

**WATER VALLEY
INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016**

*Reed, McKee & Co., P.C.
Certified Public Accountants
San Angelo, Texas*

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

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CERTIFICATE OF BOARD

Water Valley Independent School District
Name of School District

Tom Green
County

226-905
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 12th day of December, 2016.



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)

FINANCIAL SECTION

Reed, McKee & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3140 EXECUTIVE DRIVE
SAN ANGELO, TEXAS 76904
(325) 942-8984

Independent Auditor's Report

Board of Trustees
Water Valley Independent School District
P.O. Box 250
Water Valley, Texas 76958

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 Water Valley Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Water Valley Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Water Valley Independent School District as of August 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund 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 management's discussion and analysis on pages 4-9 be presented to supplement the basic financial statements as well as the Schedule of the District's Proportionate Share of the Net Pension Liability and Schedule of District Contributions on pages 37 and 38 and the related notes to required supplementary information on pages 39 and 40. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Water Valley Independent School District's basic financial statements. The required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The required TEA schedules are the responsibility of management and are derived from and relates 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 required TEA schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2016 on our consideration of the Water Valley Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Water Valley Independent School District's internal control over financial reporting and compliance.



Reed, McKee & Co., P.C.
November 21, 2016

**WATER VALLEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

This section of Water Valley Independent School District's annual financial report presents our discussion and analysis of the District's financial performance for the fiscal year ended August 31, 2016. Please read it in conjunction with the Independent Auditor's report on pages 2 and 3, and the District's basic financial statements.

FINANCIAL HIGHLIGHTS

The District's net position as presented on Exhibit A-1, increased from \$3,383,423 to \$3,672,221. Net position consists of unrestricted amounts of \$1,628,708 which may be used to meet the District's ongoing obligations. The District also has restricted funds for debt service of \$76,191. Net assets invested in capital assets net of related debt totaled \$1,967,322. Total assets have increased \$492,208 as shown on page 7 of this analysis and total liabilities have increased by \$505,464. The large increase in assets is due to fixed asset additions exceeding the current year depreciation resulting in the increase in net capital assets. The increase in liabilities is mainly due to the additional liability recognized this year as a result of recording the district's share of the pension liability. The net pension liability of \$541,330 is an increase of \$361,589 mainly due to the District's share of the liability increasing and the plan did not meet its projected rate of return. The increases and decreases in deferred inflow and outflow of resources is explained further in the notes, but is used to adjust the financial statements to reflect the correct amount of pension expense per the new GASB statement.

As shown in Exhibit B-1, the District had expenses of \$4,313,592 which were \$403,069 more than comparable expenses in the prior year. After reducing the above expenses for outside grants and charges such as concessions, athletic events, and food sales, the District was left with \$3,739,251 of expenses which were funded by general revenues of \$4,028,049. Total revenues from all sources were \$4,602,390 compared to \$4,218,950 from the prior year. This represents an increase of \$383,440 mainly from state funding due to an increase in average daily attendance of the students from 286 to 301. There was a slight drop in the assessed values for property taxes from \$125,458,684 to \$120,092,684 and with the same tax rate as the prior year decreased tax revenue by \$68,296. The large increase in expenses of \$403,069 is seen mainly in the increase in expenses in the instruction function again due to an increase in students. All other functions increased slightly from the year before except interest on debt which decreased with the payment of the bonds.

The fund financial statements as shown in Exhibits C-1 and C-3 show the financial information on a fund basis. The net increase in the general fund balance is \$21,907. The committed fund balance of \$599,500 from the prior year was reduced to \$300,000 due to the board of trustee actions to spend these funds for resurfacing the track and other capital improvements. The unassigned fund balance is \$1,516,249 as of year-end and represents those funds available for future operations. Based upon current expenditures in the general fund, the unassigned balance represents approximately four months of operations. Overall revenues increased \$329,870 over the prior year. This again was mainly due to the increase in state funding due to a larger population of students as has been discussed above. Local revenues for the current year represent 39% of total revenues and state and federal revenues equal 61% of total revenues. This shows a decrease in the local funding as a percentage of the total as more revenues are generated from the state due to increases in students. Expenditures of the general fund increased \$451,331. This increase in the facilities and maintenance function and is offset with \$300,000 of Maintenance Tax Notes borrowed in the current year for facility improvements. Total salaries and benefits in the general fund totaled \$2,436,794 compared to \$2,286,608 in the prior year. The percentage of salaries and benefits to the total expenses excluding the capital outlay for the improvements remained at approximately 71% of expenses.

**WATER VALLEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Exhibit C-5 demonstrates that the District's originally planned for a balanced budget. This was subsequently amended to show an anticipated loss of \$498,763 mainly due to the increased spending in the facilities and maintenance function for improvements. As can be seen from comparison of actual amounts to the amended budget, actual revenues were \$128,128 more than anticipated while expenses were \$83,977 less than anticipated. The District continues to try to adjust the budget during the year as student attendance is known.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

The government-wide financial statements include the statement of net position and the statement of activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial report 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 statement of fiduciary net assets provides financial information about student activity funds. The District acts solely in a custodial manner in regard to these funds.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The required supplementary information includes information required by the governmental accounting standards, as well as, information required by the Texas Education Agency.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

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

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

**WATER VALLEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

These two statements report the District's net position and changes in them. The District's net position (the difference between assets plus deferred outflows less liabilities plus deferred inflows) provides 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.

