

TERRELL INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2017

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Introductory Section

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Terrell Independent School District
Annual Financial Report
For The Year Ended August 31, 2017

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Terrell Independent School District
Annual Financial Report
For The Year Ended August 31, 2017

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CERTIFICATE OF BOARD

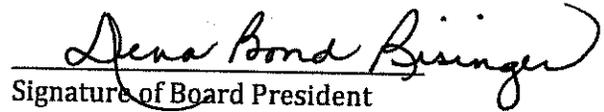
Name of School District
Terrell Independent School District

County
Kaufman

Co. - District Number
129-906

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the Board of Trustees of such school district on the 25 day of January, 2018.


Signature of Board Secretary


Signature of Board President

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

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Financial Section

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MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

Independent Auditor's Report

To the Board of Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Terrell Independent School District ("the District") as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 Terrell Independent School District as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

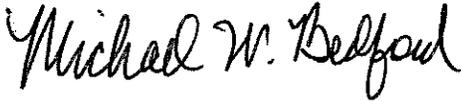
The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.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

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2018 on our consideration of Terrell 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 Terrell Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael W. Bedford". The signature is written in a cursive, flowing style.

Michael W. Bedford, CPA

Terrell, TX
January 25, 2018

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**TERRELL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2017
(UNAUDITED)**

This section of Terrell Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2017. Please read this narrative in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of Terrell Independent School District exceeded its liabilities as of August 31, 2017 by \$14,274,882 (net position).
- The District's total government-wide net position increased by \$1,728,182.
- At the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$35,273,350
- The general fund reported a fund balance of \$13,350,783, an increase of \$1,725,706 over the prior fiscal year.

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 first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The District implemented Government Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and early implementation of GASB Statement 65, Items Previously Reported as Assets and Liabilities, which change the structure of the balance sheet and changed the Statement of Net Assets to the Statement of Net Position. A deferred outflow of resources is reported in a separate section following assets, while a deferred inflow of resources is reported in a separate section following liabilities. Statement 65 reclassifies items previously reported as assets and liabilities into deferred outflows and inflows of resources. It also limits the use of the term "deferred" to only items reported as deferred outflows of resources or deferred inflows of resources.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The District's administration establishes other funds to control and manage money for particular purposes (like campus activities).

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- We use *internal service funds* to report the self-insured workers' compensation fund and print shop activities for the District.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Our analysis presents both current and prior year data and focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased from \$12,546,700 to \$14,274,882.

Table I
Terrell Independent School District
NET POSITION

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Current and other assets	40,285,916	61,573,023
Capital assets	77,368,973	55,318,184
Total assets	117,654,889	116,891,207
 Deferred Outflows	 4,024,868	 4,187,090
Long-term liabilities	87,693,824	90,922,991
Other liabilities	19,120,411	16,881,772
Total liabilities	106,814,235	107,804,763
 Deferred Inflows	 590,640	 726,834
 Net Position:		
Invested in capital assets net of related debt	-14,982,333	-39,942,052
Restricted	21,662,476	45,789,312
Unrestricted	7,594,739	6,699,440
Total net position	14,274,882	12,546,700

Changes in Net Position

The District's total revenues were \$51,343,140. A significant portion, 44.0% of the District's revenue comes from taxes, while 37.99% comes from state aid-grants and contributions. The total cost of all programs and services was \$49,614,958; of these costs 49.5% are instruction, and instructional resources and media services.

