund Balances            | -                 | -                 | (71,196)                       | (71,196)   |
| 0100 Fund Balance - September 1 (Beginning) | <u>172,736</u>    | <u>172,736</u>    | <u>172,736</u>                 | <u>-</u>   |
| 3000 Fund Balance - August 31 (Ending)      | <u>\$ 172,736</u> | <u>\$ 172,736</u> | <u>\$ 101,540</u>              | <u>\$ (71,196)</u>   |

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

| Data<br>Control<br>Codes | Budgeted Amounts                       |            | Actual Amounts<br>(GAAP BASIS) | Variance With<br>Final Budget<br>Positive or<br>(Negative) |             |
|--------------------------|--|------------|--------------------------------|--|-------------|
|                          | Original                               | Final      |                                |  |             |
| REVENUES:                |  |            |                                |  |             |
| 5700                     | Total Local and Intermediate Sources   | \$ 304,400 | \$ 304,400                     | \$ 214,787   | \$ (89,613) |
| 5800                     | State Program Revenues                 | 758,000    | 758,000                        | 899,069  | 141,069     |
| 5020                     | Total Revenues                         | 1,062,400  | 1,062,400                      | 1,113,856  | 51,456      |
| EXPENDITURES:            |  |            |                                |  |             |
| Debt Service:            |  |            |                                |  |             |
| 0071                     | Principal on Long Term Debt            | 580,000    | 580,000                        | 500,456  | 79,544      |
| 0072                     | Interest on Long Term Debt             | 687,640    | 687,640                        | 661,588  | 26,052      |
| 6030                     | Total Expenditures                     | 1,267,640  | 1,267,640                      | 1,162,044  | 105,596     |
| 1200                     | Net Change in Fund Balances            | (205,240)  | (205,240)                      | (48,188)   | 157,052     |
| 0100                     | Fund Balance - September 1 (Beginning) | 441,558    | 441,558                        | 441,558  | -           |
| 3000                     | Fund Balance - August 31 (Ending)      | \$ 236,318 | \$ 236,318                     | \$ 393,370   | \$ 157,052  |

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**FEDERAL AWARDS 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*

To the Board of Trustees  
Tornillo Independent School District

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 Tornillo Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Tornillo Independent School District's basic financial statements, and have issued our report thereon dated January 12, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Tornillo 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 Tornillo Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Tornillo 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 weakness or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weakness. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Tornillo 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.

*Gibson Ruddock Patterson LLC*

Gibson Ruddock Patterson LLC  
El Paso, Texas  
January 12, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees  
Tornillo Independent School District

**Report on Compliance for Each Major Federal Program**

We have audited Tornillo Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Tornillo Independent School District's major federal programs for the year ended August 31, 2017. Tornillo Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

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

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

## Opinion on Each Major Federal Program

In our opinion, Tornillo Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

## Report on Internal Control over Compliance

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

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

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

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

*Gibson Ruddock Patterson LLC*

Gibson Ruddock Patterson LLC  
El Paso, Texas  
January 12, 2018

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

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**SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

**Type of Auditor’s Report issued on whether the financial statements audited were prepared in accordance with GAAP:** Unmodified

**Internal control over financial reporting:**

**Were significant deficiencies in internal control disclosed?** None reported

**Were material weaknesses in internal control disclosed?** No

**Was any noncompliance disclosed that is material to the financial statements of the auditee, which would be required to be reported in accordance with Government Auditing Standards?** No

**Federal Awards**

**Internal control over major federal award programs:**

**Were significant deficiencies in internal control over major programs disclosed?** None reported

**Were material weaknesses in internal control over major programs disclosed?** No

**Type of auditor’s report issued on compliance for the major federal award programs:** Unmodified

**Were there any audit findings that the auditor is required to disclosed under Title 2 CFR 200.516 Audit findings paragraph (a)?** No

**Major Federal Programs:** **ESEA, Title I, Part A - Improving Basic Program, CFDA 84.010A**

**Dollar threshold used to distinguish between type A and type B programs:** \$750,000

**Did auditee qualified as low-risk auditee under 2 CFR 200.520 Criteria for a low-risk auditee?** Yes

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

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**FINANCIAL STATEMENT FINDINGS**

There were no current year findings.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no current year findings or questioned costs.