In the statement of net position and the statement of activities, we present all the activities of the District as one governmental activity which is defined below.

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 passed through the Texas Education Agency. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The fund financial statements reflect the general fund as the only major fund and all other funds combined in a column referred to as all other funds. All these funds are determined to be governmental funds as defined below.

Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the statement of net assets 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. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**WATER VALLEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position of the District's governmental activities increased from \$3,383,423 to \$3,672,221. 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 – are \$1,628,708 at August 31, 2016. As shown below there is an overall increase in net position of \$288,798 which is explained in the financial highlights.

Table I - NET POSITION

	Governmental Activities 2016	Governmental Activities 2015	Increase (Decrease)
Current and other assets	\$ 2,059,086	\$ 2,085,597	(26,511)
Capital assets	5,356,642	4,837,923	518,719
Total assets	7,415,728	6,923,520	492,208
Deferred outflows of resources	347,144	59,809	287,335
Long-term liabilities	3,941,654	3,409,905	531,749
Other liabilities	108,733	135,018	(26,285)
Total liabilities	4,050,387	3,544,923	505,464
Deferred inflows of resources	40,264	54,983	(14,719)
Net position:			
Net investment in capital assets	1,967,322	1,611,752	355,570
Restricted for debt service	76,191	66,169	10,022
Unrestricted	1,628,708	1,705,502	(76,794)
Total net position	\$ 3,672,221	\$ 3,383,423	288,798

Net assets invested in capital assets net of related debt increased due to the current year capital outlay additions and debt repayment exceeding the depreciation expense.

**WATER VALLEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

Table II - CHANGES IN NET POSITION

	Governmental Activities 2016	Governmental Activities 2015	Increase (Decrease)
Revenues:			
Program revenues:			
Charges for services	\$ 87,295	\$ 98,111	(10,816)
Operating grants and contributions	487,046	331,961	155,085
General revenues:			
Property taxes, levied for general purposes	1,437,467	1,495,924	(58,457)
Property taxes, levied for debt service	233,076	242,915	(9,839)
State aid - formula grants	2,348,809	2,028,410	320,399
Investment earnings	5,464	2,531	2,933
Miscellaneous	3,233	19,098	(15,865)
Total revenue	4,602,390	4,218,950	383,440
Expenses:			
Instruction	1,977,415	1,716,381	261,034
Instructional resources and media services	8,843	14,385	(5,542)
Curriculum and staff development	26,262	15,993	10,269
School leadership	197,926	163,536	34,390
Guidance, counseling and evaluation service	69,103	62,709	6,394
Health services	255	563	(308)
Student (pupil) transportation	204,266	186,475	17,791
Food services	203,304	190,318	12,986
Extracurricular activities	182,921	160,964	21,957
General administration	302,533	288,989	13,544
Facilities maintenance and operations	626,985	584,521	42,464
Data processing services	79,009	73,721	5,288
Debt service – interest on long term debt	95,757	120,324	(24,567)
Debt service – bond issuance costs and fees	5,250	0	5,250
Payments related to shared service arrang	333,763	331,644	2,119
Total expenses	4,313,592	3,910,523	403,069
Change in net position	288,798	308,427	(19,629)
Net position – beginning	3,383,423	3,278,643	104,780
Prior period adjustment	0	(203,647)	203,647
Net position – ending	\$ 3,672,221	\$ 3,383,423	288,798

The District's total revenues increased in state funding due to a higher population of children being served. The decrease in tax collections was again due to a decrease in assessed values. A comparison of functional areas of expense to the prior year shows decreases in the debt service area for interest costs as the bonds are repaid. This decrease has been discussed in the financial highlights section of this management discussion and analysis. All other areas of functional expenses had slight increases from the year before with again the largest increase in the instruction function due to more students.

**WATER VALLEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
UNAUDITED**

THE DISTRICT'S FUNDS

As the District completed the year, its general fund reported an unassigned fund balance of \$1,516,249 and a committed fund balance of \$300,000. The reserved fund balance consists of reserved balances for the following:

Building Construction	\$ 100,000
Bus Purchases	100,000
Technology	100,000

As shown on Exhibit C-3, the District's net change in fund balance for all governmental funds was an increase of \$32,336. As can be seen on Exhibit C-5, the District stayed within the budgeted amounts by functional expense category.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had \$11,235,886 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Accumulated depreciation on these assets amounted to \$5,879,244. Additions in the current year included a resurfaced track, new football bleachers, and improvements to the boys and girls locker rooms. Additional details in regards to this can be seen in footnote D to these financial statements.

Debt

As shown in these financial statements, the District had total debt of \$3,400,324 including the related accrued interest payable. The District borrowed additional funds of \$305,250 with a Maintenance Tax Note to fund additional improvements. Additional details in regards to this debt can be seen in Footnote E to these financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has adopted a 2017 fiscal year budget for the General Fund in the amount of \$3,750,042. This budget is based on a conservative estimate of an average attendance of 299 students. Tax rates for maintenance and operations and interest and sinking remained the same as the prior year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. If there are questions concerning any of the information provided in this report or a request for additional information, please contact the District's business office, at Water Valley Independent School District, P.O. Box 250, Water Valley, Texas 76958 or (325) 484-2478.

