

TORNILLO

INDEPENDENT SCHOOL DISTRICT



Annual Financial Report

FOR THE YEAR ENDED AUGUST 31, 2016

TORNILLO INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORTS
FOR THE YEAR ENDED AUGUST 31, 2016

TORNILLO INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED AUGUST 31, 2016

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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, 2016, at a meeting of the board of trustees of such school district on the 25th day of January 2017.


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, 2016, 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, 2016, 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 (CFR) 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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017, 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 17, 2017

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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, 2016. 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 as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about 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). The District's Governmental funds use the following accounting approach:

Governmental funds - 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 and Changes in 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 2016 by \$18,037,899 (net position). Of this amount, \$5,305,040 (unrestricted net position) may be used to meet the District's ongoing obligations to creditors and residents.

Total Net Position of the District increased from \$17,528,942 in fiscal year 2015 to \$18,037,899 at year-end 2016. Of this total amount, unrestricted decreased by \$441,791 from \$5,746,831 to \$5,305,040. Total revenues increased \$297,985 from \$15,171,238 in fiscal year 2015, to \$15,469,223 in fiscal year 2016. Total expenses increased \$1,526,932 from \$13,433,334, to \$14,960,266.

The District's governmental funds financial statements reported a combined ending fund balance in fiscal year 2016 of \$17.9 million. The combined ending fund balance of the District increased \$9.5 million

from \$8.4 million in fiscal year 2015. Of this total amount, \$15,284 is Nonspendable, \$10,948,688 is Restricted, \$660,630 is Assigned and \$6,294,919 is Unassigned and is available for spending at the District's discretion.

The fund balance in the Debt Service Fund is \$441,558. The Interest and Sinking tax rate for fiscal year 2016 remained the same from year 2015 - \$1.0901 for Maintenance and Operations and \$0.2136 for Debt Service. A combined total of \$1.3037 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 will increase 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.

On May 24, 2013 the Board of Trustees voted to commit \$900,000 for district-wide construction and improvements and \$100,000 for litigation purposes. As of August 31, 2016 the construction of the twelve High School Classrooms has been completed. The Superintendent assigned \$900,000 in addition to the \$100,000 assigned in 2014 for any other construction needs of the district. During 2016, the balance committed for litigation expenses was transferred into the construction account via a resolution approved by the Board of Trustees during the August 24, 2016 Board Meeting. As of 08/31/2016, the funds committed by the Board for the construction of the High School Classrooms has been deployed and the assigned fund balance is \$660,630 after construction-related expenses and an assessment of District's facilities.

Furthermore, of the \$65,000 committed by the Board of Trustees for the Athletic Program, \$33,977 were spent during 2015 and \$31,023 during 2016. As of year-end, no commitment remains for this fund.

The District scored 86 out of 100 possible points for 2015-2016 Financial Integrity Rating System of Texas (FIRST) based on 2014-2015 data, which resulted in a "Superior" 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 and business-type activities.

Net position of the District increased from \$17,528,942 in fiscal year 2015 to \$18,037,899 in 2016. 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 \$5.3 million at August 31, 2016. The increase in governmental net position was the result of several factors. While Local and Federal revenue remained somewhat constant, there was a significant increase in the deferred outflow related to TRS (846,420) and a decrease in the deferred inflows related to TRS (251,916). Both of which are related to the Governmental Accounting Standards Board Pronouncement No. 68. During 2015, a prior period adjustment in the amount of \$1,681,656 was recorded to report the district's proportionate share of the collective Net Pension Liability, Pension Expense, Deferred Inflows and Deferred Outflows of resources associated with pensions. No prior period adjustment was necessary for fiscal year 2016.

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

	<u>2015</u>	<u>2016</u>
	Governmental & Other Business-Type Activities	
Current and Other Assets	\$9,895	\$19,487
Non-Current Assets	22,256	22,729
Deferred Outflows of Resources	<u>1,005</u>	<u>1,808</u>
Total Assets and Deferred Outflows	<u>33,156</u>	<u>44,024</u>
Current Liabilities	1,343	1,413
Long Term Liabilities	13,831	24,314
Deferred Inflow	<u>454</u>	<u>260</u>
Total Liabilities and Deferred Inflows	<u>15,628</u>	<u>25,987</u>
Net Position:		
Invested in capital assets net of related debt	10,614	11,399
Restricted	1,168	1,334
Unrestricted*	<u>5,746</u>	<u>5,305</u>
Total Net Position	<u>\$ 17,528</u>	<u>\$18,038</u>

Changes in Net Position

The District's total revenues were \$15.5 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 revenue services. (See figure A-1 below.)

Figure A-1 Sources of Revenues for Fiscal Year 2016

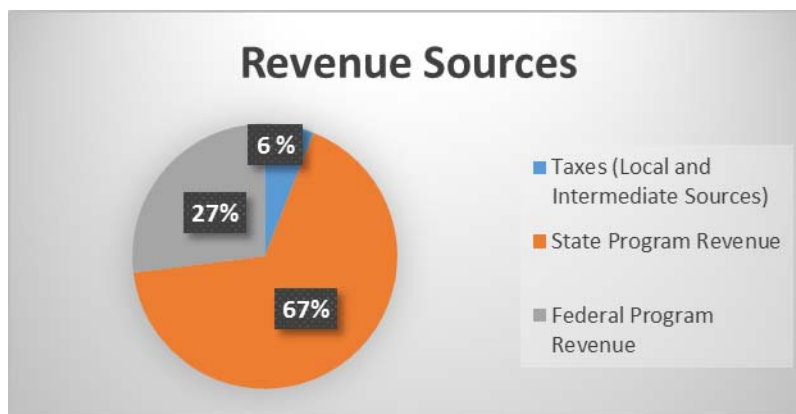
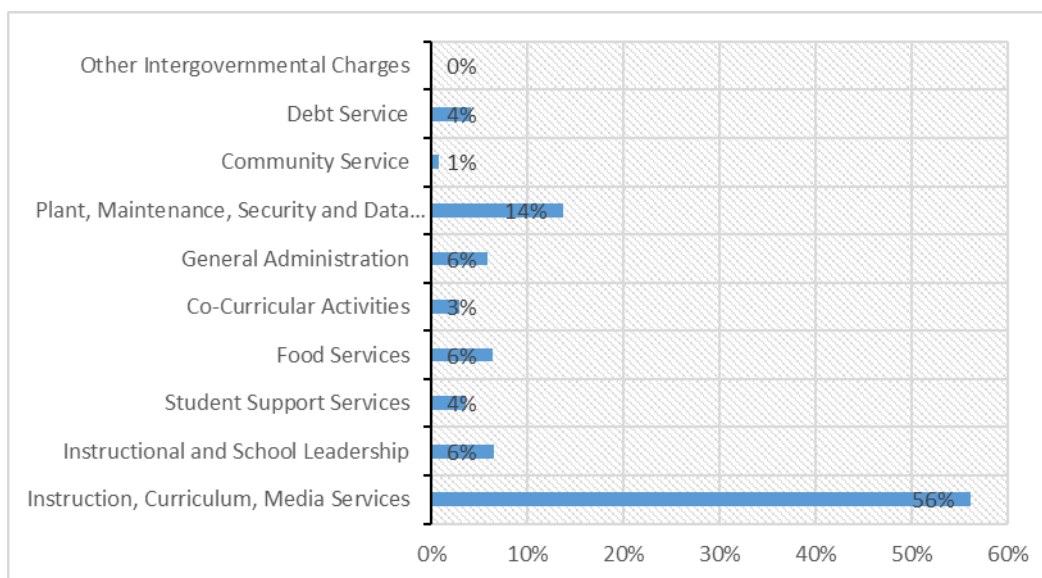


Table II
Changes In Net Position
(in thousands)