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF STATUS OF PRIOR FINDINGS**

**FOR THE YEAR ENDED AUGUST 31, 2017**

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**FINANCIAL STATEMENT FINDINGS**

There were no prior year findings.

**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no prior year findings or questioned costs.

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

| (1)   | (2)                       | (3)  | (4)                     |
|---|---------------------------|--|-------------------------|
| FEDERAL GRANTOR/<br>PASS-THROUGH GRANTOR/<br>PROGRAM or CLUSTER TITLE | Federal<br>CFDA<br>Number | Pass-Through<br>Entity Identifying<br>Number | Federal<br>Expenditures |
| <b>U.S. DEPARTMENT OF EDUCATION</b>                                   |                           |  |                         |
| <u>Passed Through State Department of Education</u>                   |                           |  |                         |
| ESEA, Title I, Part A - Improving Basic Programs                      | 84.010A                   | 1661011071908                                | \$ 48,296               |
| ESEA, Title I, Part A - Improving Basic Programs                      | 84.010A                   | 17610101071908                               | 594,938                 |
| Total CFDA Number 84.010A   |                           |  | 643,234                 |
| ESEA, Title I, Part C - Migratory Children                            | 84.011A                   | 16615001071908                               | 15,019                  |
| ESEA, Title I, Part C - Migratory Children                            | 84.011A                   | 17615001071908                               | 114,081                 |
| Total CFDA Number 84.011A   |                           |  | 129,100                 |
| **IDEA - Part B, Formula  | 84.027A                   | 166600010719086600                           | 19,472                  |
| **IDEA - Part B, Formula  | 84.027A                   | 176600010719086600                           | 187,245                 |
| Total CFDA Number 84.027A   |                           |  | 206,717                 |
| **IDEA - Part B, Preschool  | 84.173A                   | 176610010719086610                           | 507                     |
| Total Special Education Cluster (IDEA)                                |                           |  | 207,224                 |
| Career and Technical - Basic Grant                                    | 84.048A                   | 17420006071908                               | 19,035                  |
| Title III, Part A - English Language Acquisition                      | 84.365A                   | 16671001071908                               | 2,712                   |
| Title III, Part A - English Language Acquisition                      | 84.365A                   | 17671001071908                               | 31,550                  |
| Total CFDA Number 84.365A   |                           |  | 34,262                  |
| ESEA, Title II, Part A, Teacher/Principal Training                    | 84.367A                   | 16694501071908                               | 11,751                  |
| ESEA, Title II, Part A, Teacher/Principal Training                    | 84.367A                   | 17694501071908                               | 55,551                  |
| Total CFDA Number 84.367A   |                           |  | 67,302                  |
| Texas Literacy Initiative   | 84.371C                   | 166460037110030                              | 99,322                  |
| LEP Summer School   | 84.369A                   | 69551602                                     | 3,495                   |
| Total Passed Through State Department of Education                    |                           |  | 1,202,974               |
| <b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>                             |                           |  | 1,202,974               |
| <b>U.S. DEPARTMENT OF AGRICULTURE</b>                                 |                           |  |                         |
| <u>Passed Through the State Department of Agriculture</u>             |                           |  |                         |
| *School Breakfast Program   | 10.553                    | 71401601 & 71401701                          | 113,244                 |
| *National School Lunch Program - Cash Assistance                      | 10.555                    | 71301601 & 71301701                          | 585,794                 |
| *National School Lunch Prog. - Non-Cash Assistance                    | 10.555                    | 71301601 & 71301701                          | 28,702                  |
| Total CFDA Number 10.555  |                           |  | 614,496                 |
| *Summer Feeding Program - Cash Assistance                             | 10.559                    | 00352  | 13,308                  |
| Total Child Nutrition Cluster   |                           |  | 741,048                 |
| Child & Adult Care Food Program - Cash Assistance                     | 10.558                    | 00342  | 75,638                  |
| Fresh Fruit and Vegetable Program                                     | 10.582                    | 00342  | 36,147                  |
| Total Passed Through the State Department of Agriculture              |                           |  | 852,833                 |
| <b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>                           |                           |  | 852,833                 |
| <b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>                           |                           |  | \$ 2,055,807            |

