

**WATER VALLEY
INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018**

*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, 2018

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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, 2018 at a meeting of the Board of Trustees of such school district on the 13 day of December, 2018.



Signature of Board Secretary



Signature of Board President

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

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, 2018, 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, 2018, 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.

Emphasis of Matter

The District adopted new accounting guidance as prescribed by GASB #75 as it applies to the District's participation in a defined plan for Postemployment Benefits Other than Pensions. Because GASB #75 implements new measurement criteria and reporting provisions, significant information has been added to the government-wide financial statements. The Statement of Net Position (Exhibit A-1) includes the District's net other postemployment benefits liability as well as deferred resource outflows and inflows related to the postemployment plan. The Statement of Activities (Exhibit B-1) includes a prior period adjustment to the District's beginning net position. Footnote IIIH provides disclosure information and two new required supplementary information schedules are also included (Exhibit E-3 and E-4). Our opinion is not modified with respect to this matter.

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 required supplementary information listed on the table of contents on pages 43 through 47. 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 October 25, 2018 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.

**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, 2018. 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, decreased from \$4,089,579 to \$3,112,247. Net position consists of unrestricted amounts of \$1,002,828 which may be used to meet the District's ongoing obligations. The District also has restricted funds for debt service of \$126,227 and for the cafeteria fund of \$30,691. Net assets invested in capital assets net of related debt totaled \$1,952,501. Total assets have increased \$812,158 as shown on page 7 of this analysis and total liabilities have increased by \$1,231,666. The increase in assets is all due to the increase in cash and cash equivalents as the District added to their fund balance \$933,459. The increase in liabilities is mainly due to the due GASB 75 net other post-employment liability which is explained in detail in the footnotes. In connection with this new GASB there are the corresponding increases and decreases to the deferred inflows and outflows which are also discussed in the footnotes. As mentioned above there was an overall decrease in the net position of the district of \$977,332. The recording of the new net post-employment liability had to be recorded retroactively to the beginning of the year so that the correct current year effect could be shown in the statement of activities. The result of this is a prior period adjustment of \$1,910,791 which decreased the net position of the District. The individual changes in the restricted fund balances and unrestricted fund balance are shown in the Net Position table shown on page 7.

As shown in Exhibit B-1, the District had expenses of \$3,523,307 which were \$701,143 less than comparable expenses in the prior year. The large decrease again is due to the recording of the net post-employment liability and the current year effect of reducing this liability. Again, as shown on Exhibit B-1 the total expenses were reduced for charges for services such as athletic revenues, concessions, and cafeteria sales. Operating grants and contributions ends up being a net decrease in revenue and is explained in detail in footnote IIIIO. After taking these items into effect the District was left with net expenses of \$3,696,671 which were funded by general revenues of \$4,630,130. Total revenues from all sources were \$4,456,766 compared to \$4,641,808 from the prior year. As can be seen in Table II on page 8, the result of the recording of the new GASB had the effect of creating a negative revenue in the operating grants and contributions which resulted in the overall decrease in revenues as compared to the prior year. Property tax revenues were up due to an increase in assessed values and the funding from the state was up due to an increase in the student average daily attendance as compared to the prior year. Exhibit B-1 also shows a positive gain in the Food Service area of \$41,482 as the child nutrition fund continues to add to their fund balance.

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 \$512,062. The committed fund balance of \$235,000 from the prior year was reduced to \$190,000 due to the board of trustee actions to spend these funds for improvements to the drainage system. The unassigned fund balance is \$2,609,914 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 seven months of operations. Overall revenues increased \$495,687 over the prior year. This again was mainly due to the increase in state funding due to a larger population of students as well as the increase in property tax revenues due to increased assessed values. Local revenues for the current year represent 40% of total revenues and state and federal revenues equal 60% of total revenues. Expenditures of the general fund increased \$416,406. Total salaries and benefits in the general fund totaled \$2,720,717 compared to \$2,529,353 in the prior year. The percentage of salaries and benefits to the total expenses excluding the capital outlay for the improvements remained at approximately 70% 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 \$36,860 increase to the fund balance. This was subsequently amended to show a reduction to a \$4,360 increase in fund balance. As can be seen from comparison of actual amounts to the amended budget, actual revenues were \$341,208 more than anticipated while expenses were \$166,494 less than anticipated. The revenue variance is due to the District taking a conservative approach and budgeting on a lower student ADA than actual. As noted by the variances in the expenditures, the District did a good job of amending the budget as needed to keep the functional expenses within budget amounts.

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 decreased from \$4,089,579 to \$3,112,247. 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 \$1,002,828 at August 31, 2018. As shown below there is an overall decrease in net position of \$977,332 which is explained in the financial highlights.