BASIC FINANCIAL STATEMENTS

WATER VALLEY 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	\$ 1,851,356
1220 Property Taxes Receivable (Delinquent)	84,219
1230 Allowance for Uncollectible Taxes	(21,458)
1240 Due from Other Governments	144,969
Capital Assets:	
1520 Buildings, Net	5,096,920
1530 Furniture and Equipment, Net	259,722
1000 Total Assets	7,415,728
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	347,144
1700 Total Deferred Outflows of Resources	347,144
LIABILITIES	
2160 Accrued Wages Payable	91,446
2200 Accrued Expenses	1,593
2300 Unearned Revenue	15,694
Noncurrent Liabilities	
2501 Due Within One Year	186,509
2502 Due in More Than One Year	3,213,815
2540 Net Pension Liability (District's Share)	541,330
2000 Total Liabilities	4,050,387
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	40,264
2600 Total Deferred Inflows of Resources	40,264
NET POSITION	
3200 Net Investment in Capital Assets	1,967,322
3850 Restricted for Debt Service	76,191
3900 Unrestricted	1,628,708
3000 Total Net Position	\$ 3,672,221

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

WATER VALLEY 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	
	Expenses	Charges for Services	Operating Grants and Contributions	6 Primary Gov. Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 1,977,415	\$ -	\$ 265,216	\$ (1,712,199)
12 Instructional Resources and Media Services	8,843	-	-	(8,843)
13 Curriculum and Staff Development	26,262	-	18,906	(7,356)
23 School Leadership	197,926	-	14,467	(183,459)
31 Guidance, Counseling and Evaluation Services	69,103	-	5,527	(63,576)
33 Health Services	255	-	-	(255)
34 Student (Pupil) Transportation	204,266	-	9,050	(195,216)
35 Food Services	203,304	68,528	129,686	(5,090)
36 Extracurricular Activities	182,921	15,317	3,300	(164,304)
41 General Administration	302,533	-	15,786	(286,747)
51 Facilities Maintenance and Operations	626,985	3,450	12,124	(611,411)
53 Data Processing Services	79,009	-	5,436	(73,573)
72 Debt Service - Interest on Long Term Debt	95,757	-	7,548	(88,209)
73 Debt Service - Bond Issuance Cost and Fees	5,250	-	-	(5,250)
93 Payments related to Shared Services Arrangements	333,763	-	-	(333,763)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 4,313,592</u>	<u>\$ 87,295</u>	<u>\$ 487,046</u>	<u>(3,739,251)</u>

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	1,437,467
DT	Property Taxes, Levied for Debt Service	233,076
SF	State Aid - Formula Grants	2,348,809
IE	Investment Earnings	5,464
MI	Miscellaneous Local and Intermediate Revenue	3,233
TR	Total General Revenues	<u>4,028,049</u>
CN	Change in Net Position	288,798
NB	Net Position - Beginning	<u>3,383,423</u>
NE	Net Position--Ending	<u>\$ 3,672,221</u>

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 1,776,764	\$ 74,592	\$ 1,851,356
1220 Property Taxes - Delinquent	72,359	11,860	84,219
1230 Allowance for Uncollectible Taxes (Credit)	(18,439)	(3,019)	(21,458)
1240 Receivables from Other Governments	141,042	3,927	144,969
1000 Total Assets	<u>\$ 1,971,726</u>	<u>\$ 87,360</u>	<u>\$ 2,059,086</u>
LIABILITIES			
2160 Accrued Wages Payable	\$ 84,618	\$ 6,828	\$ 91,446
2200 Accrued Expenditures	1,245	348	1,593
2300 Unearned Revenues	15,694	-	15,694
2000 Total Liabilities	<u>101,557</u>	<u>7,176</u>	<u>108,733</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	53,920	8,841	62,761
2600 Total Deferred Inflows of Resources	<u>53,920</u>	<u>8,841</u>	<u>62,761</u>
FUND BALANCES			
Restricted Fund Balance:			
3480 Retirement of Long-Term Debt	-	71,343	71,343
Committed Fund Balance:			
3510 Construction	100,000	-	100,000
3530 Capital Expenditures for Equipment	100,000	-	100,000
3545 Other Committed Fund Balance	100,000	-	100,000
3600 Unassigned Fund Balance	1,516,249	-	1,516,249
3000 Total Fund Balances	<u>1,816,249</u>	<u>71,343</u>	<u>1,887,592</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,971,726</u>	<u>\$ 87,360</u>	<u>\$ 2,059,086</u>

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2016

Total Fund Balances - Governmental Funds	\$ 1,887,592
1 Net capital assets used in governmental activities are not reported in the fund financial statements.	5,356,642
2 The district's proportionate share of the TRS collective deferred outflows (\$300,311) as well as the district's contributions made to TRS subsequent to the 8/31/15 net pension liability date (\$46,833) are recognized as a deferred outflow of resources in the Statement of Net Position.	347,144
3 Bonds and notes payable (including premiums, discounts, and accrued interest thereon) are not reported in the fund financial statements.	(3,400,324)
4 The district's proportionate share of the TRS net pension liability is reported in the Statement of Net Position.	(541,330)
5 The district's proportionate share of the TRS collective deferred inflows is recognized in the Statement of Net Position.	(40,264)
6 Net delinquent property taxes receivable are deferred in the fund financial statements.	62,761
19 Net Position of Governmental Activities	\$ 3,672,221