\* and \*\* Clustered Programs

# TORNILLO INDEPENDENT SCHOOL DISTRICT

## NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED AUGUST 31, 2017

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### 1. GENERAL

For all Federal programs, the District uses the fund types specified in the Texas Education Agency's *Financial Accountability System Resource Guide*.

Special Revenue Funds are used to account for resources restricted or committed for specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified projects periods.

The accompanying schedule of expenditures of federal awards (the "schedule") includes the federal award activity of the District under programs of the federal government for the year ended August 31, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

### 2. BASIS OF ACCOUNTING

Accounting and Financial Reporting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in the Special Revenue Fund or in the General Fund. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

The modified accrual basis of accounting is used for the Governmental Fund Types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Period of performance - The period of performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in Section H. Period of Performance, Part 3, OMB Compliance Supplement - April 2017.

Matching - Matching contributions were not required for any of the federal awards.

(Continued)

**TORNILLO INDEPENDENT SCHOOL DISTRICT**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED AUGUST 31, 2017

**3. INDIRECT COST RATE**

The District did not elect to use the 10% de minimis indirect cost rate but used the indirect cost rate assigned by Texas Education Agency.

The District accounted for federally funded indirect costs in the General Fund as follows:

| Program Title                                  | Federal CFDA |                   |
|--|--------------|-------------------|
|  | Number       | Amount            |
| School Breakfast Program                       | 10.553       | \$ 9,737          |
| National School Lunch Program                  | 10.555       | 49,904            |
| Child & Adult Care Food Program                | 10.558       | 7,124             |
| Total Indirect Cost - Child Nutrition Program  |              | <u>66,765</u>     |
| Title I, Part A - Improving Basic Programs     | 84.010A      | 24,728            |
| Title I, Part C - Migrant                      | 84.011       | 4,950             |
| IDEA - Part B, Formula                         | 84.027       | 7,926             |
| IDEA - Part B, Preschool                       | 84.173       | 19                |
| Carl D. Perkins Basic Formula Grant            | 84.048A      | 730               |
| Title II, Part A, Teacher & Principal Training | 84.367A      | 2,580             |
| Title III, Part A - LEP                        | 84.365A      | 672               |
| Texas Literacy Initiative                      | 84.371C      | 13,951            |
| Total Indirect Costs - Other                   |              | <u>55,556</u>     |
| Total Indirect Costs                           |              | <u>\$ 122,321</u> |

**4. RECONCILIATIONS**

Of the federal expenditures presented in schedule K-1, the District accounted for certain funds in the General Fund as follows:

| Program Title                                       | Federal CFDA |                   |
|---|--------------|-------------------|
|   | Number       | Amount            |
| School Breakfast Program                            | 10.553       | \$ 113,244        |
| National School Lunch Program - Cash Assistance     | 10.555       | 585,794           |
| National School Lunch Program - Non-Cash Assistance | 10.555       | 28,702            |
| Child & Adult Care Food Program                     | 10.558       | 75,638            |
| Fresh Fruit and Vegetable Program                   | 10.582       | 36,147            |
| Indirect Costs - Other                              | 84.XXX       | 55,556            |
| Total General Fund federal revenue per Exhibit C-3  |              | <u>\$ 895,081</u> |

**5. PROGRAM INCOME**

The Child Nutrition Cluster generated program income in the amount of \$89,582 for the year ended August 31, 2017.