Governmental & Other
Business-Type Activities

	<u>2015</u>	<u>2016</u>
Revenues:		
<u>Program Revenues:</u>		
Charges for Services	\$ 145	\$ 140
Operating Grants and Contributions	3,943	4,125
<u>General Revenues:</u>		
Maintenance & Operations Taxes	678	681
Debt Service Taxes	123	122
State Aid-Formula Grants	10,240	10,341
Grants and Contributions not Restricted to specific functions	-	-
Investment Earnings	10	39
Miscellaneous	32	21
Special Item - Litigation Settlement	-	
Total Revenues	15,171	15,469
Expenses:		
Instruction, curriculum and Media services	7,467	8,390
Instructional and school leadership	916	967
Student support services	473	525
Food Services	997	956
Co-curricular activities	410	441
General Administration	837	877
Plant maintenance, security, and data processing	1,847	2,055
Community services	88	121
Debt service	386	616
Other Intergovernmental Charges	12	12
Facilities acquisition and construction	-	-
Payments to fiscal agent/member district	-	-
Other business-type activities	-	-
Total Expenses	13,433	14,960
 Increase in net position	 1,738	 509
 <u>Beginning net position</u>	 <u>17,472</u>	 <u>17,529</u>
 Prior Period Adjustment	 (1,681,656)	 -
 <u>Ending net position</u>	 <u>\$ 17,529</u>	 <u>\$ 18,038</u>

The total cost of all programs and services was \$14.9 million. Fifty-six percent of these costs were for instructional student services. Six percent for all programs and services cost was for instructional and school leadership and fourteen 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 \$17.9 million, which is above last year's total of \$8.4 million. Included in this year's total change is decrease of \$270,977 in the District's General Fund. The General Fund's decrease is attributed to the completion of the High School Classrooms which was paid out of the fund balance previously committed by the Board of Trustees. Included in this year's total change is also a \$9.6 million increase in fund balance in the Capital Projects fund due to unspent bond proceeds.

GASB Statement No. 82

The District has implemented GASB Statement No. 82, *Pension Issues* in fiscal year 2016. Accordingly, the Required Supplementary Information Schedules for the Teacher Retirement System of Texas are presented in accordance with this statement.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had \$22,729,826 invested in a broad range of capital assets and the addition of the twelve High School Classrooms.

Debt

At year-end, the District had \$19.4 million in bonds outstanding versus \$10.8 million last year. The reason for the increase in debt was the passing of Bond 2016. This bond package aims to fund campus improvement projects including safety, ADA Accessibility, overall facility upgrades to include a new athletic facility (track, field, bleachers, press box, and field house).

The projects included in the bond packet were developed from information resulting from the districtwide Facility Assessment conducted from Parkhill, Smith & Cooper as well as survey information collected from the Tornillo ISD Administration / Leadership Team and the District Level Committee, which included administrators, department heads, teachers, and parents.

The District issued a principal amount of \$9,380,000, but investors paid a premium of \$618,051.10 on top of the principal amount. Thus, the District received \$9,998,051.10. 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 \$9,998,051.10 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). The District may still sell \$395,000 of its unused voter-authorized bonds on or after January 1, 2017.

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 have transferred 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 work together to ensure next year's budget is balanced by using conservative attendance projections as well as reviewing staffing ratios in order to ensure the expenses are equal or less than the District's estimated revenue. Due to a new compensation plan approved by the Board of Trustees for 2016-2017, the payroll expenditures are expected to increase in the upcoming year.

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 is expected to increase from \$0.2136 to \$0.3107 in order to meet the obligations of the new Bond, Series 2016. The Maintenance and Operations tax rate will remain at \$1.09 per every hundredth valuation. The new combined tax rate for 2016-2017 will be \$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.

Paragraph 11e of GASB Statement No. 34

General Fund. The FY 2016 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 completion of the high school classrooms in function 81. 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 \$523,282.

The District's expenditures as compared to the final budget include several significant negative variances.

- Function 12 (Instructional Resources and Media Services) - Had a higher than expected expense in regards to substitute pay as well as other small budget variances in the base salary accounts for the library clerks.
- Function 13 (Curriculum and Instructional Staff Development) - There were some additional staff development expenses which occurred on a date very close to the end of the fiscal year.
- Function 21 (Instructional Leadership) - The payroll transactions posted at the end of the year contributed to the budget overage despite administration's effort to avoid the negative variance.
- Function 23 (School Leadership) - As part of the end of the year reconciliation of accounts, a journal entry was posted to function 23 ((School Leadership) to offset a receivable account (1290) which had a balance that had been carried over several years. As a result, the entry resulted in a budget overage in this expense category.
- Function 61(Community Services) - Budget overage is attributed to a last minute parental involvement activity that took place at the end of the fiscal year.
- Function 72 (Debt Service) – The budget overage was result of a miscalculation in the amount of interest expected to be paid for the 2011 Limited Tax Refunding bond.
- Although the budget variances are small, Administration has already implemented procedures to avoid unfavorable budget variances in any of the budget categories at the end of the fiscal year.

There are three functions listed on the report that contain a significant variance as identified by the District. The functions and variances are as follows:

- Function 34 (Transportation) – The salary, fuel, and mileage cost was less than anticipated thus creating the excess balance in the budgeted amount \$138,457.
- Function 41 (General Administration) – At the beginning of the year, the Worker’s Compensation and Unemployment insurances are budgeted in function 41; however, at the end of the year, an entry is recorded to remove the expense from function 41 and allocate it to the different functions. The District also saved from the amount budgeted related to election costs and from a position in the HR department that was not filled. Positive variance \$98,002.
- Function 51 (Facilities Maintenance and Operations) - The payroll transactions posted at the end of the year contributed to the budget overage despite administration’s effort to avoid the negative variance. In addition, due to a reclassification, a journal entry posted at year end contributed to the negative variance in this category. Negative variance \$104,180.

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, 2016

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 18,517,765
1220 Property Taxes Receivable (Delinquent)	219,999
1230 Allowance for Uncollectible Taxes	(11,000)
1240 Due from Other Governments	727,146
1290 Other Receivables, net	605
1300 Inventories	21,846
1410 Prepayments	11,282
Capital Assets:	
1510 Land	7,243
1520 Buildings, Net	22,083,315
1530 Furniture and Equipment, Net	580,440
1560 Library Books and Media, Net	58,828
1000 Total Assets	42,217,469
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	661,366
1705 Deferred Outflow Related to TRS	1,147,115
1700 Total Deferred Outflows of Resources	1,808,481
LIABILITIES	
2110 Accounts Payable	176,893
2140 Interest Payable	45,979
2150 Payroll Deductions & Withholdings	65,195
2160 Accrued Wages Payable	387,449
2180 Due to Other Governments	25,986
2200 Accrued Expenses	24,165
2300 Unearned Revenue	687,386
Noncurrent Liabilities	
2501 Due Within One Year	777,514
2502 Due in More Than One Year	20,821,389
2540 Net Pension Liability (District's Share)	2,715,591
2000 Total Liabilities	25,727,547
DEFERRED INFLOWS OF RESOURCES	
2602 Deferred Gain on Refunding	58,385
2605 Deferred Inflow Related to TRS	202,119
2600 Total Deferred Inflows of Resources	260,504
NET POSITION	
3200 Net Investment in Capital Assets	11,398,768
3820 Restricted for Federal and State Programs	204,951
3850 Restricted for Debt Service	1,118,960
3870 Restricted for Campus Activities	10,180
3900 Unrestricted	5,305,040
3000 Total Net Position	\$ 18,037,899