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

WATER VALLEY 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	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 1,467,200	\$ 302,256	\$ 1,769,456
5800 State Program Revenues	2,504,578	55,818	2,560,396
5900 Federal Program Revenues	-	202,897	202,897
5020 Total Revenues	<u>3,971,778</u>	<u>560,971</u>	<u>4,532,749</u>
EXPENDITURES:			
Current:			
0011 Instruction	1,799,393	108,743	1,908,136
0012 Instructional Resources and Media Services	8,843	-	8,843
0013 Curriculum and Instructional Staff Development	7,382	18,854	26,236
0023 School Leadership	189,367	-	189,367
0031 Guidance, Counseling and Evaluation Services	65,836	-	65,836
0033 Health Services	255	-	255
0034 Student (Pupil) Transportation	150,617	-	150,617
0035 Food Services	5,012	192,012	197,024
0036 Extracurricular Activities	184,020	-	184,020
0041 General Administration	289,018	-	289,018
0051 Facilities Maintenance and Operations	1,140,146	-	1,140,146
0053 Data Processing Services	76,305	-	76,305
Debt Service:			
0071 Principal on Long Term Debt	-	7,363	7,363
0072 Interest on Long Term Debt	-	223,484	223,484
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	333,763	-	333,763
6030 Total Expenditures	<u>4,249,957</u>	<u>550,456</u>	<u>4,800,413</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(278,179)</u>	<u>10,515</u>	<u>(267,664)</u>
OTHER FINANCING SOURCES (USES):			
7913 Capital Leases	305,250	-	305,250
7915 Transfers In	86	-	86
8911 Transfers Out (Use)	-	(86)	(86)
8949 Other (Uses)	(5,250)	-	(5,250)
7080 Total Other Financing Sources (Uses)	<u>300,086</u>	<u>(86)</u>	<u>300,000</u>
1200 Net Change in Fund Balances	21,907	10,429	32,336
0100 Fund Balance - September 1 (Beginning)	<u>1,794,342</u>	<u>60,914</u>	<u>1,855,256</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,816,249</u>	<u>\$ 71,343</u>	<u>\$ 1,887,592</u>

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

WATER VALLEY 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	\$ 32,336
The prepaid portion of insurance is not expensed in the government-wide financial statements. The current year decrease is recognized in the Statement of Activities.	(29,641)
Capital outlay expenditures are capitalized in the government-wide financial statements.	799,822
Depreciation of capital assets is recognized in the government-wide financial statements.	(281,103)
Proceeds from the issuance of a maintenance tax note is reported as an increase in liabilities in the government-wide financial statements.	(305,250)
Repayments of principal on bonds is reported as a decrease in liabilities in the government-wide financial statements.	135,000
The net amount of amortization of premiums on current interest bonds and accretion of discount on capital appreciation bonds is reported in the Statement of Activities.	7,101
Accrued interest payable on bonds is reported in the government-wide financial statements. The current year increase is recognized in the Statement of Activities.	(7,011)
The State of Texas' proportionate share of the district's TRS pension expense as determined under the provisions of GASB 68 is recorded as a revenue and expense in the Statement of Activities. This amount exceeded the statutory amount contributed and reported as on-behalf revenue and expenditure in the fund financial statements.	72,562
TRS pension expense as reported in the Statement of Activities and determined under the provisions of GASB 68 exceeded the amount reported in the fund financial statements.	(132,097)
Net delinquent property taxes receivable are not deferred in the government-wide financial statements. The current year decrease is recognized in the Statement of Activities.	(2,921)
Change in Net Position of Governmental Activities	\$ 288,798

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

WATER VALLEY 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	\$ 1,404,196	\$ 1,404,196	\$ 1,467,200	\$ 63,004
5800 State Program Revenues	2,150,875	2,439,454	2,504,578	65,124
5020 Total Revenues	3,555,071	3,843,650	3,971,778	128,128
EXPENDITURES:				
Current:				
0011 Instruction	1,842,892	1,818,892	1,799,393	19,499
0012 Instructional Resources and Media Services	14,794	14,794	8,843	5,951
0013 Curriculum and Instructional Staff Development	12,726	12,726	7,382	5,344
0023 School Leadership	168,470	192,470	189,367	3,103
0031 Guidance, Counseling and Evaluation Services	65,999	65,999	65,836	163
0033 Health Services	350	350	255	95
0034 Student (Pupil) Transportation	165,612	165,612	150,617	14,995
0035 Food Services	5,495	5,495	5,012	483
0036 Extracurricular Activities	200,170	200,170	184,020	16,150
0041 General Administration	301,348	301,348	289,018	12,330
0051 Facilities Maintenance and Operations	331,257	1,144,650	1,140,146	4,504
0053 Data Processing Services	76,398	76,398	76,305	93
Debt Service:				
0071 Principal on Long Term Debt	26,051	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	335,030	335,030	333,763	1,267
6030 Total Expenditures	3,546,592	4,333,934	4,249,957	83,977
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	8,479	(490,284)	(278,179)	212,105
OTHER FINANCING SOURCES (USES):				
7913 Capital Leases	-	-	305,250	305,250
7915 Transfers In	-	-	86	86
8911 Transfers Out (Use)	(8,479)	(8,479)	-	8,479
8949 Other (Uses)	-	-	(5,250)	(5,250)
7080 Total Other Financing Sources (Uses)	(8,479)	(8,479)	300,086	308,565
1200 Net Change in Fund Balances	-	(498,763)	21,907	520,670
0100 Fund Balance - September 1 (Beginning)	1,974,342	1,794,342	1,794,342	-
3000 Fund Balance - August 31 (Ending)	\$ 1,974,342	\$ 1,295,579	\$ 1,816,249	\$ 520,670

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 70,543
Total Assets	<u>\$ 70,543</u>
LIABILITIES	
Due to Student Groups	\$ 70,543
Total Liabilities	<u>\$ 70,543</u>

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2016

I. Summary of Significant Accounting Policies

Water Valley 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 accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally, the District 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

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues.