Table II
Terrell Independent School District
CHANGES IN NET POSITION

	Governmental Activities	
	<u>2017</u>	<u>2016</u>
Revenue:		
Program Revenues		
Charges for Services	679,202	747,232
Operating Grants and Contributions	8,145,841	7,752,997
General Revenues		
Property Taxes	22,615,756	20,098,830
State Aid – Grants and Contributions	19,504,417	20,091,436
Miscellaneous	397,924	161,853
Total Revenue	<u>51,343,140</u>	<u>48,852,348</u>
Expenses:		
Instruction	24,023,151	24,442,012
Instructional Resources and Media Services	531,834	481,851
Curriculum and Staff Development	1,160,674	1,192,765
Instructional Leadership	451,046	517,650
School Leadership	2,511,574	2,378,505
Guidance, Counseling and Evaluation Services	1,561,673	1,544,072
Social Work Services	337,687	321,632
Health Services	451,109	407,631
Student Transportation	1,911,448	1,749,420
Food Services	2,771,676	2,655,198
Extracurricular Activities	1,989,171	1,777,317
General Administration	1,654,059	1,699,144
Plant Maintenance And Operation	4,752,118	4,215,354
Security and Monitoring Services	481,210	482,849
Data Processing Services	639,897	662,799
Community Services	249,714	199,438
Interest on Long-term Debt	3,834,281	2,594,117
Bond Issuance Costs and Fees	41,267	548,907
Other Intergovernmental Charges	261,369	244,975
Total Expenses	<u>49,614,958</u>	<u>48,115,636</u>
Change in Net Position	1,728,182	736,712
Net Position-Beginning	12,546,700	11,809,988
Prior Period Adjustment	0.00	0.00
Net Position-Beginning, as Restated	<u>12,546,700</u>	<u>11,809,988</u>
Net Position-Ending	<u>14,274,882</u>	<u>12,546,700</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$35,273,350 which is \$22,584,365 lower than last year's total of \$57,857,715. Included in this year's change in fund balance is an increase of \$1,725,706 in the District's General Fund.

Over the course of the year, the District revised its budget two times. With these adjustments, actual General Fund expenditures were \$1,152,231 below final budget amounts and revenues were \$1,436,156 above the final budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2017, the District had \$125,471,987 invested in a broad range of capital assets, including land, equipment, and buildings and improvements. This amount represents a net increase of \$24,757,195 above last year.

At year-end the District had \$87,140,799 in debt outstanding as compared to \$89,866,420 from the last fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The 2017 tax rate is \$1.5997 per \$100 taxable value (\$1.17 for Maintenance and Operations and \$.4297 for Debt Service).

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office, Terrell Independent School District, 700 N. Catherine Street, Terrell, Texas 75160, (972) 563-7504.