Table I - NET POSITION

	Governmental Activities 2018	Governmental Activities 2017	Increase (Decrease)
Current and other assets	\$ 3,533,817	\$ 2,551,996	\$ 981,821
Capital assets	4,973,478	5,143,141	(169,663)
Total assets	8,507,295	7,695,137	812,158
Deferred outflows of resources	244,811	298,395	(53,584)
Long-term liabilities	4,393,896	3,586,130	807,766
Other liabilities	709,621	285,721	423,900
Total liabilities	5,103,517	3,871,851	1,231,666
Deferred inflows of resources	536,342	32,102	504,240
Net position:			
Net investment in capital assets	1,952,501	1,937,519	14,982
Restricted for debt service	126,227	86,148	40,079
Restricted for Other Purposes	30,691	18,162	12,529
Unrestricted	1,002,828	2,047,750	(1,044,922)
Total net position	\$ 3,112,247	\$ 4,089,579	\$ (977,332)

Included within the net position for the current year is an amount tilted restricted for other purposes of \$30,691. This amount represents the net profit from the cafeteria operations that is maintained within that fund as restricted for future operations of the cafeteria.

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

Table II - CHANGES IN NET POSITION

	Governmental Activities 2018	Governmental Activities 2017	Increase (Decrease)
Revenues:			
Program revenues:			
Charges for services	\$ 83,810	\$ 80,893	\$ 2,917
Operating grants and contributions	(257,174)	389,212	(646,386)
General revenues:			
Property taxes, levied for general purposes	1,598,940	1,430,294	168,646
Property taxes, levied for debt service	259,295	232,033	27,262
State aid - formula grants	2,684,678	2,488,803	195,875
Investment earnings	36,110	12,414	23,696
Miscellaneous	51,107	8,159	42,948
Total revenue	4,456,766	4,641,808	(185,042)
Expenses:			
Instruction	1,422,818	1,900,422	(477,604)
Instructional resources and media services	9,445	7,258	2,187
Curriculum and staff development	14,016	15,722	(1,706)
School leadership	164,185	247,129	(82,944)
Guidance, counseling and evaluation service	44,357	68,486	(24,129)
Health services	232	438	(206)
Student (pupil) transportation	194,213	205,004	(10,791)
Food services	136,688	181,312	(44,624)
Extracurricular activities	169,788	171,470	(1,682)
General administration	241,761	323,363	(81,602)
Facilities maintenance and operations	593,753	580,643	13,110
Security and monitoring services	4,906	3,419	1,487
Data processing services	60,639	79,632	(18,993)
Debt service – interest on long term debt	90,730	93,196	(2,466)
Debt service – bond issuance costs and fees	6,246	0	6,246
Payments related to shared service arrang	369,530	346,956	22,574
Total expenses	3,523,307	4,224,450	(701,143)
Change in net position	933,459	417,358	516,101
Net position – beginning	4,089,579	3,672,221	417,358
Prior Period Adjustment	(1,910,791)	0	(1,910,791)
Net position – ending	\$ 3,112,247	\$ 4,089,579	\$ (977,332)

The District's total revenues increased in state funding due to a higher population of children being served. The increase in tax collections was again due to an increase in assessed values. There was also, an overall decrease in expenses of \$701,143 mainly due to the recording of the new GASB 75 for postemployment benefits.

**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 \$2,609,914 and a committed fund balance of \$190,000. The reserved fund balance consists of reserved balances for the following:

Building Construction	\$ 40,000
Bus Purchases	50,000
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 \$565,836. 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 2018, the District had \$11,435,974 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 \$6,462,496. Additions in the current year included improvements to the drainage system, three new vehicles, and a freezer for the cafeteria. Additional details in regards to this can be seen in footnote IIID to these financial statements.

Debt

As shown in these financial statements, the District had total debt of \$3,029,599 including the related accrued interest payable. The District had no additional debt in the current year. Details in regards to this debt can be seen in Footnote IIIE to these financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District has adopted a 2019 fiscal year budget for the General Fund in the amount of \$4,320,328. This budget is based on a conservative estimate of an average attendance of 295 students. Tax rates for maintenance and operations remained at \$1.17 per \$100 value while the tax rate for the Interest and Sinking Funds was set at \$.15 per \$100 value.

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, 2018

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 2,918,891
1220 Property Taxes - Delinquent	81,524
1230 Allowance for Uncollectible Taxes	(23,951)
1240 Due from Other Governments	557,353
Capital Assets:	
1520 Buildings, Net	4,729,293
1530 Furniture and Equipment, Net	244,185
1000 Total Assets	8,507,295
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	221,684
1706 Deferred Outflow Related to TRS OPEB	23,127
1700 Total Deferred Outflows of Resources	244,811
LIABILITIES	
2110 Accounts Payable	12,358
2160 Accrued Wages Payable	114,589
2200 Accrued Expenses	2,625
2300 Unearned Revenue	393,912
Noncurrent Liabilities:	
2501 Due Within One Year	186,137
2502 Due in More Than One Year	2,843,462
2540 Net Pension Liability (District's Share)	460,729
2545 Net OPEB Liability (District's Share)	1,089,705
2000 Total Liabilities	5,103,517
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Resource Inflow Related to TRS Pension	80,517
2606 Deferred Resource Inflow Related to TRS OPEB	455,825
2600 Total Deferred Inflows of Resources	536,342
NET POSITION	
3200 Net Investment in Capital Assets	1,952,501
3820 Restricted for Federal and State Programs	30,691
3850 Restricted for Debt Service	126,227
3900 Unrestricted	1,002,828
3000 Total Net Position	\$ 3,112,247