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

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

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

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, (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, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which 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.

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

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

The Fiduciary Funds are accounted for on a flow of economic measurement focus and utilize the accrual basis of accounting.

D. Fund Accounting

The District reports the following major governmental fund:

The 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.

Additionally, the District reports the following fund types:

Governmental Funds:

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

D. Fund Accounting - Continued

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.

Fiduciary Funds:

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds. These funds represent student activity funds.

E. Deposits and Investments

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

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 a governmental entity 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 qualify and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorized the entity 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 entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Winters Independent School District is in substantial compliance with the requirements of the Act and with local policies.

F. Other Accounting Policies

1. The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. In the fund financial statements, the face amount of debt issued is reported as other financing sources.
3. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.
4. Land, buildings, and equipment are reported in the applicable governmental activities column in the government-wide financial statements. These 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

F. Other Accounting Policies - Continued

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	20-30
Vehicles	5
Equipment	5-10

5. The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.
6. In the fund financial statements, governmental funds report in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent. The *nonspendable* classification represents assets that will be consumed or must be maintained intact and therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specific how fund resources can be used in the *restricted* classification. The nature of these two classifications precludes a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classifications – *committed, assigned, and unassigned*.

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since the practice would commit funds that the District does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions (rainy day funds), and other purposes determined by the Board.

The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board of Trustees may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board of Trustees by a majority vote in a scheduled meeting.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

F. Other Accounting Policies - Continued

When the District makes expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the District incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditure should be charged to committed if directly associated with the specific commitment, to assigned if directly associated with the specific assignment, and to unassigned if not directly associated with either the specific commitment or specific assignment.

7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position.
9. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow or resources until then. See the pension footnote for a further description of this amount.
10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. One type of item which arises only under a modified accrual basis of accounting that qualifies of reporting in this category is uncollected property taxes which are reported on the balance sheet for governmental funds. The other items reported in this category are discussed in the pension footnote.
11. The preparation of financial statements in conformity with GAAP requires the use of management estimates.
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 school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

II. Stewardship, Compliance, and Accountability

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Child Nutrition Program (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are presented in Exhibits F-2 and F-3.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

II. Stewardship, Compliance, and Accountability - continued

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval.
4. The District does utilize encumbrance accounting. There were no outstanding encumbrances that were re- appropriated for the next fiscal year.

B. Excess Expenditures Over Appropriations

Expenditures exceeded appropriations in the following:

Cafeteria Fund \$ 4,033

III. Detailed Notes on all Funds and Account Groups

A. Deposits and Investments

The District had the following investments as of August 31, 2016.

<u>Investment Type</u>	<u>Fair Value</u>
Tex Pool Investment Pool	<u>\$ 454,180</u>

Interest Rate Risk: The District's investment policy limits its investment portfolio to maturities of one year or less as a means of limiting its exposure to fair value losses arising from fluctuating interest rates.

Credit Risk: The District's investment policy permits only investments specifically allowed by Chapter 2256, "Public Funds Investment," of the Government Code.

Concentration of Credit Risk: The District's investment policy is to reduce the risk of loss resulting from over concentration of an asset in a specific class of investments; however, the District's policy places no specific limit on the amount which the District may invest in any one issuer.

Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District is not exposed to custodial credit risk for its deposits are all covered by FDIC insurance or by collateral held by the District's agent bank in the District's name.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

A. Deposits and Investments - continued

Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

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

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

B. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due 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.

Allowances for uncollectible tax receivables 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.

C. Interfund Balances and Transfers

Interfund transfers for the year ended August 31, 2016 consisted of the following individual amounts:

Transfer from Child Nutrition Fund to the General Fund	<u>\$ 86</u>
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WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

D. Capital Asset Activity

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

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Buildings and Improvements	\$ 9,364,652	\$ 743,652	\$ 0	\$ 10,108,304
Equipment	378,564	56,170	0	434,734
Vehicles	692,848	0	0	692,848
Totals at Historic Cost	10,436,064	799,822	0	11,235,886
Less Accumulated Depreciation for:				
Buildings and Improvements	(4,796,872)	(214,512)	0	(5,011,384)
Equipment	(293,048)	(20,462)	0	(313,510)
Vehicles	(508,221)	(46,129)	0	(554,350)
Total Accumulated Depreciation	(5,598,141)	(281,103)	0	(5,879,244)
Governmental Activities Capital Assets, Net	<u>\$ 4,837,923</u>	<u>\$ 518,719</u>	<u>\$ 0</u>	<u>\$ 5,356,642</u>

Depreciation expense was charged to governmental functions on the Statement of Activities as follows:

Instruction	\$ 2,092
Student (Pupil) Transportation	46,129
Cocurricular/Extracurricular Activities	3,953
Plant Maintenance and Operations	<u>228,929</u>
Total Depreciation Expense	<u>\$ 281,103</u>

E. Long-Term Obligations Payable

Unlimited Tax Refunding Bonds, Series 2011

These bonds were issued to partially advance refund the Series 2004 issue for the purpose of building a new elementary school and other additions. The original amount issued was \$1,760,000 and is scheduled to mature February 15, 2034 with interest rates of 2.00% to 3.75%. The bonds are to be repaid from local property tax collections with principal payments due on February 15th of each year and interest on the bonds is due semiannually on February 15th and August 15th of each year.