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, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for	Operating	6
	Expenses	Services	Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 7,703,175	\$ 1,799	\$ 1,515,834	\$ (6,185,542)
12 Instructional Resources and Media Services	180,477	-	76,360	(104,117)
13 Curriculum and Staff Development	506,718	127	401,593	(104,998)
21 Instructional Leadership	232,973	-	142,546	(90,427)
23 School Leadership	734,378	19,772	65,329	(649,277)
31 Guidance, Counseling and Evaluation Services	173,841	-	15,060	(158,781)
33 Health Services	148,903	-	11,834	(137,069)
34 Student (Pupil) Transportation	202,177	-	10,667	(191,510)
35 Food Services	956,556	98,359	769,986	(88,211)
36 Extracurricular Activities	440,568	15,259	23	(425,286)
41 General Administration	876,582	4,818	169,885	(701,879)
51 Facilities Maintenance and Operations	1,404,697	-	52,335	(1,352,362)
52 Security and Monitoring Services	203,952	-	16,063	(187,889)
53 Data Processing Services	446,376	-	26,893	(419,483)
61 Community Services	120,781	-	48,959	(71,822)
72 Debt Service - Interest on Long Term Debt	236,947	-	801,480	564,533
73 Debt Service - Bond Issuance Cost and Fees	379,152	-	-	(379,152)
99 Other Intergovernmental Charges	12,013	-	-	(12,013)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 14,960,266</u>	<u>\$ 140,134</u>	<u>\$ 4,124,847</u>	<u>(10,695,285)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			681,571
DT	Property Taxes, Levied for Debt Service			122,198
SF	State Aid - Formula Grants			10,340,946
IE	Investment Earnings			38,733
MI	Miscellaneous Local and Intermediate Revenue			20,794
TR	Total General Revenues			<u>11,204,242</u>
CN	Change in Net Position			508,957
NB	Net Position - Beginning			<u>17,528,942</u>
NE	Net Position--Ending			<u>\$ 18,037,899</u>

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, 2016

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 8,155,253	\$ 9,732,327	\$ 630,185	\$ 18,517,765
1220 Property Taxes - Delinquent	178,372	-	41,627	219,999
1230 Allowance for Uncollectible Taxes (Credit)	(8,919)	-	(2,081)	(11,000)
1240 Receivables from Other Governments	515,664	-	211,482	727,146
1260 Due from Other Funds	907,907	-	82,753	990,660
1290 Other Receivables	605	-	-	605
1300 Inventories	21,846	-	-	21,846
1410 Prepayments	10,234	-	-	10,234
1000 Total Assets	<u>\$ 9,780,962</u>	<u>\$ 9,732,327</u>	<u>\$ 963,966</u>	<u>\$ 20,477,255</u>
LIABILITIES				
2110 Accounts Payable	\$ 176,893	\$ -	\$ -	\$ 176,893
2150 Payroll Deductions and Withholdings Payable	56,416	-	8,779	65,195
2160 Accrued Wages Payable	356,890	-	30,559	387,449
2170 Due to Other Funds	555,907	125,848	308,905	990,660
2180 Due to Other Governments	12,238	-	13,748	25,986
2200 Accrued Expenditures	23,445	-	720	24,165
2300 Unearned Revenues	623,231	-	64,155	687,386
2000 Total Liabilities	<u>1,805,020</u>	<u>125,848</u>	<u>426,866</u>	<u>2,357,734</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	162,137	-	37,863	200,000
2600 Total Deferred Inflows of Resources	<u>162,137</u>	<u>-</u>	<u>37,863</u>	<u>200,000</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	15,284	-	-	15,284
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	157,452	-	47,499	204,951
3470 Capital Acquisition and Contractual Obligation	-	9,606,479	-	9,606,479
3480 Retirement of Long-Term Debt	685,520	-	441,558	1,127,078
3490 Other Restricted Fund Balance	-	-	10,180	10,180
Assigned Fund Balance:				
3550 Construction	660,630	-	-	660,630
3600 Unassigned Fund Balance	6,294,919	-	-	6,294,919
3000 Total Fund Balances	<u>7,813,805</u>	<u>9,606,479</u>	<u>499,237</u>	<u>17,919,521</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 9,780,962</u>	<u>\$ 9,732,327</u>	<u>\$ 963,966</u>	<u>\$ 20,477,255</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, 2016

Total Fund Balances - Governmental Funds	\$ 17,919,521
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$32,450,449 and the accumulated depreciation was (\$9,699,806). 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.	8,977,664
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to decrease net position.	(8,143,817)
3 Included in the items related to debt is the decrease related to the District's proportionate share of the net pension liability and other components required by GASB 68. The change in this liability from the previous year was (\$1,231,246). The change in the Deferred Resource Outflow related to TRS was \$846,424 and the change in the Deferred Resource Inflow related to TRS was \$251,916. The change in the various components related to the net pension liability caused a decrease in net position of (\$133,006).	(133,006)
4 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(782,463)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	200,000
19 Net Position of Governmental Activities	\$ 18,037,899

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, 2016

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 836,366	\$ 1,479	\$ 156,181	\$ 994,026
5800 State Program Revenues	10,820,209	-	1,005,195	11,825,404
5900 Federal Program Revenues	851,448	-	1,553,441	2,404,889
5020 Total Revenues	12,508,023	1,479	2,714,817	15,224,319
EXPENDITURES:				
Current:				
0011 Instruction	5,858,691	-	1,078,165	6,936,856
0012 Instructional Resources and Media Services	137,212	-	65,681	202,893
0013 Curriculum and Instructional Staff Development	99,886	-	400,779	500,665
0021 Instructional Leadership	85,988	-	134,845	220,833
0023 School Leadership	701,991	-	20,689	722,680
0031 Guidance, Counseling and Evaluation Services	163,989	-	-	163,989
0033 Health Services	142,953	-	-	142,953
0034 Student (Pupil) Transportation	240,342	-	-	240,342
0035 Food Services	836,785	-	19,362	856,147
0036 Extracurricular Activities	428,637	-	-	428,637
0041 General Administration	842,625	-	3,058	845,683
0051 Facilities Maintenance and Operations	1,362,461	-	-	1,362,461
0052 Security and Monitoring Services	193,698	-	-	193,698
0053 Data Processing Services	443,024	-	-	443,024
0061 Community Services	67,619	-	48,959	116,578
Debt Service:				
0071 Principal on Long Term Debt	73,000	-	625,000	698,000
0072 Interest on Long Term Debt	22,400	-	288,952	311,352
0073 Bond Issuance Cost and Fees	-	261,731	73,559	335,290
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,059,686	-	-	1,059,686
Intergovernmental:				
0099 Other Intergovernmental Charges	12,013	-	-	12,013
6030 Total Expenditures	12,773,000	261,731	2,759,049	15,793,780
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(264,977)	(260,252)	(44,232)	(569,461)
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued (Regular Bonds)	-	9,380,000	2,925,000	12,305,000
7915 Transfers In	408,277	-	137,320	545,597
7916 Premium or Discount on Issuance of Bonds	-	618,051	270,032	888,083
8911 Transfers Out (Use)	(414,277)	(131,320)	-	(545,597)
8949 Other (Uses)	-	-	(3,119,695)	(3,119,695)
7080 Total Other Financing Sources (Uses)	(6,000)	9,866,731	212,657	10,073,388
1200 Net Change in Fund Balances	(270,977)	9,606,479	168,425	9,503,927
0100 Fund Balance - September 1 (Beginning)	8,084,782	-	330,812	8,415,594
3000 Fund Balance - August 31 (Ending)	\$ 7,813,805	\$ 9,606,479	\$ 499,237	\$ 17,919,521

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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ 9,503,927
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 2016 capital outlays and debt principal payments is to decrease net position.	(8,088,905)
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.	(782,463)
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.	9,404
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$233,325. Contributions made before the measurement and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability for the district. This caused a decrease in the change in net position totaling \$181,259. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$185,072. The net result is to decrease the change in net position by \$133,006.	(133,006)
Change in Net Position of Governmental Activities	\$ 508,957

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, 2016

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 26,397
Total Assets	<u>\$ 26,397</u>
LIABILITIES	
Accounts Payable	\$ 2,169
Due to Student Groups	24,228
Total Liabilities	<u>\$ 26,397</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, 2016

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, 2016

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, 2016

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. 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, 2016

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, 2016

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, 2016

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.
5. 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.
6. 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, 2016, the District's investments in LoneStar Investment Pool was rated AAAm by Standard & Poors.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

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, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

7. 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.