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, 2018

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for	Operating	6
	Expenses	Services	Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 1,422,818	\$ -	\$ (233,794)	\$ (1,656,612)
12 Instructional Resources and Media Services	9,445	-	-	(9,445)
13 Curriculum and Instructional Staff Development	14,016	-	5,933	(8,083)
23 School Leadership	164,185	-	(36,890)	(201,075)
31 Guidance, Counseling and Evaluation Services	44,357	-	(12,188)	(56,545)
33 Health Services	232	-	-	(232)
34 Student (Pupil) Transportation	194,213	-	(16,777)	(210,990)
35 Food Services	136,688	66,920	111,250	41,482
36 Extracurricular Activities	169,788	13,290	(8,785)	(165,283)
41 General Administration	241,761	-	(32,795)	(274,556)
51 Facilities Maintenance and Operations	593,753	3,600	(29,062)	(619,215)
52 Security and Monitoring Services	4,906	-	-	(4,906)
53 Data Processing Services	60,639	-	(11,424)	(72,063)
72 Debt Service - Interest on Long-Term Debt	90,730	-	7,358	(83,372)
81 Capital Outlay	6,246	-	-	(6,246)
93 Payments Related to Shared Services Arrangements	369,530	-	-	(369,530)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 3,523,307	\$ 83,810	\$ (257,174)	(3,696,671)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	1,598,940
DT	Property Taxes, Levied for Debt Service	259,295
SF	State Aid - Formula Grants	2,684,678
IE	Investment Earnings	36,110
MI	Miscellaneous Local and Intermediate Revenue	51,107
TR	Total General Revenues	4,630,130
CN	Change in Net Position	933,459
NB	Net Position - Beginning	4,089,579
PA	Prior Period Adjustment	(1,910,791)
NE	Net Position--Ending	\$ 3,112,247

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 2,765,881	\$ 153,010	\$ 2,918,891
1220 Property Taxes - Delinquent	71,616	9,908	81,524
1230 Allowance for Uncollectible Taxes	(21,951)	(2,000)	(23,951)
1240 Due from Other Governments	544,053	13,300	557,353
1000 Total Assets	<u>\$ 3,359,599</u>	<u>\$ 174,218</u>	<u>\$ 3,533,817</u>
LIABILITIES			
2110 Accounts Payable	\$ 10,074	\$ 2,284	\$ 12,358
2160 Accrued Wages Payable	106,275	8,314	114,589
2200 Accrued Expenditures	2,157	468	2,625
2300 Unearned Revenue	391,514	2,398	393,912
2000 Total Liabilities	<u>510,020</u>	<u>13,464</u>	<u>523,484</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	49,665	7,908	57,573
2600 Total Deferred Inflows of Resources	<u>49,665</u>	<u>7,908</u>	<u>57,573</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	30,691	30,691
3480 Retirement of Long-Term Debt	-	122,155	122,155
Committed Fund Balance:			
3510 Construction	40,000	-	40,000
3530 Capital Expenditures for Equipment	50,000	-	50,000
3545 Other Committed Fund Balance	100,000	-	100,000
3600 Unassigned Fund Balance	2,609,914	-	2,609,914
3000 Total Fund Balances	<u>2,799,914</u>	<u>152,846</u>	<u>2,952,760</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,359,599</u>	<u>\$ 174,218</u>	<u>\$ 3,533,817</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, 2018

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 2,952,760
1 Net capital assets used in governmental activities are reported in the Statement of Net Position.	4,973,478
2 The district's contributions made to TRS and TRS-Care subsequent to the 8/31/17 net pension and OPEB liability date as well as the district's proportionate share of the TRS and TRS-Care collective deferred outflows are reported in the Statement of Net Position.	244,811
3 Bonds and notes payable (including premiums and accrued interest) are reported in the Statement of Net Position.	(3,029,599)
4 The district's proportionate share of the TRS net pension and OPEB liabilities are reported in the Statement of Net Position.	(1,550,434)
5 The district's proportionate share of the TRS and TRS-Care collective deferred inflows are reported in the Statement of Net Position.	(536,342)
6 Net delinquent property taxes receivable are not deferred in the Statement of Net Position.	57,573
19 Net Position of Governmental Activities	<u><u>\$ 3,112,247</u></u>