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Basic Financial Statements

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

1

Data Control Codes	Governmental Activities
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 5,134,571
1120 <i>Current Investments</i>	31,192,765
1225 <i>Property Taxes Receivable (Net)</i>	819,279
1240 <i>Due from Other Governments</i>	3,101,813
1290 <i>Other Receivables (Net)</i>	10,197
1300 <i>Inventories</i>	23,287
1410 <i>Unrealized Expenses</i>	4,004
Capital Assets:	
1510 <i>Land</i>	3,568,261
1520 <i>Buildings and Improvements, Net</i>	71,714,419
1530 <i>Furniture and Equipment, Net</i>	2,086,293
1000 Total Assets	<u>117,654,889</u>
DEFERRED OUTFLOWS OF RESOURCES:	
	294,363
1705 <i>Deferred Outflow Related to Pensions</i>	3,730,505
1700 Total Deferred Outflows of Resources	<u>4,024,868</u>
LIABILITIES:	
2110 <i>Accounts Payable</i>	2,764
2140 <i>Interest Payable</i>	166,844
2165 <i>Accrued Liabilities</i>	2,653,048
2180 <i>Due to Other Governments</i>	93,248
2300 <i>Unearned Revenue</i>	176,908
2400 <i>Payable from Restricted Assets</i>	1,001,039
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	4,785,000
2502 <i>Due in More Than One Year</i>	87,693,824
2540 <i>Net Pension Liability</i>	10,241,560
2000 Total Liabilities	<u>106,814,235</u>
DEFERRED INFLOWS OF RESOURCES:	
2605 <i>Deferred Inflow Related to Pensions</i>	590,640
2600 Total Deferred Inflows of Resources	<u>590,640</u>
NET POSITION:	
3200 Net Investment in Capital Assets	(14,982,333)
Restricted For:	
3850 <i>Debt Service</i>	1,057,740
3860 <i>Capital Projects</i>	20,499,338
3870 <i>Campus Activities</i>	61,003
	Other Purposes
3890 <i>Nonexpendable</i>	44,395
3900 <i>Unrestricted</i>	7,594,739
3000 Total Net Position	<u>\$ 14,274,882</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 24,023,151	\$ 27,469	\$ 4,078,108	\$ (19,917,574)
12	Instructional Resources and Media Services	531,834	--	28,495	(503,339)
13	Curriculum and Staff Development	1,160,674	--	330,679	(829,995)
21	Instructional Leadership	451,046	--	27,225	(423,821)
23	School Leadership	2,511,574	9,021	224,259	(2,278,294)
31	Guidance, Counseling, & Evaluation Services	1,561,673	--	742,748	(818,925)
32	Social Work Services	337,687	--	91,135	(246,552)
33	Health Services	451,109	--	95,272	(355,837)
34	Student Transportation	1,911,448	--	21,965	(1,889,483)
35	Food Service	2,771,676	459,074	2,074,744	(237,858)
36	Cocurricular/Extracurricular Activities	1,989,171	130,026	56,187	(1,802,958)
41	General Administration	1,654,059	--	107,002	(1,547,057)
51	Facilities Maintenance and Operations	4,752,118	53,612	101,508	(4,596,998)
52	Security and Monitoring Services	481,210	--	21,827	(459,383)
53	Data Processing Services	639,897	--	23,114	(616,783)
61	Community Services	249,714	--	24,161	(225,553)
72	Interest on Long-term Debt	3,834,281	--	97,412	(3,736,869)
73	Bond Issuance Costs and Fees	41,267	--	--	(41,267)
99	Other Intergovernmental Charges	261,369	--	--	(261,369)
TG	Total Governmental Activities	<u>49,614,958</u>	<u>679,202</u>	<u>8,145,841</u>	<u>(40,789,915)</u>
TP	Total Primary Government	<u>\$ 49,614,958</u>	<u>\$ 679,202</u>	<u>\$ 8,145,841</u>	<u>(40,789,915)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				16,583,773
DT	Property Taxes, Levied for Debt Service				6,031,983
IE	Investment Earnings				332,475
GC	Grants and Contributions Not Restricted to Specific Progra				19,504,417
MI	Miscellaneous				65,449
TR	Total General Revenues				<u>42,518,097</u>
CN	Change in Net Position				<u>1,728,182</u>
NB	Net Position - Beginning				12,546,700
NE	Net Position - Ending				<u>\$ 14,274,882</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service
ASSETS:		
1110	\$ 3,444,814	\$ 182,784
1120	9,386,603	573,857
1225	659,260	160,019
1240	2,582,915	5,879
1260	231,681	226,912
1290	2,903	--
1300	23,287	--
1410	4,004	--
1000	<u>16,335,467</u>	<u>1,149,451</u>
LIABILITIES:		
Current Liabilities:		
2110	\$ 2,764	\$ --
2150	81,722	--
2160	1,715,204	--
2170	226,912	--
2180	1,538	91,710
2200	274,164	--
2300	23,120	--
2400	--	--
2000	<u>2,325,424</u>	<u>91,710</u>
DEFERRED INFLOWS OF RESOURCES:		
	659,260	160,019
2600	<u>659,260</u>	<u>160,019</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410	23,287	--
3425	--	--
3430	4,004	--
Restricted Fund Balances:		
3450	--	--
3480	--	897,722
3490	--	--
Committed Fund Balances:		
3545	--	--
3600	13,323,492	--
3000	<u>13,350,783</u>	<u>897,722</u>
4000	<u>\$ 16,335,467</u>	<u>\$ 1,149,451</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 1,004,806	\$ 331,592	\$ 4,963,996
20,725,195	44,395	30,730,050
--	--	819,279
--	513,019	3,101,813
--	--	458,593
--	6,243	9,146
--	--	23,287
--	--	4,004
<u>21,730,001</u>	<u>895,249</u>	<u>40,110,168</u>
\$ --	\$ --	\$ 2,764
--	--	81,722
--	188,321	1,903,525
229,624	2,057	458,593
--	--	93,248
--	25,576	299,740
--	153,788	176,908
1,001,039	--	1,001,039
<u>1,230,663</u>	<u>369,742</u>	<u>4,017,539</u>
--	--	819,279
<u>--</u>	<u>--</u>	<u>819,279</u>
--	--	23,287
--	44,395	44,395
--	--	4,004
--	420,109	420,109
--	--	897,722
20,499,338	--	20,499,338
--	61,003	61,003
--	--	13,323,492
<u>20,499,338</u>	<u>525,507</u>	<u>35,273,350</u>
\$ <u>21,730,001</u>	\$ <u>895,249</u>	\$ <u>40,110,168</u>