8. 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.

9. 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	25 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, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. 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.

11. 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, 2016

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.

12. 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.
13. 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. These indirect costs are then fully allocated to function 41, General Administration, on the Government-wide Statement of Activities.
14. 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, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

15. 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.
 16. 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.
- F. The District implemented GASB Statement No. 82, *Pension Issues* in fiscal year 2016. Accordingly, the Required Supplementary Information Schedules for the Teacher Retirement System of Texas are presented in accordance with this statement.

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, 2016

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.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The Board adopts an "appropriated budget" for the General Fund, Debt Service Fund, and the Food Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J2 and J3. The Board does not adopt a budget for special revenue funds since the budgets are designated by the grantor.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget was legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At August 31, 2016, the carrying amount of the District's deposits (cash, and interest-bearing savings accounts including fiduciary funds cash) was \$177,263 and the bank balance was \$234,459. The District's cash deposits at August 31, 2016 and during the year ended August 31, 2016 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: First National Bank of Fabens - Fabens, Texas.
- b. The market value of bonds and securities pledged as of the date of the highest combined balance on deposit was \$4,081,023.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$1,288,614 and occurred during the month of January 2016.
- 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, 2016 and, include the following:

	Carrying Cost	Amortized Cost	WAM (In Days)
Lone Star - Government Overnight Fund	\$ 18,366,899	\$ 18,366,899	23
	<u>\$ 18,366,899</u>	<u>\$ 18,366,899</u>	

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. 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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

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, 2016 are summarized below.

	General Fund	Nonmajor Governmental Funds	Total
Federal Grants	\$ 33,351	\$ 208,981	\$ 242,332
State Grants	-	2501	2501
State Support	482,313	-	482,313
Total	<u>\$ 515,664</u>	<u>\$ 211,482</u>	<u>\$ 727,146</u>

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.

Interfund balances at August 31, 2016 consisted of the following individual amounts:

	Due From Other Funds	Due To Other Funds
General Fund		
General Fund	\$ 473,154	\$ 473,154
Capital Projects Fund	125,848	-
Nonmajor Governmental Funds	308,905	82,753
Total General Fund	<u>907,907</u>	<u>555,907</u>
Capital Projects Fund		
General Fund	<u>-</u>	<u>125,848</u>
Non Major Governmental Funds		
General Fund	<u>82,753</u>	<u>308,905</u>
Total	<u>\$ 990,660</u>	<u>\$ 990,660</u>

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, 2016, consisted of the following amounts:

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
General Fund	\$ 408,277	\$ 408,277
Nonmajor Governmental Funds	-	6,000
Total General Fund	408,277	414,277
Capital Projects Fund:		
Debt Service	-	131,320
Nonmajor Governmental Funds:		
General Fund	6,000	-
Capital Projects Fund	131,320	-
Total Nonmajor Governmental Funds	137,320	-
Total	\$ 545,597	\$ 545,597

A one-time transfer from the 2016 Unlimited Tax Building Bonds proceeds (bonds were sold at a premium) was made to the debt service fund to set aside funds to be used during the years before state aid (existing debt allotment) is projected to be maximized to pay debt service requirements.

D. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2016, was as follows:

	<u>Primary Governments</u>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletion, Reclassification and Adjustment</u>	<u>Ending Balance</u>
<u>Governmental activities:</u>				
Land	\$ 7,243	\$ -	\$ -	\$ 7,243
Buildings and Improvements	30,347,470	1,059,686	152,509	31,559,665
Furniture and Equipment	2,126,876	139,072	-	2,265,948
Construction in Progress	152,509	-	(152,509)	-
Library Books & Media	32,706	57,182	-	89,888
Totals at Historic Cost	32,666,804	1,255,940	-	33,922,744
Less Accumulated Depreciation for:				
Buildings and Improvements	8,871,638	604,712	-	9,476,350
Furniture and Equipment	1,525,735	159,773	-	1,685,508
Library Books and Media	13,082	17,978	-	31,060
Total Accumulated Depreciation	10,410,455	782,463	-	11,192,918
Governmental Activities Capital Assets, net	\$ 22,256,349	\$ 473,477	\$ -	\$ 22,729,826

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

Depreciation expense was charged to governmental functions as follows:

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT**NOTES TO THE BASIC FINANCIAL STATEMENTS**

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

Instruction	\$ 540,320
Instructional resources and media services	30,797
Instructional leadership	1,943
School leadership	11,656
Guidance, counseling and evaluation services	1,591
Health services	1,267
Student (pupil) transportation	57,213
Food services	87,088
Cocurricular/extracurricular activities	9,863
General administration	4,826
Facilities maintenance and operations	22,651
Security and monitoring services	4,236
Data processing services	6,360
Community services	<u>2,652</u>
Total depreciation expense	<u>\$ 782,463</u>

E. Unearned Revenue

Unearned revenue at year end consisted of the following:

	General Fund	Non Major Governmental Funds	Total
Foundation	\$ 616,669	\$ -	\$ 616,669
EDA and IFA	-	41,985	41,985
Federal Grants	-	8,342	8,342
State Grants	-	13,828	13,828
USDA Commodities	<u>6,562</u>	<u>-</u>	<u>6,562</u>
Total Unearned Revenue	<u>\$ 623,231</u>	<u>\$ 64,155</u>	<u>\$ 687,386</u>

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

F. Deferred Outflows of Resources

Deferred losses on refunding of bonds for the year ended August 31, 2016, presented as deferred outflows of resources, were as follows:

	Beginning Balance	New Issues	Amortization	Ending Balance
Series 2012	\$ 286,085	\$ -	\$ 19,823	\$ 266,262
Series 2013	419,143	-	24,039	395,104
	<u>\$ 705,228</u>	<u>\$ -</u>	<u>\$ 43,862</u>	<u>\$ 661,366</u>

Deferred gain on refunding of bonds for the year ended August 31, 2016, presented as deferred inflows of resources, was as follow:

	Beginning Balance	New Issues	Amortization	Ending Balance
Series 2015	\$ -	\$ 61,709	\$ 3,324	\$ 58,385

G. Changes in Long-Term Liabilities

Long-term activity for the year ended August 31, 2016 was as follows:

	Funded by:	Beginning Balance	Addition	Reductions	Ending Balance	Due Within One Year
Governmental Activities:						
<u>Bonds Payable:</u>						
Refunding Series	Debt Service Fund	\$ 10,039,996	\$ 2,925,000	\$ 3,530,000	\$ 9,434,996	\$ 500,456
Unlimited Tax Building Bonds	Debt Service Fund	150,000	9,380,000	150,000	9,380,000	-
Limited Tax Refunding Bond	General Fund	657,000	-	73,000	584,000	75,000
Accretion Payable	Debt Service Fund	571,620	16,708	-	588,328	109,544
Unamortized Premium/ Discount on Debt		928,756	888,083	205,260	1,611,579	92,514
Total Governmental Long-term Liabilities		<u>\$ 12,347,372</u>	<u>\$ 13,209,791</u>	<u>\$ 3,958,260</u>	<u>\$ 21,598,903</u>	<u>\$ 777,514</u>