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 BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		10 General Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 1,707,956	\$ 329,204	\$ 2,037,160
5800	State Program Revenues	2,862,931	18,019	2,880,950
5900	Federal Program Revenues	-	186,761	186,761
5020	Total Revenues	<u>4,570,887</u>	<u>533,984</u>	<u>5,104,871</u>
EXPENDITURES:				
Current:				
0011	Instruction	2,015,957	67,331	2,083,288
0012	Instructional Resources and Media Services	9,445	-	9,445
0013	Curriculum and Instructional Staff Development	8,083	5,933	14,016
0023	School Leadership	240,032	-	240,032
0031	Guidance, Counseling and Evaluation Services	68,058	-	68,058
0033	Health Services	232	-	232
0034	Student (Pupil) Transportation	188,525	-	188,525
0035	Food Services	7,675	178,549	186,224
0036	Extracurricular Activities	198,889	-	198,889
0041	General Administration	316,588	-	316,588
0051	Facilities Maintenance and Operations	444,190	-	444,190
0052	Security and Monitoring Services	4,906	-	4,906
0053	Data Processing Services	81,885	-	81,885
Debt Service:				
0071	Principal on Long-Term Debt	41,498	135,000	176,498
0072	Interest on Long-Term Debt	6,480	93,397	99,877
Capital Outlay:				
0081	Facilities Acquisition and Construction	56,852	-	56,852
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	369,530	-	369,530
6030	Total Expenditures	<u>4,058,825</u>	<u>480,210</u>	<u>4,539,035</u>
1200	Net Change in Fund Balances	512,062	53,774	565,836
0100	Fund Balance - September 1 (Beginning)	<u>2,287,852</u>	<u>99,072</u>	<u>2,386,924</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 2,799,914</u>	<u>\$ 152,846</u>	<u>\$ 2,952,760</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, 2018

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 565,836
Capital outlay expenditures are capitalized in the government-wide financial statements.	137,967
Depreciation of capital assets is recognized in the government-wide financial statements.	(307,630)
Repayments of principal on bonds and maintenance notes payable are reported as a decrease in liabilities in the government-wide financial statements.	176,498
Amortization of premiums on bonds payable is reported in the Statement of Activities.	8,147
Accrued interest payable on bonds and maintenance notes payable is reported in the government-wide financial statements. The current year decrease is recognized in the Statement of Activities.	1,000
The State of Texas' proportionate share of the district's TRS pension and OPEB expense as determined under the provisions of GASB 68 and 75 is recorded as a revenue and expense in the Statement of Activities. This amount was less than the statutory amount contributed and reported as on-behalf revenue and expenditure in the fund financial statements.	(640,207)
TRS pension and TRS-Care OPEB expense as reported in the Statement of Activities and determined under the provisions of GASB 68 and 75 was less than the amount reported in the fund financial statements.	999,746
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.	(7,898)
Change in Net Position of Governmental Activities	<u><u>\$ 933,459</u></u>

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

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2018

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	\$ 1,548,349	\$ 1,548,349	\$ 1,707,956	\$ 159,607
5800 State Program Revenues	2,378,330	2,681,330	2,862,931	181,601
5020 Total Revenues	3,926,679	4,229,679	4,570,887	341,208
EXPENDITURES:				
Current:				
0011 Instruction	1,984,262	2,044,262	2,015,957	28,305
0012 Instructional Resources and Media Services	5,194	15,194	9,445	5,749
0013 Curriculum and Instructional Staff Development	24,683	19,683	8,083	11,600
0023 School Leadership	241,907	244,407	240,032	4,375
0031 Guidance, Counseling and Evaluation Services	68,286	67,786	68,058	(272)
0033 Health Services	350	350	232	118
0034 Student (Pupil) Transportation	177,883	200,883	188,525	12,358
0035 Food Services	7,197	9,197	7,675	1,522
0036 Extracurricular Activities	166,826	200,826	198,889	1,937
0041 General Administration	299,037	322,037	316,588	5,449
0051 Facilities Maintenance and Operations	418,094	463,094	444,190	18,904
0052 Security and Monitoring Services	3,500	25,000	4,906	20,094
0053 Data Processing Services	81,622	81,622	81,885	(263)
Debt Service:				
0071 Principal on Long-Term Debt	41,498	41,498	41,498	-
0072 Interest on Long-Term Debt	6,480	6,480	6,480	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	66,000	56,852	9,148
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	363,000	417,000	369,530	47,470
6030 Total Expenditures	3,889,819	4,225,319	4,058,825	166,494
1200 Net Change in Fund Balances	36,860	4,360	512,062	507,702
0100 Fund Balance - September 1 (Beginning)	2,287,852	2,287,852	2,287,852	-
3000 Fund Balance - August 31 (Ending)	\$ 2,324,712	\$ 2,292,212	\$ 2,799,914	\$ 507,702

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, 2018

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 61,353
Total Assets	<u>\$ 61,353</u>
LIABILITIES	
Due to Student Groups	\$ 61,353
Total Liabilities	<u>\$ 61,353</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, 2018

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.