Unlimited Tax Refunding Bonds, Series 2014

These bonds were issued to partially advance refund the Series 2005 issue for the purpose of building a new gymnasium. The original amount issued was \$1,270,000 and is scheduled to mature February 15, 2034 with interest rates of 2.00% to 4.00%. The bonds are to be repaid from local property tax collections with principal payments due on February 15th of each year and interest on the bonds is due semiannually on February 15th and August 15th of each year.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

E. Long-Term Obligations Payable – Continued

Maintenance Tax Note, Series 2015

This note was issued for the purpose of track and stadium renovations. The original amount issued was \$305,250 at 2.45% and is scheduled to be repaid in seven annual installments of \$47,984 through October 15, 2022. The note will be repaid from all available current revenues of the District, including maintenance and operation tax revenue.

	<u>Beginning Balance</u>	<u>Accretion Additions</u>	<u>Amortization/ Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Series 2011 Bonds					
Maturity Value	\$ 1,680,000	\$ 0	\$ 0	\$ 1,680,000	
Net Premium	<u>28,447</u>	<u>0</u>	<u>3,422</u>	<u>25,025</u>	
	<u>1,708,447</u>	<u>0</u>	<u>3,422</u>	<u>1,705,025</u>	\$ 0
Series 2011 CABs					
Original Principal	11,352	0	7,215	4,137	
Initial Premium	136,552	0	67,778	68,774	
Accum Accretion	<u>9,437</u>	<u>1,965</u>	<u>5,007</u>	<u>6,395</u>	
	<u>157,341</u>	<u>1,965</u>	<u>80,000</u>	<u>79,306</u>	80,000
Series 2014 Bonds					
Maturity Value	\$ 1,260,000	\$ 0	\$ 0	\$ 1,260,000	
Net Premium	<u>45,575</u>	<u>0</u>	<u>5,836</u>	<u>39,739</u>	
	<u>1,305,575</u>	<u>0</u>	<u>5,836</u>	<u>1,299,739</u>	55,000
Series 2014 CABs					
Original Principal	148	0	148	0	
Initial Premium	54,231	0	54,231	0	
Accum Accretion	<u>429</u>	<u>192</u>	<u>621</u>	<u>0</u>	
	<u>54,808</u>	<u>192</u>	<u>55,000</u>	<u>0</u>	0
Series 2015 Maint- enance Tax Note	<u>0</u>	<u>305,250</u>	<u>0</u>	<u>305,250</u>	<u>40,505</u>
Totals	<u>\$ 3,226,171</u>	<u>\$ 307,407</u>	<u>\$ 144,258</u>	\$ 3,389,320	<u>\$ 175,505</u>
Accrued interest payable				<u>11,004</u>	
Total noncurrent liabilities				<u>3,400,324</u>	
Due within one year (including accrued interest payable)				<u>(186,509)</u>	
Due in more than one year				<u>\$ 3,213,815</u>	

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

E. Long - Term Obligations Payable - continued

The combined future minimum payments for all long-term debt are as follows. These amounts do not take into effect the net premiums above. The combined totals consist of \$1,680,000 Series 2011 bonds, \$1,260,000 Series 2014 bonds, 80,000 of Series 2011 Capital Appreciation Bonds, and \$305,250 of Series 2015 Maintenance Tax Note. Annual debt service requirements are as follows:

<u>Year Ending August 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 175,505	\$ 102,776	\$ 278,281
2018	176,498	99,884	276,382
2019	177,515	96,167	273,682
2020	178,556	91,750	270,306
2021	189,623	86,483	276,106
2022-2026	867,553	352,378	1,219,931
2027-2031	920,000	207,471	1,127,471
2032-2034	640,000	36,543	676,543
Totals	<u>\$ 3,325,250</u>	<u>\$ 1,073,452</u>	<u>\$ 4,398,702</u>

F. Fund Balances

Fund balances consist of restricted balances which are set aside for retirement of debt of \$71,343. Committed fund balance consists of the following amounts which were approved by the Board of Trustees.

Building Construction	\$ 100,000
Transportation	100,000
Technology	<u>100,000</u>
Total	<u>\$ 300,000</u>

The remaining fund balance of \$1,516,249 is unassigned and available for operations of the next year.

G. Defined Benefit Pension Plan

Plan Description. Water Valley Independent School District participates in a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 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.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

G. Defined Benefit Pension Plan - Continued

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 163,887,375,172
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$ 35,348,668,960</u>
Net Position as percentage of Total Pension Liability	78.43%

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's 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.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

G. Defined Benefit Pension Plan – Continued

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal year 2016 and 2017.

	<u>Contribution Rates</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%
Water Valley ISD 2016 Employer Contributions		\$ 46,833
Water Valley ISD 2016 Member Contributions		\$ 152,407
Water Valley ISD 2015 NECE On-Behalf Contributions		\$ 117,000

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

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

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

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

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

G. Defined Benefit Pension Plan – 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 Value	Market Value
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:

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

G. Defined Benefit Pension Plan – Continued

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Party			
Risk Party	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 discounted 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 (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Proportionate share of the Net Pension Liability	\$ 848,161	\$ 541,330	\$ 285,758

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 \$541,330 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 of the net liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 541,330
State's proportionate share that is associated with the District	1,396,323
Total	<u>\$ 1,937,653</u>

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENT – CONTINUED
YEAR ENDED AUGUST 31, 2016

G. Defined Benefit Pension Plan – Continued

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 employer's portion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0015314% which was an increase of 0.0008585% 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%
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.
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 for 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.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

G. Defined Benefit Pension Plan - Continued

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 \$198,954 and revenue of \$198,954 for support provided by the State.