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

H. General Long-Term Debt

Long-term activity for the year ended August 31, 2016 was as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Outstanding 08/31/15	Issued	Retired	Outstanding 8/31/16	Due Within One Year
Refunding Series 2005								
Current interest bonds	3% - 4.8%	\$ 4,225,000	\$ 12,205	\$ 395,000	\$ -	\$ 190,000	\$ 205,000	\$ 205,000
Refunding Series 2005A								
Current interest bonds	3.5%- 4.5%	3,840,000	3,100	3,210,000	-	3,210,000	-	-
Unlimited Tax Building Bond Series 2006	4 - 5%	5,000,000	3,750	150,000	-	150,000	-	-
Limited Tax Refunding Bond Series 2011	3.619%	918,000	22,400	657,000	-	73,000	584,000	75,000
Refunding Series 2012								
Current interest bonds	2% - 3.75%	1,940,000	77,719	1,940,000	-	-	1,940,000	-
Current interest term bonds	2% - 3.75%	860,000	-	700,000	-	45,000	655,000	45,000
Capital appreciation bonds		114,998	-	114,998	-	-	114,998	-
Refunding Series 2013								
Current interest bonds	2% - 3.5%	2,740,000	116,175	2,635,000	-	30,000	2,605,000	-
Current interest term bonds	2% - 3.5%	910,000	-	910,000	-	-	910,000	-
Capital appreciation bonds		134,998	-	134,998	-	-	134,998	75,456
Refunding Series 2015								
Current interest serial bonds	2% - 3%	1,850,000	70,531	-	1,850,000	55,000	1,795,000	175,000
Current interest term bonds	4.0%	1,075,000	-	-	1,075,000	-	1,075,000	-
Unlimited Tax Building Bond Series 2016								
Current interest serial bonds	3.0%	5,715,000	5,472	-	5,715,000	-	5,715,000	-
Current interest term bonds	3.0%	3,665,000	-	-	3,665,000	-	3,665,000	-
		<u>\$ 32,987,996</u>	<u>\$ 311,352</u>	<u>\$ 10,846,996</u>	<u>\$ 12,305,000</u>	<u>\$ 3,753,000</u>	<u>\$ 19,398,996</u>	<u>\$ 575,456</u>

Accretion payable for the year ended August 31, 2016 is as follows:

Description	Accretion Outstanding 08/31/15	Accrual of Accretion	Accretion Retired	Accretion Outstanding 8/31/16	Due Within One Year
Refunding Series 2012	\$ 346,181	\$ 12,065	\$ -	\$ 358,246	\$ -
Refunding Series 2013	225,439	4,643	-	230,082	109,544
	<u>\$ 571,620</u>	<u>\$ 16,708</u>	<u>\$ -</u>	<u>\$ 588,328</u>	<u>\$ 109,544</u>

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

Unamortized Premiums/Discounts on Debt for the year ended August 31, 2016 are as follows:

Description	Beginning Balance	Premiums and Discounts on New Issues	Net Amortization Recognized	Outstanding 8/31/16	Due Within One Year
Refunding Series 2005	\$ 9,389	\$ -	\$ 6,617	\$ 2,772	\$ 2,772
Refunding Series 2005A	134,391	-	134,391	-	-
Unlimited Tax Building					
Bond Series 2006	177	-	177	-	-
Refunding Series 2012	308,408	-	21,367	287,041	21,367
Refunding Series 2013	476,391	-	27,324	449,067	27,324
Refunding Series 2015	-	270,032	14,553	255,479	17,706
Unlimited Tax Building					
Bond Series 2016	-	618,051	831	617,220	23,345
	<u>\$ 928,756</u>	<u>\$ 888,083</u>	<u>\$ 205,260</u>	<u>\$ 1,611,579</u>	<u>\$ 92,514</u>

Debt service requirements are as follows:

Year Ended August 31,	GENERAL OBLIGATIONS		
	Principal	Interest	Total Requirements
2017	\$ 575,456	\$ 671,994	\$ 1,247,450
2018	647,543	692,552	1,340,095
2019	790,000	549,986	1,339,986
2020	615,657	729,503	1,345,160
2021	618,340	729,091	1,347,431
2022 - 2026	4,222,000	2,234,851	6,456,851
2027 - 2031	4,770,000	1,502,409	6,272,409
2032 - 2036	3,495,000	760,163	4,255,163
2037-2041	2,540,000	363,900	2,903,900
2042-2043	1,125,000	33,975	1,158,975
	<u>\$ 19,398,996</u>	<u>\$ 8,268,424</u>	<u>\$ 27,667,420</u>

As of August 31, 2016 the District paid \$311,352 in interest costs.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

On November 5, 2015, the District issued Unlimited Tax Refunding Bonds, Series 2015 in the amount of \$2,925,000. The bonds are payable February 1 and August 1 of each year, commencing February 1, 2016 and ending February 1, 2031. The 2015 bonds were issued to refund portions of the Unlimited Tax Refunding Bonds, Series 2005A and to pay the costs associated with the issuance and sale of the Bonds. As a result, \$3,055,000 of the 2005A Series bonds are considered to be defeased and not presented in these financial statements. There are no amounts of defeased debt still outstanding at August 31, 2016. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$61,709. This difference, reported in the accompanying financial statements in the deferred inflows of resources category, is amortized over the remaining life of the old debt bond using the straight line method. In addition, the refunding reduced future debt service costs (difference between cash flow to service old debt and that required for new debt) by \$435,419 and resulted in an economic savings of \$361,022 (difference between the present values of the old and new debt service payments).

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.

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, 2016.

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.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th 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>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

Contributions Required and Made

2016 Employer Contributions	\$	233,325
2016 Member Contributions		544,552
2015 Plan Year NECE On-Behalf Contributions (State)		352,658

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

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

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

Included in the employer contributions amount listed above for fiscal year 2016, the District paid \$667 in retiree surcharges and \$93,909 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.
- A contribution to TRS under Senate Bill 1458 is required to be paid by employers who do not pay Social Security for certain members. If the position is subject to the state minimum salary schedule, the 1.5% contribution is due only on the salary amount up to the adjusted state minimum. Otherwise, the 1.5% contribution is due on 100% of the salary when the position is not subject to the state minimum salary schedule.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

Actuarial Assumptions: The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

Discount Rate: The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

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

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

Discount Rate Sensitivity Analysis: The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability:

	1% Decrease in Discount Rate (7%)	Current Discount Rate 8%	1% Increase in Discount Rate (9%)
District's proportionate share of the net pension liability	\$ 4,254,819	\$ 2,715,591	\$ 1,433,509

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At August 31, 2016, the District reported a liability of \$2,715,591 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	\$ 2,715,591
State's proportionate share that is associated with the District	<u>4,208,755</u>
Total	<u><u>\$ 6,924,346</u></u>

The net pension liability was measured as of August 31, 2015 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, 2014 through August 31, 2015.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0076823% which was an increase of 0.0021257% from its proportion measured as of August 31, 2014.

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

Economic Assumptions

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

Mortality Assumptions

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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

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

For the year ended August 31, 2016, the District recognized pension expense of \$599,680 and revenue of \$599,680 for support provided by the State.

The amount of pension expense recognized by the District in the reporting period was \$357,090.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

At August 31, 2016, 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 Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 19,090	\$ 104,363
Changes in actuarial assumptions	80,238	96,880
Net difference between projected and actual investment earnings	328,556	-
Changes in proportion and difference between District's contributions and proportionate share of contributions	485,906	876
District contributions to TRS subsequent to the measurement date	233,325	-
Total	<u>\$ 1,147,115</u>	<u>\$ 202,119</u>

The \$233,325 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, 2017.

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
2017	\$ 121,954
2018	121,954
2019	121,956
2020	235,368
2021	66,978
Thereafter	43,461

Payable to the Pension Plan: At August 31, 2016, the District reported a payable of \$63,546 to the pension plan for the outstanding amount of contractually required contributions related to past service costs. Of this amount, \$45,572 represents member's contributions.

Changes in Net Pension liability:

	Beginning Balance	Additions	Reductions	Ending Balance
Net Pension Liability	<u>\$ 1,484,245</u>	<u>\$ 1,458,822</u>	<u>\$ 227,476</u>	<u>\$ 2,715,591</u>

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

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 2016, 2015, and 2014.