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

Other Post-Employment Benefits. The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan 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 OPEB liability, deferred outflow of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

Water Valley Independent School District applies Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. Reporting Entity

The Board 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 Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

B. Government-Wide and Fund Financial Statements – Continued

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.

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.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

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

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.

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

D. Fund Accounting

The District reports the following major governmental fund:

The General Fund – 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.

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.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

E. 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. Bond premiums and discounts are deferred and amortized over the life of the bonds on the straight line basis. Bonds payable are reported net of the applicable bond premium or discount.

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

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. Capital assets, which include 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.

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.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

F. Other Accounting Policies - Continued

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.

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. 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 these amounts.
9. 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 for 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.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

F. Other Accounting Policies – Continued

10. The preparation of financial statements in conformity with GAAP requires the use of management estimates.
11. 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

A. Budgetary Data

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.

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 of Expenditures over Appropriations

None

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

III. Detailed Notes on all Funds and Account Groups

A. Cash, Cash Equivalents and Investments

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair market value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

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.

As of August 31, 2018, the following are the District's cash and cash equivalents with respective maturities and credit rating:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Percent</u>	<u>Year</u>	<u>1-10 Years</u>	<u>Years</u>	<u>Rating</u>
Cash	\$ 975,937	33.0%	\$975,937	\$ 0	\$ 0	N/A
Money Market and FDIC						
Insured Accounts	615,716	21.0%	615,716	0	0	N/A
Investment Pools:						
Tex Pool	1,327,238	46.0%	1,327,238	0	0	AAAm
Total Cash and Cash Equivalents	<u>\$2,918,891</u>		<u>\$2,918,891</u>			

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

A. Cash, Cash Equivalents and Investments- Continued

Investments

District Policies and legal and Contractual Provisions Governing Investments

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 and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas, (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A", (4) no load money market funds with a weighted average maturity of 90 days or less, (5) fully collateralized repurchase agreements, (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit, (7) secured corporate bonds rated not lower than "AA-" or the equivalent, (8) public fund investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Water Valley Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for Water Valley Independent School District are specified below:

Credit Risk: To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limit investments in certain investments to the top ratings issued by nationally recognized statistical rating organizations.

Custodial Credit Risk – Investments: To limit 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 the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they could cause investment risks to be significantly greater in the governmental activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

A. Cash, Cash Equivalents and Investments – Continued

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires that a majority of the investments portfolio to have maturities of less than one year.

Foreign Currency Risk for Investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment.

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.

C. Delinquent Taxes Receivable

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

D. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2018 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Buildings and Improvements	\$10,128,894	\$ 88,871	\$ 0	\$ 10,217,765
Equipment	454,701	6,549	0	461,250
Vehicles	745,312	42,547	(30,900)	756,959
Totals at Historic Cost	11,328,907	137,967	(30,900)	11,435,974
Less Accumulated Depreciation for:				
Buildings and Improvements	(5,249,123)	(239,349)	0	(5,488,472)
Equipment	(334,933)	(17,011)	0	(351,944)
Vehicles	(601,710)	(51,270)	30,900	(622,080)
Total Accumulated Depreciation	(6,185,766)	(307,630)	30,900	(6,462,496)
Governmental Activities Capital Assets, Net	<u>\$ 5,143,141</u>	<u>\$(169,663)</u>	<u>\$ 0</u>	<u>\$ 4,973,478</u>

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

Instruction	\$ 3,569
Student (Pupil) Transportation	51,270
Cocurricular/Extracurricular Activities	54
Food Services	3,728
Plant Maintenance and Operations	<u>249,009</u>
Total Depreciation Expense	<u>\$ 307,630</u>

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

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.

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	\$ 80,000	\$ 1,600,000	
Net Premium	<u>21,603</u>	<u>0</u>	<u>3,275</u>	<u>18,328</u>	
	<u>1,701,603</u>	<u>0</u>	<u>83,275</u>	<u>1,618,328</u>	\$ 80,000
Series 2014 Bonds					
Maturity Value	1,205,000	0	55,000	1,150,000	
Net Premium	<u>34,274</u>	<u>0</u>	<u>4,872</u>	<u>29,402</u>	
	<u>1,239,274</u>	<u>0</u>	<u>59,872</u>	<u>1,179,402</u>	55,000
Series 2015 Maint- enance Tax Note	<u>264,745</u>	<u>0</u>	<u>41,498</u>	<u>223,247</u>	<u>42,515</u>
Totals	<u>\$ 3,205,622</u>	<u>\$ 0</u>	<u>\$ 184,645</u>	<u>\$ 3,020,977</u>	<u>\$ 177,515</u>
Accrued interest payable				<u>8,622</u>	
Total noncurrent liabilities				3,029,599	
Due within one year (including accrued interest payable)				<u>(186,137)</u>	
Due in more than one year				<u>\$ 2,843,462</u>	