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

Total fund balances - governmental funds balance sheet	\$ 35,273,350
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	77,361,320
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	819,279
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	273,932
Payables for bond principal which are not due in the current period are not reported in the funds.	(63,663,602)
Payables for interest which are not due in the current period are not reported in the funds.	(19,932,065)
Payables for notes and time warrants which are not due in the current period are not reported in the funds.	(9,050,000)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(10,241,560)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(590,640)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	4,024,868
	<hr/>
Net position of governmental activities - Statement of Net Position	<u>\$ 14,274,882</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	50 Debt Service
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 16,979,541	\$ 6,040,956
5800 <i>State Program Revenues</i>	20,571,416	97,412
5900 <i>Federal Program Revenues</i>	701,986	-
5020 Total Revenues	<u>38,252,943</u>	<u>6,138,368</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	18,404,298	--
0012 <i>Instructional Resources and Media Services</i>	464,350	--
0013 <i>Curriculum and Staff Development</i>	835,017	--
0021 <i>Instructional Leadership</i>	431,024	--
0023 <i>School Leadership</i>	2,298,496	--
0031 <i>Guidance, Counseling, & Evaluation Services</i>	1,479,555	--
0032 <i>Social Work Services</i>	246,476	--
0033 <i>Health Services</i>	340,976	--
0034 <i>Student Transportation</i>	1,883,219	--
0035 <i>Food Service</i>	-	--
0036 <i>Cocurricular/Extracurricular Activities</i>	1,464,843	--
0041 <i>General Administration</i>	1,565,445	--
0051 <i>Facilities Maintenance and Operations</i>	4,637,169	--
0052 <i>Security and Monitoring Services</i>	541,018	--
0053 <i>Data Processing Services</i>	595,345	--
0061 <i>Community Services</i>	207,332	--
0071 <i>Principal on Long-term Debt</i>	490,000	2,211,520
0072 <i>Interest on Long-term Debt</i>	306,300	3,774,684
0073 <i>Bond Issuance Costs and Fees</i>	800	1,175
0081 <i>Capital Outlay</i>	75,525	--
0099 <i>Other Intergovernmental Charges</i>	261,369	--
6030 Total Expenditures	<u>36,528,557</u>	<u>5,987,379</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,724,386</u>	<u>150,989</u>
Other Financing Sources and (Uses):		
7912 <i>Sale of Real or Personal Property</i>	1,320	--
7080 Total Other Financing Sources and (Uses)	<u>1,320</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>1,725,706</u>	<u>150,989</u>
0100 Fund Balances - Beginning	<u>11,625,077</u>	<u>746,733</u>
3000 Fund Balances - Ending	<u>\$ 13,350,783</u>	<u>\$ 897,722</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 224,689	\$ 672,343	\$ 23,917,529
--	477,571	21,146,399
--	5,379,684	6,081,670
<u>224,689</u>	<u>6,529,598</u>	<u>51,145,598</u>
--	3,288,234	21,692,532
--	10,023	474,373
--	287,301	1,122,318
--	8,032	439,056
--	122,539	2,421,035
--	27,026	1,506,581
--	80,885	327,361
--	81,303	422,279
--	21,991	1,905,210
--	2,693,839	2,693,839
--	33,613	1,498,456
--	--	1,565,445
--	15,286	4,652,455
--	--	541,018
--	--	595,345
--	17,426	224,758
--	--	2,701,520
--	--	4,080,984
--	--	1,975
24,527,846	--	24,603,371
--	--	261,369
<u>24,527,846</u>	<u>6,687,498</u>	<u>73,731,280</u>
<u>(24,303,157)</u>	<u>(157,900)</u>	<u>(22,585,682)</u>
--	--	1,320
--	--	1,320
<u>(24,303,157)</u>	<u>(157,900)</u>	<u>(22,584,362)</u>
44,802,495	683,407	57,857,712
<u>\$ 20,499,338</u>	<u>\$ 525,507</u>	<u>\$ 35,273,350</u>