Contribution Rates							
Active Member			State		School District		
Year	Rate	Amount	Rate	Amount	Rate	Amount	
2016	.65%	\$ 49,162	1.0%	\$ 67,318	.55%	\$ 49,912	
2015	.65%	\$ 46,791	1.0%	\$ 63,096	.55%	\$ 48,482	
2014	.65%	\$ 45,216	1.0%	\$ 61,079	.55%	\$ 46,744	

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, 2016

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, 2014, 2015, and 2016 were \$19,111, \$29,603 and \$29,519 , 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, 2016, Tornillo Independent School District participated in the TRS - Active Care Health Insurance Program. During the year ended August 31, 2016, 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, 2016, 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 and Chapter 504, Texas Labor 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.

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.

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 \$43,656 in worker's compensation premium for the plan year 2015-2016. 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.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

N. Fund Balance

As of August 31, 2016, fund balances are composed of the following:

	General Fund	Capital Projects	Non Major Governmental Funds	Total
Nonspendable:				
Inventories	\$ 15,284	\$ -	\$ -	\$ 15,284
Restricted:				
Food Service	157,452	-	-	157,452
Capital Acquisition and Contractual Obligation	-	9,606,479	-	9,606,479
Summer Feeding Program	-	-	45,899	45,899
Advanced Placement Incentives	-	-	1,600	1,600
Debt Service	685,520	-	441,558	1,127,078
Campus Activities	-	-	10,180	10,180
Assigned:				
Construction	660,630	-	-	660,630
Unassigned	6,294,919	-	-	6,294,919
Total	\$ 7,813,805	\$ 9,606,479	\$ 499,237	\$ 17,919,521

There were no significant or material encumbrances at year end.

O. Revenue from Local and Intermediate Sources

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

	General Fund	Capital Projects	Non Major Governmental Funds	Total
Property Taxes	\$ 660,960	\$ -	\$ 129,695	\$ 790,655
Penalties and Interest on Taxes	20,475	-	3,930	24,405
Investment Income	35,773	1,479	1,481	38,733
Food Sales	97,559	-	799	98,358
Co-curricular Student Activities	15,259	-	-	15,259
Other	6,340	-	20,276	26,616
Total	\$ 836,366	\$ 1,479	\$ 156,181	\$ 994,026

P. Litigation

During the normal course of business the District is subject to various legal claims. As of August 31, 2016, management is not aware of any such claim which would have a material adverse effect on the financial statements.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

Q. Other Significant Commitments and Contingencies

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.

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, 2016, 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.

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.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2016

IV. DETAILED NOTES ON ALL FUNDS (Continued)

R. 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 2015-2016 fiscal year.

S. Budget Overages

Exhibit G-1 presents small unfavorable budget variances in various functions. Function 12 (Instructional Resources and Media Services) negative variance was due to higher than expected expense in regards to substitute pay as well as other small budget variances in the base salary accounts for the library clerks. Function 13 (Curriculum and Instructional Staff Development) negative variance was due to additional staff development expenses which occurred on a date very close to the end of the fiscal year. Function 21 (Instructional Leadership) and function 51 (Facilities Maintenance and Operations) negative variances were due to the payroll transactions posted at the end of the year. Function 23 (School Leadership) negative variance was due to a journal entry posted as part of the end of the year reconciliation of accounts to offset a receivable account which had a balance that had been carried over several years. Function 61 (Community Services) negative variance was due to a last minute parental involvement activity that took place at the end of the fiscal year. Function 72 (Interest on Long Term Debt) negative variance was due to a miscalculation in the amount of interest expected to be paid for the 2011 Limited Tax Refunding Bond for fiscal year 2016. 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 \$339,667.

Exhibit J-3 presents an unfavorable budget variance in the data control code "Principal on Long Term Debt." All debt service related expenditures are budgeted under one function in accordance with the Financial Accountability System Resource Guide. However, for financial reporting purposes, principal, interest and bond issuance costs are broken down further by data control codes. Overall the debt service expenditures did not exceed the budget.

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 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.

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, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 762,800	\$ 762,800	\$ 836,366	\$ 73,566
5800	State Program Revenues	10,387,371	10,387,371	10,820,209	432,838
5900	Federal Program Revenues	834,570	834,570	851,448	16,878
5020	Total Revenues	11,984,741	11,984,741	12,508,023	523,282
EXPENDITURES:					
Current:					
0011	Instruction	5,618,139	5,904,287	5,858,691	45,596
0012	Instructional Resources and Media Services	136,189	132,761	137,212	(4,451)
0013	Curriculum and Instructional Staff Development	74,050	90,302	99,886	(9,584)
0021	Instructional Leadership	78,679	83,679	85,988	(2,309)
0023	School Leadership	753,284	693,546	701,991	(8,445)
0031	Guidance, Counseling and Evaluation Services	205,518	183,491	163,989	19,502
0033	Health Services	145,058	145,058	142,953	2,105
0034	Student (Pupil) Transportation	378,799	378,799	240,342	138,457
0035	Food Services	874,570	874,570	836,785	37,785
0036	Extracurricular Activities	382,735	443,705	428,637	15,068
0041	General Administration	945,627	940,627	842,625	98,002
0051	Facilities Maintenance and Operations	1,258,081	1,258,281	1,362,461	(104,180)
0052	Security and Monitoring Services	194,518	194,518	193,698	820
0053	Data Processing Services	443,867	443,867	443,024	843
0061	Community Services	45,300	67,607	67,619	(12)
Debt Service:					
0071	Principal on Long Term Debt	153,000	153,000	73,000	80,000
0072	Interest on Long Term Debt	22,082	22,082	22,400	(318)
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	1,089,487	1,059,686	29,801
Intergovernmental:					
0099	Other Intergovernmental Charges	13,000	13,000	12,013	987
6030	Total Expenditures	11,722,496	13,112,667	12,773,000	339,667
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	262,245	(1,127,926)	(264,977)	862,949
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	397,735	408,277	408,277	-
8911	Transfers Out (Use)	(397,735)	(408,277)	(414,277)	(6,000)
7080	Total Other Financing Sources (Uses)	-	-	(6,000)	(6,000)
1200	Net Change in Fund Balances	262,245	(1,127,926)	(270,977)	856,949
0100	Fund Balance - September 1 (Beginning)	8,084,782	8,084,782	8,084,782	-
3000	Fund Balance - August 31 (Ending)	\$ 8,347,027	\$ 6,956,856	\$ 7,813,805	\$ 856,949

TORNILLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0076823%	0.0055566%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,715,591	\$ 1,484,245
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	<u>4,208,755</u>	<u>3,644,005</u>
Total	<u>\$ 6,924,346</u>	<u>\$ 5,128,250</u>
District's Covered Payroll	\$ 7,198,540	\$ 6,956,232
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	37.72%	21.34%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.43%	83.25%

Note: GASB 68, paragraph 81 requires that the information on this schedule be presented for the Plan's measurement year as opposed to the District's respective fiscal year.

Note: Only two years of data is presented in accordance with 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."

Note: The information in this schedule reflects early implementation of GASB 82.

TORNILLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2016

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 233,325	\$ 181,259
Contribution in Relation to the Contractually Required Contribution	<u>(233,325)</u>	<u>(181,259)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 7,563,210	\$ 7,198,540
Contributions as a percentage of Covered Payroll	3.08%	2.52%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented for the District's respective fiscal year above, as opposed to the time period covered by the measurement year.

Note: Only two years of data is presented in accordance with 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."