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 <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experiences	\$ 2,312	\$ 20,804
Changes in actuarial assumptions	9,716	19,312
Differences between projected and actual investment earnings	92,115	0
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>196,168</u>	<u>148</u>
Total as of August 31, 2015 measurement date	300,311	40,264
Contributions paid to TRS subsequent to the measurement date	<u>46,833</u>	<u>0</u>
Total as of fiscal year end	<u>\$ 347,144</u>	<u>\$ 40,264</u>

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

Year Ended August 31,	Pension Expense <u>Amount</u>
2017	\$ 48,440
2018	\$ 48,440
2019	\$ 48,440
2020	\$ 62,176
2021	\$ 28,699
Thereafter	\$ 23,852

The net pension liability of \$541,330 is shown as a non-current liability on the statement of position and the following table shows the increases and decreases for the year.

	Beginning <u>Balance</u>	Additions	Retirements	Ending <u>Balance</u>
Net Pension Liability	<u>\$ 179,741</u>	<u>\$ 406,935</u>	<u>\$ 45,346</u>	<u>\$ 541,330</u>

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

H. Health Care Coverage

During the period ended August 31, 2016, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$301 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums are paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the licensed insurer is renewable on September 1, 2015, and terms of coverage and premium costs are included in the contractual provisions. Latest financial statements for the Plan are available from Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 877-0123.

I. Retiree Health Plan

Plan Description – The Winters 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 1575.02 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and is required supplementary information for TRS-Care. That report may be obtained by downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS communications Department at 1-800-223-8778, or by writing to the TRS communications Department, 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 established 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 public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and contribution amounts for fiscal years 2016-2014 are shown in the table below:

<u>Fiscal Year</u>	<u>Active Member</u>		<u>State On-Behalf</u>		<u>District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2016	0.65%	\$ 13,759	1.0%	\$ 21,168	0.55%	11,642
2015	0.65%	12,870	1.0%	19,801	0.55%	10,890
2014	0.65%	13,107	1.0%	20,164	0.55%	11,090

The Medicare Modernization Act of 2003 which was effective January 1, 2006, established drug coverage for Medicare beneficiaries know as Medicare Part D. One of the provisions of Medicare Part D allows for Texas Public School Retired Employee Group Insurance Program (TRS-Care), administered by TRS, to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Medicare Part D payments made on behalf of the District for fiscal years 2016-2014 are shown in the table below:

<u>Fiscal Year</u>	<u>Medicare Part D</u>
2016	\$ 6,395
2015	5,882
2014	5,446

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

J. Unearned Revenue

Unearned revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Foundation Revenue	\$ 15,694	\$ 0	\$ 15,694

K. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments as of August 31, 2016, are summarized below. All federal grants shown below are passed through the TEA.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
General	\$ 136,429	\$ 0	\$ 4,613	\$ 141,042
Debt Service	0	0	724	724
Special Revenue	0	3,203	0	3,203
Totals	<u>\$ 136,429</u>	<u>\$ 3,203</u>	<u>\$ 5,337</u>	<u>\$ 144,969</u>

L. Revenue from Local and Intermediate Sources

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

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 1,439,981	\$ 233,483	\$ 1,673,464
Cafeteria Sales	0	68,528	68,528
Investment Income	5,219	245	5,464
Co-Curricular Activities	15,317	0	15,317
Rent	3,450	0	3,450
Gifts and Donations	100	0	100
Other	3,133	0	3,133
Total	<u>\$ 1,467,200</u>	<u>\$ 302,256</u>	<u>\$ 1,769,456</u>

M. Workers' Compensation Insurance

The District participates in a risk pool for workers' compensation. The District pays a contribution for the fund year to cover the servicing costs of program administration, claims handling, loss control, and stop loss coverage as well as all claims expenses. In exchange, all claims are paid until closed and there are no additional fees for services provided. The policy is a retrospectively rated policy and premiums are accrued based on the ultimate cost of the experience to date of the member entities. The District is not aware of any material losses from reported or unreported claims. The District's required contribution for the year ended August 31, 2016 was \$8,209.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

M. Workers' Compensation Insurance

Changes in the liability during the past year were as follows:

Unpaid claims as of September 1, 2015	\$ 18,243
Incurred claims	(941)
Payments	<u>(2,768)</u>
Unpaid claims as of August 31, 2016	<u>\$ 14,534</u>

N. Shared Service Arrangement

The District participates in a shared service arrangement (SSA) for special education with the following school districts:

Christoval ISD	Paint Rock ISD	Sterling City ISD
Eden ISD	Panther Creek ISD	Veribest ISD
Olfen ISD	Robert Lee ISD	Wall ISD (Fiscal Agent)

The District expended \$241,880 to the SSA in the current year. However, the District does not account for its share of actual expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

The District also participates in a shared arrangement with Fairview Accelerated Education for helping students with accelerated learning for possible drop out children and some disciplinary problems. The District is required to buy a block of time at the first of the year and is billed if this time is not adequate based on the students sent to this entity. The total expended in the current year is \$ 23,164. In addition to this, the District is in a utilities coop in which they spent \$68,719.