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

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, \$1,205,000 Series 2014 Bonds, and \$264,745 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>
2019	\$ 177,515	\$ 96,167	\$ 273,682
2020	178,556	91,750	270,306
2021	189,623	86,483	276,106
2022	190,716	81,040	271,756
2023	201,837	75,582	277,419
2024	155,000	70,110	225,110
2025	160,000	65,385	225,385
2026	160,000	60,260	220,260
2027	170,000	54,723	224,723
2028	175,000	48,498	223,498
2029	185,000	41,810	226,810
2030	190,000	34,848	224,848
2031	200,000	27,594	227,594
2032	205,000	20,042	225,042
2033	210,000	12,305	222,305
2034	<u>225,000</u>	<u>4,195</u>	<u>229,195</u>
Totals	<u>\$ 2,973,247</u>	<u>\$ 870,792</u>	<u>\$ 3,844,039</u>

F. Fund Balances

Fund balances consist of restricted balances which are set aside for retirement of debt of \$122,155 or restricted for federal or state fund grants of \$30,691. Committed fund balance consists of the following amounts which were approved by the Board of Trustees.

Building Construction	\$ 40,000
Transportation	50,000
Technology	<u>100,000</u>
Total	<u>\$ 190,000</u>

The remaining fund balance of \$2,609,914 is unassigned and available for operations of the next year.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

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.

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.

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, 2018

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 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Water Valley ISD 2018 Employer Contributions		\$ 57,886
Water Valley ISD 2018 Member Contributions		\$ 173,121
Water Valley ISD 2017 NECE On-Behalf Contributions		\$ 128,364

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, 2018

G. Defined Benefit Pension Plan – Continued

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method 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, 2017 are summarized below:

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENT – CONTINUED
YEAR ENDED AUGUST 31, 2018

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 2017 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	\$ 776,698	\$ 460,729	\$ 197,634

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, the District reported a liability of \$460,729 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	\$ 460,729
State's proportionate share that is associated with the District	1,254,955
Total	<u>\$ 1,715,684</u>

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2018

G. Defined Benefit Pension Plan – Continued

The net pension liability was measured as of August 31, 2017 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, 2016 through August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0014409216% which was a decrease of 0.0000330875% from its proportion measured as of August 31, 2016.

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:

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, 2018, the District recognized pension expense of \$176,003 and revenue of \$95,723 for support provided by the State in the Government-wide Statement of Activities. The expense includes the District's share of GASB 68 expense as well as the District's proportionate share of the State's on-behalf expense.

At August 31, 2018 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	\$ 6,741	\$ 24,847
Changes in actuarial assumptions	20,987	12,015
Differences between projected and actual investment earnings	0	33,577
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	<u>142,525</u>	<u>10,078</u>
Total as of August 31, 2017 measurement date	170,253	80,517
Contributions paid to TRS subsequent to the measurement date, net of surcharge reimbursements	<u>51,431</u>	<u>0</u>
Total as of August 31, 2018	<u>\$ 221,684</u>	<u>\$ 80,517</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,	<u>Pension Expense Amount</u>
2019	\$ 19,105
2020	\$ 48,515
2021	\$ 16,846
2022	\$ 6,634
2023	\$ 377
Thereafter	\$ (1,741)

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

G. Defined Benefit Pension Plan - Continued

The net pension liability of \$460,729 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 Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$ 557,006	\$ (49,052)	\$ 47,225	\$ 460,729

H. Defined Other Post-Employment Benefit Plan

Plan Description

Water Valley Independent School District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 43,885,784,621
Less: plan fiduciary net position	<u>339,535,986</u>
Net OPEB Liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total Liability	0.91%

Benefits Provided

TRS-Care provides a basic health insurance coverage (TRS-CARE 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

H. Defined Other Post-Employment Benefit Plans – Continued

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A & B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates			
Effective Sept. 1, 2016 – Dec. 31, 2017			
	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree or surviving spouse	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree or surviving spouse and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

<u>Contribution Rates</u>		
	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
Water Valley ISD – 2017 Employer Contributions		\$ 22,770
Water Valley ISD – 2017 Member Contributions		\$ 14,614
Water Valley ISD – 2017 NECE On-Behalf Contributions		\$ 20,410

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS Care OPEB program). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

H. Defined Other Post-Employment Benefit Plans – Continued

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$212.0 million in fiscal year 2018.

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS Pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate *	3.42% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost.
Payroll Growth Rate	2.50%
Projected Salary Increases **	3.50% to 9.50% **
Healthcare Trend Rates ***	4.50% to 12.00% ***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

**Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds are reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.*

***Includes inflation at 2.50%*

****Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.*

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

H. Defined Other Post-Employment Benefit Plans- Continued

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active 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 OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payment to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.