Note: The information in this schedule reflects early implementation of GASB 82

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2016

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

The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

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

Mortality Assumptions

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

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2016

Changes of assumptions (Continued)

9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

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

SUPPLEMENTARY INFORMATION

TORNILLO INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes		211	212	224
		Title I, A Improving Basic Program	Title I Part C Migrant	IDEA - Part B Formula
ASSETS				
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -
1220	Property Taxes - Delinquent	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-
1240	Receivables from Other Governments	49,385	10,183	26,032
1260	Due from Other Funds	-	-	-
1000	Total Assets	<u>\$ 49,385</u>	<u>\$ 10,183</u>	<u>\$ 26,032</u>
LIABILITIES				
2150	Payroll Deductions and Withholdings Payable	\$ 3,931	\$ 525	\$ 1,958
2160	Accrued Wages Payable	22,583	2,005	4,336
2170	Due to Other Funds	22,871	7,653	19,018
2180	Due to Other Governments	-	-	-
2200	Accrued Expenditures	-	-	720
2300	Unearned Revenues	-	-	-
2000	Total Liabilities	<u>49,385</u>	<u>10,183</u>	<u>26,032</u>
DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable Revenue - Property Taxes	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
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>\$ 49,385</u>	<u>\$ 10,183</u>	<u>\$ 26,032</u>

225 IDEA - Part B Preschool	242 Summer Feeding Program	244 Carl D. Perkins Basic Formula	255 Title II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Texas Literacy Initiative	397 Advanced Placement Incentives	404 Student Success Initiative
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	17,973	2,929	102,478	-	-
-	45,899	-	-	-	-	1,600	13,748
<u>\$ -</u>	<u>\$ 45,899</u>	<u>\$ -</u>	<u>\$ 17,973</u>	<u>\$ 2,929</u>	<u>\$ 102,478</u>	<u>\$ 1,600</u>	<u>\$ 13,748</u>
\$ -	\$ -	\$ -	\$ -	\$ 319	\$ 2,046	\$ -	\$ -
-	-	-	-	1,635	-	-	-
-	-	-	17,973	975	92,091	-	-
-	-	-	-	-	-	-	13,748
-	-	-	-	-	-	-	-
-	-	-	-	-	8,341	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>17,973</u>	<u>2,929</u>	<u>102,478</u>	<u>-</u>	<u>13,748</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	45,899	-	-	-	-	1,600	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>45,899</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,600</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 45,899</u>	<u>\$ -</u>	<u>\$ 17,973</u>	<u>\$ 2,929</u>	<u>\$ 102,478</u>	<u>\$ 1,600</u>	<u>\$ 13,748</u>

TORNILLO INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes		410 State Textbook Fund	429 Mathematics Achievement Grant	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	2,502	-	-	211,482
1260	Due from Other Funds	11,326	-	10,180	82,753
1000	Total Assets	<u>\$ 13,828</u>	<u>\$ -</u>	<u>\$ 10,180</u>	<u>\$ 294,235</u>
LIABILITIES					
2150	Payroll Deductions and Withholdings Payable	\$ -	\$ -	\$ -	\$ 8,779
2160	Accrued Wages Payable	-	-	-	30,559
2170	Due to Other Funds	-	-	-	160,581
2180	Due to Other Governments	-	-	-	13,748
2200	Accrued Expenditures	-	-	-	720
2300	Unearned Revenues	13,828	-	-	22,169
2000	Total Liabilities	<u>13,828</u>	<u>-</u>	<u>-</u>	<u>236,556</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	47,499
3480	Retirement of Long-Term Debt	-	-	-	-
3490	Other Restricted Fund Balance	-	-	10,180	10,180
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>10,180</u>	<u>57,679</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 13,828</u>	<u>\$ -</u>	<u>\$ 10,180</u>	<u>\$ 294,235</u>

599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 630,185	\$ 630,185
41,627	41,627
(2,081)	(2,081)
-	211,482
-	82,753
<u>\$ 669,731</u>	<u>\$ 963,966</u>
\$ -	\$ 8,779
-	30,559
148,324	308,905
-	13,748
-	720
41,986	64,155
<u>190,310</u>	<u>426,866</u>
37,863	37,863
<u>37,863</u>	<u>37,863</u>
-	47,499
441,558	441,558
-	10,180
<u>441,558</u>	<u>499,237</u>
<u>\$ 669,731</u>	<u>\$ 963,966</u>

TORNILLO INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		211 Title I, A Improving Basic Program	212 Title I Part C Migrant	224 IDEA - Part B Formula
REVENUES:				
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-
5900	Federal Program Revenues	445,622	62,965	204,689
5020	Total Revenues	445,622	62,965	204,689
EXPENDITURES:				
Current:				
0011	Instruction	396,730	18,927	131,790
0012	Instructional Resources and Media Services	-	-	-
0013	Curriculum and Instructional Staff Development	3,455	-	3,610
0021	Instructional Leadership	-	40,516	69,289
0023	School Leadership	-	-	-
0035	Food Services	-	-	-
0041	General Administration	-	-	-
0061	Community Services	45,437	3,522	-
Debt Service:				
0071	Principal on Long Term Debt	-	-	-
0072	Interest on Long Term Debt	-	-	-
0073	Bond Issuance Cost and Fees	-	-	-
6030	Total Expenditures	445,622	62,965	204,689
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-
OTHER FINANCING SOURCES (USES):				
7911	Capital Related Debt Issued (Regular Bonds)	-	-	-
7915	Transfers In	-	-	-
7916	Premium or Discount on Issuance of Bonds	-	-	-
8949	Other (Uses)	-	-	-
7080	Total Other Financing Sources (Uses)	-	-	-
1200	Net Change in Fund Balance	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -

225 IDEA - Part B Preschool	242 Summer Feeding Program	244 Carl D. Perkins Basic Formula	255 Title II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Texas Literacy Initiative	397 Advanced Placement Incentives	404 Student Success Initiative
\$ -	\$ 799	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
545	20,412	17,629	25,732	44,094	731,753	-	-
545	21,211	17,629	25,732	44,094	731,753	-	-
545	-	17,629	-	39,754	265,867	-	-
-	-	-	-	-	65,681	-	-
-	-	-	25,732	4,340	363,642	-	-
-	-	-	-	-	25,040	-	-
-	-	-	-	-	8,465	-	-
-	19,362	-	-	-	-	-	-
-	-	-	-	-	3,058	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
545	19,362	17,629	25,732	44,094	731,753	-	-
-	1,849	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,849	-	-	-	-	-	-
-	44,050	-	-	-	-	1,600	-
\$ -	\$ 45,899	\$ -	\$ -	\$ -	\$ -	\$ 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, 2016

Data Control Codes		410 State Textbook Fund	429 Mathematics Achievement Grant	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ 20,276	\$ 21,075
5800	State Program Revenues	203,365	350	-	203,715
5900	Federal Program Revenues	-	-	-	1,553,441
5020	Total Revenues	203,365	350	20,276	1,778,231
EXPENDITURES:					
Current:					
0011	Instruction	203,365	350	3,208	1,078,165
0012	Instructional Resources and Media Services	-	-	-	65,681
0013	Curriculum and Instructional Staff Development	-	-	-	400,779
0021	Instructional Leadership	-	-	-	134,845
0023	School Leadership	-	-	12,224	20,689
0035	Food Services	-	-	-	19,362
0041	General Administration	-	-	-	3,058
0061	Community Services	-	-	-	48,959
Debt Service:					
0071	Principal on Long Term Debt	-	-	-	-
0072	Interest on Long Term Debt	-	-	-	-
0073	Bond Issuance Cost and Fees	-	-	-	-
6030	Total Expenditures	203,365	350	15,432	1,771,538
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	4,844	6,693
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	-	-	-	-
7915	Transfers In	-	-	-	-
7916	Premium or Discount on Issuance of Bonds	-	-	-	-
8949	Other (Uses)	-	-	-	-
7080	Total Other Financing Sources (Uses)	-	-	-	-
1200	Net Change in Fund Balance	-	-	4,844	6,693
0100	Fund Balance - September 1 (Beginning)	-	-	5,336	50,986
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 10,180	\$ 57,679