The District also participates in various shared service arrangements with the Education Service Center Region XV. The District does not account for revenues or expenditures in these programs and does not report them in their financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center Region XV, nor does the District have a net equity interest in the exigencies that would give rise to a future additional benefit or burden. The fiscal agent manager is responsible for all financial activities of the shared service arrangements. According to information obtained from the region center, the District participates with a number of other school districts in the following programs.

Title III LEP	\$ 112
Carl D Perkins	2,597

REQUIRED SUPPLEMENTARY INFORMATION

WATER VALLEY 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

EXHIBIT E-1

	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.0015314%	0.0006729%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 541,330	\$ 179,741
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	1,396,323	1,280,784
Total	<u>\$ 1,937,653</u>	<u>\$ 1,460,525</u>
District's Covered-Employee Payroll	\$ 1,980,095	\$ 2,017,146
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	27.34%	8.91%
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 data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2016

EXHIBIT E-2

	2016	2015
Contractually Required Contribution	\$ 46,833	\$ 45,346
Contribution in Relation to the Contractually Required Contribution	(46,833)	(45,346)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 2,116,758	\$ 1,980,095
Contributions as a Percentage of Covered-Employee Payroll	2.21%	2.29%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
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 the 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.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
YEAR ENDED AUGUST 31, 2016

Other Demographic 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.

REQUIRED TEA SCHEDULES

WATER VALLEY 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	1.040000	0.200000	108,604,227
2009	1.040000	0.200000	127,923,002
2010	1.040000	0.200000	108,161,799
2011	1.170000	0.200000	118,664,307
2012	1.170000	0.210000	109,547,979
2013	1.170000	0.200000	115,895,657
2014	1.170000	0.190000	116,224,412
2015	1.170000	0.190000	125,458,684
2016 (School year under audit)	1.170000	0.190000	120,092,684
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
\$ 12,987	\$ -	\$ 322	\$ 47	\$ (592)	\$ 12,026
1,395	-	55	16	(113)	1,211
1,352	-	66	26	908	2,168
2,875	-	334	96	(1)	2,444
1,321	-	380	55	1	887
2,212	-	758	131	(204)	1,119
5,182	-	1,959	335	20	2,908
14,227	-	4,727	768	(324)	8,408
44,810	-	27,545	4,473	(1,113)	11,679
-	1,632,537	1,365,777	221,793	(3,598)	41,369
<u>\$ 86,361</u>	<u>\$ 1,632,537</u>	<u>\$ 1,401,923</u>	<u>\$ 227,740</u>	<u>\$ (5,016)</u>	<u>\$ 84,219</u>

WATER VALLEY 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	\$ 72,000	\$ 72,000	\$ 68,528	\$ (3,472)
5800 State Program Revenues	500	500	1,014	514
5900 Federal Program Revenues	107,000	107,000	122,556	15,556
5020 Total Revenues	179,500	179,500	192,098	12,598
EXPENDITURES:				
0035 Food Services	187,979	187,979	192,012	(4,033)
6030 Total Expenditures	187,979	187,979	192,012	(4,033)
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,479)	(8,479)	86	8,565
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	8,479	8,479	-	(8,479)
7961 Transfers Out (Use)	-	-	(86)	(86)
7080 Total Other Financing Sources (Uses)	8,479	8,479	(86)	(8,565)
1200 Net Change in Fund Balances	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

WATER VALLEY 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	\$ 223,822	\$ 223,822	\$ 233,728	\$ 9,906
5800 State Program Revenues	-	-	7,548	7,548
5020 Total Revenues	223,822	223,822	241,276	17,454
EXPENDITURES:				
Debt Service:				
0071 Principal on Long Term Debt	23,796	23,796	7,363	16,433
0072 Interest on Long Term Debt	207,052	207,052	223,484	(16,432)
6030 Total Expenditures	230,848	230,848	230,847	1
1200 Net Change in Fund Balances	(7,026)	(7,026)	10,429	17,455
0100 Fund Balance - September 1 (Beginning)	60,914	53,889	60,914	7,025
3000 Fund Balance - August 31 (Ending)	\$ 53,888	\$ 46,863	\$ 71,343	\$ 24,480

COMPLIANCE AND INTERNAL CONTROL SECTION

Reed, McKee & Co., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

3140 EXECUTIVE DRIVE
SAN ANGELO, TEXAS 76904
(325) 942-8984

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS*

Independent Auditor's Report

Board of Trustees
Water Valley Independent School District
P.O. Box 250
Water Valley, Texas 76958

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 Water Valley Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Water Valley Independent School District's basic financial statements, and have issued our report thereon dated November 21, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Water Valley 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 Water Valley Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Water Valley 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 district's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Water Valley Independent School District's financial statements are free of 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 Water Valley Independent School District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Water Valley Independent School District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Reed, McKee & Co., P.C.

Reed, McKee & Co., P.C.
November 21, 2016

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

I. Summary of the Auditor's Results:

- A. The auditor's report expresses an unqualified opinion on the basic financial statements of the Water Valley Independent School District.
- B. No significant deficiencies or material weaknesses relating to the audit of the basic financial statements are reported in the 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*.
- C. No instances of noncompliance material to the basic financial statements of the Water Valley Independent School District, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

None

SCHOOLS FIRST QUESTIONNAIRE

Water Valley Independent School District

Fiscal Year 2016

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	6395
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	541330
SF13	Pension Expense (6147) at fiscal year-end.	59535