Sensitivity of the Net OPEB Liability:

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

	1% Decrease in Discount Rate <u>(2.42%)</u>	Current Single Discount Rate <u>(3.42%)</u>	1% Increase in Discount Rate <u>(4.2%)</u>
District’s proportionate share of net OPEB Liability	\$ 1,286,122	\$ 1,089,705	\$ 931,830

Healthcare cost Trend Rates Sensitivity Analysis

The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate:

	1% Decrease <u></u>	Current Healthcare cost Trend Rate <u></u>	1% Increase <u></u>
District’s proportionate share of net OPEB liability	\$ 907,288	\$ 1,089,705	\$ 1,329,059

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2018, the District reported a liability of \$1,089,705 for its proportionate share of the TRS’s net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s proportionate share of the collective net OPEB liability	\$ 1,089,705
State’s proportionate share that is associated with the District	<u>1,707,157</u>
Total	<u>\$ 2,796,862</u>

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

H. Defined Other Post-Employment Benefit Plans – Continued

The net OPEB liability was measured as of August 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contribution of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the District's proportion of the collective net OPEB liability was 0.0025058611%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period.

1. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

2018 thresholds of \$850/2,292 were indexed annual by 2.50%

Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax

There was no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55

Results indicate that the value of the excise tax would be reasonably represented by a 25 basis-point addition to the long term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increase or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provision or applicable law.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

H. Defined Other Post-Employment Benefit Plans - Continued

There were not changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

For the year ended August 31, 2018, the District recognized OPEB expense of \$ (936,693) and revenue of \$(571,260) for support provided by the State. The negative net revenue of \$255,587 is reflected on the Statement of Activities under the heading of Operating Grants and Contributions. For a detailed explanation of this see footnote P.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflow Of Resources	Deferred Inflow of Resources
Differences between expected and actual experience	\$ 0	\$ 22,748
Changes in actuarial assumptions	0	433,077
Differences between projected and actual investment		
Earnings	166	0
Changes in proportion and difference between the		
District's contributions and the proportionate		
share of contributions	6	0
Total as of August 31, 2017 measurement date	\$ 172	\$ 455,825
Contributions paid to TRS subsequent to the measurement date	22,955	0
Total as of August 31, 2018 fiscal year end	<u>\$ 23,127</u>	<u>\$ 455,825</u>

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

<u>Year ended August 31,</u>	<u>Amount</u>
2019	\$ (60,214)
2020	(60,214)
2021	(60,214)
2022	(60,214)
2023	(60,165)
Thereafter	(154,992)

The net OPEB liability of \$1,089,705 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 Balance	Additions	Retirements	Ending Balance
Net OPEB Liability	<u>\$ 1,923,819</u>	<u>\$ (821,086)</u>	<u>\$ 13,028</u>	<u>\$ 1,089,705</u>

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

I. Active Employee Health Care Coverage

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

J. 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, 2018, 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	\$ 541,123	\$ 0	\$ 2,930	\$ 544,053
Debt Service	0	0	473	473
Special Revenue	0	12,827	0	12,827
Totals	<u>\$ 541,123</u>	<u>\$12,827</u>	<u>\$ 3,403</u>	<u>\$ 557,353</u>

K. 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	\$ 1,605,560	\$ 260,572	\$ 1,866,132
Cafeteria Sales	0	66,920	66,920
Investment Income	34,398	1,712	36,110
Co-Curricular Activities	13,290	0	13,290
Rent	3,600	0	3,600
Gifts and Donations	1,000	0	1,000
Other	<u>50,108</u>	<u>0</u>	<u>50,108</u>
Total	<u>\$ 1,707,956</u>	<u>\$ 329,204</u>	<u>\$ 2,037,160</u>

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

L. 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, 2018 was \$8,852.

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

Unpaid claims as of September 1, 2017	\$ 16,709
Incurring claims	4,224
Payments	<u>(2,019)</u>
Unpaid claims as of August 31, 2018	<u>\$ 18,914</u>

M. 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 \$249,512 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 \$ 26,000.

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	\$ 296
Carl D Perkins	2,320

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2018

N. Prior Period Adjustment

During the year ended August 31, 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$1,910,791 which resulted in a restated beginning net position balance of \$2,178,788.

O. Negative Operating Grants and Contributions –Statement of Activities

Expense activity is required to be recorded by districts who are participants in cost-sharing pension OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the current year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded.