599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 135,106	\$ 156,181
801,480	1,005,195
-	1,553,441
936,586	2,714,817
-	1,078,165
-	65,681
-	400,779
-	134,845
-	20,689
-	19,362
-	3,058
-	48,959
625,000	625,000
288,952	288,952
73,559	73,559
987,511	2,759,049
(50,925)	(44,232)
2,925,000	2,925,000
137,320	137,320
270,032	270,032
(3,119,695)	(3,119,695)
212,657	212,657
161,732	168,425
279,826	330,812
\$ 441,558	\$ 499,237

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OTHER INFORMATION - REQUIRED TEA SCHEDULES

TORNILLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.090000	0.249600	41,596,737
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 (School year under audit)	1.090100	0.213600	61,401,358
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 82,060	\$ -	\$ 1,419	\$ 159	\$ (859)	\$ 79,623
7,155	-	427	98	-	6,630
6,431	-	318	76	-	6,037
7,608	-	431	98	-	7,079
7,932	-	545	123	(45)	7,219
11,179	-	1,667	335	(330)	8,847
17,463	-	4,877	956	655	12,285
28,514	-	7,815	1,531	552	19,720
47,375	-	14,536	2,848	(1,817)	28,174
-	800,490	632,224	123,881	-	44,385
<u>\$ 215,717</u>	<u>\$ 800,490</u>	<u>\$ 664,259</u>	<u>\$ 130,105</u>	<u>\$ (1,844)</u>	<u>\$ 219,999</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, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 82,000	\$ 82,000	\$ 97,559	\$ 15,559
5800	State Program Revenues	3,000	3,000	5,490	2,490
5900	Federal Program Revenues	789,570	789,570	744,084	(45,486)
5020	Total Revenues	874,570	874,570	847,133	(27,437)
EXPENDITURES:					
0035	Food Services	874,570	874,570	836,785	37,785
6030	Total Expenditures	874,570	874,570	836,785	37,785
1200	Net Change in Fund Balances	-	-	10,348	10,348
0100	Fund Balance - September 1 (Beginning)	162,388	162,388	162,388	-
3000	Fund Balance - August 31 (Ending)	\$ 162,388	\$ 162,388	\$ 172,736	\$ 10,348

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, 2016

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 131,630	\$ 131,630	\$ 135,106	\$ 3,476
5800	State Program Revenues	747,000	747,000	801,480	54,480
5020	Total Revenues	878,630	878,630	936,586	57,956
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	570,000	570,000	625,000	(55,000)
0072	Interest on Long Term Debt	342,339	395,811	288,952	106,859
0073	Bond Issuance Cost and Fees	1,200	151,874	73,559	78,315
6030	Total Expenditures	913,539	1,117,685	987,511	130,174
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(34,909)	(239,055)	(50,925)	188,130
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	-	2,925,000	2,925,000	-
7915	Transfers In	-	131,230	137,320	6,090
7916	Premium or Discount on Issuance of Bonds	-	270,032	270,032	-
8949	Other (Uses)	-	(3,119,695)	(3,119,695)	-
7080	Total Other Financing Sources (Uses)	-	206,567	212,657	6,090
1200	Net Change in Fund Balances	(34,909)	(32,488)	161,732	194,220
0100	Fund Balance - September 1 (Beginning)	279,826	279,826	279,826	-
3000	Fund Balance - August 31 (Ending)	\$ 244,917	\$ 247,338	\$ 441,558	\$ 194,220

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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, 2016, 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 17, 2017.

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 17, 2017

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, 2016. 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, 2016.

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 17, 2017

TORNILLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Schedule Reference Number	PROGRAM	DESCRIPTION
<u>SUMMARY OF AUDITOR'S RESULTS</u>		
<u>Financial Statements</u>		
	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
<u>Federal Awards</u>		
	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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Schedule Reference Number	PROGRAM	DESCRIPTION
	Major Federal Programs:	Texas Literacy Initiative: 84.371C
	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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Schedule Reference Number	PROGRAM	DESCRIPTION
<u>FINANCIAL STATEMENT FINDINGS</u>		
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, 2016

Schedule Reference Number	PRIOR YEAR FINDING/NONCOMPLIANCE	STATUS OF PRIOR YEAR'S FINDINGS/NONCOMPLIANCE
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FINANCIAL STATEMENT FINDINGS

2015-001	State Program Compliance - State Compensatory Education Program	This condition no longer exists.
2015-002	Financial Reporting - Budget Overages	This condition no longer exists.

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, 2016

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
Title I, Part A - Improving Basic Programs	84.010A	15610101071908	\$ 33,629
Title I, Part A - Improving Basic Programs	84.010A	16610101071908	429,693
Total CFDA Number 84.010A			463,322
Title I, Part C - Migrant	84.011A	15615001071908	3,406
Title I, Part C - Migrant	84.011A	16615001071908	61,934
Total CFDA Number 84.011A			65,340
**IDEA - Part B, Formula	84.027A	156600010719086600	17,251
**IDEA - Part B, Formula	84.027A	166600010719086600	195,598
Total CFDA Number 84.027A			212,849
**IDEA - Part B, Preschool	84.173A	166610010719086610	567
Total Special Education Cluster (IDEA)			213,416
Carl D. Perkins Basic Formula Grant	84.048A	16420006071908	18,332
Title III, Part A-LEP	84.365A	15671001071908	2,892
Title III, Part A-LEP	84.365A	16671001071908	31,138
Title III, Part A- Immigrant	84.365A	15671003071908	11,158
Total CFDA Number 84.365A			45,188
Title II, Part A- Teacher & Principal Training	84.367A	15694501071908	388
Title II, Part A- Teacher & Principal Training	84.367A	16694501071908	26,370
Total CFDA Number 84.367A			26,758
LEP Summer School	84.369A	69551502	1,113
Texas Literacy Initiative	84.371C	156460037110030	413,829
Texas Literacy Initiative	84.371C	166460037110030	334,570
Total CFDA Number 84.371C			748,399
Total Passed Through State Department of Education			\$ 1,581,868
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 1,581,868
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401001	\$ 123,790
*National School Lunch Program - Cash Assistance	10.555	71301001	623,918
*National School Lunch Prog. - Non-Cash Assistance	10.555	71301001	34,281
Total CFDA Number 10.555			658,199
*Summer Feeding Program - Cash Assistance	10.559	0711018	20,412
Total Child Nutrition Cluster			802,401
Fresh Fruit and Vegetable Program	10.582	071908	20,620
Total Passed Through the State Department of Agriculture			\$ 823,021
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 823,021
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,404,889

*, ** Clustered Programs

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED AUGUST 31, 2016

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, 2016. 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.

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 - June 2016.

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, 2016****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
Title I, Part A - Improving Basic Programs	84.010A	\$ 17,698
Title I, Part C - Migrant	84.011	2,375
IDEA - Part B, Formula	84.027	8,161
IDEA - Part B, Preschool	84.173	22
Carl D. Perkins Basic Formula Grant	84.048A	703
Title II, Part A, Teacher & Principal Training	84.367A	1,026
Title III, Part A - LEP	84.365A	667
Title III, Part A - Immigrant	84.365A	428
Texas Literacy Initiative	84.371C	17,759
Total Indirect Costs		<u>\$ 48,839</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	\$ 123,790
National School Lunch Program - Cash Assistance	10.555	623,918
National School Lunch Program - Non-Cash Assistance	10.555	34,281
Fresh Fruit and Vegetable Program	10.582	20,620
Indirect Costs - Other	84.XXX	48,839
Total General Fund federal revenue per Exhibit C-3		<u>\$ 851,448</u>

5. PROGRAM INCOME

The Child Nutrition Cluster generated program income in the amount of \$97,559 for the year ended August 31, 2016.