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11- Instruction	\$ (233,794)	\$ (372,375)	\$ 138,581
13- Curriculum Development and Inst Staff Develop	5,933	0	5,933
23- School Leadership	(36,780)	(45,620)	8,730
31- Guidance, Counseling and Evaluation Services	(12,188)	(15,072)	2,884
34- Student (Pupil) Transportation	(16,777)	(20,748)	3,971
35- Food Services	111,250	(15,960)	127,210
36- Extracurricular Activities	(8,785)	(10,864)	2,079
41- General Administration	(32,795)	(40,556)	7,761
51- Facility Maintenance and Operation	(29,062)	(35,938)	6,876
53- Data Processing Services	(11,424)	(14,127)	2,703
99- Other Intergovernmental Charges	7,358	0	7,358
	<u>\$ (257,174)</u>	<u>\$ (571,260)</u>	<u>\$ 314,086</u>

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, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.001440922%	0.001474009%	0.0015314%	0.0006729%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 460,729	\$ 557,006	\$ 541,330	\$ 179,741
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	1,254,955	1,524,713	1,396,323	1,280,784
Total	<u>\$ 1,715,684</u>	<u>\$ 2,081,719</u>	<u>\$ 1,937,653</u>	<u>\$ 1,460,525</u>
District's Covered Payroll	\$ 2,130,024	\$ 2,116,758	\$ 1,980,095	\$ 2,017,146
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	21.63%	26.31%	27.34%	8.91%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2017 for year 2018, August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only four 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'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ 57,886	\$ 47,225	\$ 46,833	\$ 45,346
Contribution in Relation to the Contractually Required Contribution	(57,886)	(47,225)	(46,833)	(45,346)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 2,248,319	\$ 2,130,024	\$ 2,116,758	\$ 1,980,095
Contributions as a Percentage of Covered Payroll	2.29%	2.22%	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 of the preceding year.

Note: In accordance with GASB 68, Paragraph 138, only four 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 THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.002505861%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 1,089,705
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	1,707,157
Total	<u>\$ 2,796,862</u>
District's Covered Payroll	\$ 2,130,024
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	51.16%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the year for which this information is available. Additional information will be added until 10 years of data are available and reported.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2018

	2018
Contractually Required Contribution	\$ 22,770
Contribution in Relation to the Contractually Required Contribution	(22,770)
Contribution Deficiency (Excess)	\$ -0-
District's Covered Payroll	\$ 2,248,319
Contributions as a Percentage of Covered Payroll	1.02%

Note: GASB Codification, Vol. 2, P50.238 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 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2018

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

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

Other Post-Employment Benefit Plan

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

1. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

REQUIRED TEA SCHEDULES

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2018

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
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	1.170000	0.190000	120,092,684
2017	1.170000	0.190000	118,879,338
2018 (School year under audit)	1.170000	0.190000	133,628,118
1000 TOTALS			

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 14,725	\$ -	\$ 57	\$ -	\$ (58)	\$ 14,610
2,379	-	4	-	(3)	2,372
852	-	-	-	-	852
1,288	-	173	30	-	1,085
3,393	-	2,181	376	(247)	589
4,218	-	2,384	387	(26)	1,421
11,955	-	3,601	585	(219)	7,550
24,282	-	12,396	2,013	(1,542)	8,331
27,170	-	13,551	2,199	1,120	12,540
-	1,817,342	1,531,424	248,693	(5,051)	32,174
<u>\$ 90,262</u>	<u>\$ 1,817,342</u>	<u>\$ 1,565,771</u>	<u>\$ 254,283</u>	<u>\$ (6,026)</u>	<u>\$ 81,524</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, 2018

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	\$ 68,000	\$ 64,882	\$ 66,920	\$ 2,038
5800 State Program Revenues	750	1,088	1,088	-
5900 Federal Program Revenues	116,601	111,799	123,070	11,271
5020 Total Revenues	185,351	177,769	191,078	13,309
EXPENDITURES:				
0035 Food Services	184,591	199,591	178,549	21,042
6030 Total Expenditures	184,591	199,591	178,549	21,042
1200 Net Change in Fund Balances	760	(21,822)	12,529	34,351
0100 Fund Balance - September 1 (Beginning)	18,162	18,162	18,162	-
3000 Fund Balance - August 31 (Ending)	\$ 18,922	\$ (3,660)	\$ 30,691	\$ 34,351

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, 2018

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	\$ 236,166	\$ 264,724	\$ 262,284	\$ (2,440)
5800 State Program Revenues	7,358	7,358	7,358	-
5020 Total Revenues	243,524	272,082	269,642	(2,440)
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	135,000	135,000	135,000	-
0072 Interest on Long-Term Debt	93,398	93,398	93,397	1
6030 Total Expenditures	228,398	228,398	228,397	1
1200 Net Change in Fund Balances	15,126	43,684	41,245	(2,439)
0100 Fund Balance - September 1 (Beginning)	80,910	80,910	80,910	-
3000 Fund Balance - August 31 (Ending)	\$ 96,036	\$ 124,594	\$ 122,155	\$ (2,439)

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, 2018, 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 October 25, 2018.

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.

A handwritten signature in black ink that reads "Reed, McKee & Co., P.C." in a cursive, slightly stylized font.

Reed, McKee & Co., P.C.
October 25, 2018

WATER VALLEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2018

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 2018

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.	
SF11	Net Pension Assets (1920) at fiscal year-end.	
SF12	Net Pension Liabilities (2540) at fiscal year-end.	460729
SF13	Pension Expense (6147) at fiscal year-end.	