TERRELL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

Net change in fund balances - total governmental funds	\$ (22,584,362)
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	24,907,190
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,848,667)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(57,982)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,211,521
Repayment of notes and time warrants principal is an expenditure in the funds but is not an expense in the SC	490,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	143,258
(Increase) decrease in accrued interest from beginning of period to end of period.	64,153
The net revenue (expense) of internal service funds is reported with governmental activities.	(133,700)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource c	1,402,535
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(1,865,764)
	<hr/>
Change in net position of governmental activities - Statement of Activities	<u>\$ 1,728,182</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
AUGUST 31, 2017

Data Control Codes	Internal Service Funds
ASSETS:	
Current Assets:	
1110 <i>Cash and Cash Equivalents</i>	\$ 170,575
1120 <i>Investments</i>	462,715
<i>Receivables:</i>	
1290 <i>Other Receivables (net)</i>	1,139
Total Current Assets	<u>634,429</u>
Noncurrent Assets:	
Capital Assets:	
1530 <i>Furniture and Equipment</i>	106,450
1570 <i>Accumulated Depreciation</i>	<u>(98,798)</u>
Total Noncurrent Assets	7,652
1000 Total Assets	<u>642,081</u>
LIABILITIES:	
Current Liabilities:	
2170 <i>Due to Other Funds</i>	\$ 88
2200 <i>Accrued Expenses</i>	<u>368,061</u>
Total Current Liabilities	368,149
2000 Total Liabilities	<u>368,149</u>
NET POSITION:	
3900 <i>Unrestricted</i>	<u>273,932</u>
3000 Total Net Position	<u>\$ 273,932</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Internal Service Funds
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 316,453
5020	Total Revenues	<u>316,453</u>
	OPERATING EXPENSES:	
6100	<i>Payroll Costs</i>	73,928
6200	<i>Professional and Contracted Services</i>	164,745
6300	<i>Supplies and Materials</i>	38,951
6400	<i>Other Operating Costs</i>	175,644
6030	Total Expenses	<u>453,268</u>
	Operating Income (Loss)	<u>(136,815)</u>
	NON-OPERATING REVENUES (EXPENSES):	
7955	<i>Earnings from Temp. Deposits and Investments</i>	3,114
8030	Total Non-operating Revenues (Expenses)	<u>3,114</u>
1300	Change in Net Position	(133,701)
0100	Total Net Position - Beginning	407,633
3300	Total Net Position - Ending	<u>\$ 273,932</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 57,389
<i>Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds</i>	259,093
<i>Cash Payments to Employees for Services</i>	(73,928)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(371,594)
Net Cash Provided (Used) by Operating Activities	<u>(129,040)</u>
Cash Flows from Non-capital Financing Activities:	
<i>Transfers From (To) Other Funds</i>	9,072
Net Cash Provided (Used) by Non-capital Financing Activities	<u>9,072</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	3,114
Net Cash Provided (Used) for Investing Activities	<u>3,114</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(116,854)
Cash and Cash Equivalents at Beginning of Year	750,145
Cash and Cash Equivalents at End of Year	<u>\$ 633,291</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (133,701)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	7,735
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	9,099
<i>Increase (Decrease) in Interfund Receivables</i>	--
<i>Increase (Decrease) in Accrued Expenses</i>	13
<i>Increase (Decrease) in Unearned Revenue</i>	--
Total Adjustments	<u>16,847</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (116,855)</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes		Agency Fund	Student Activity
	ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 203,935	
1000	Total Assets	203,935	
	LIABILITIES:		
	Current Liabilities:		
2110	<i>Accounts Payable</i>	\$ 2,283	
2190	<i>Due to Student Groups</i>	201,652	
2000	Total Liabilities	203,935	
	NET POSITION:		
3000	Total Net Position	\$ --	

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

A. Summary of Significant Accounting Policies

The basic financial statements of Terrell Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital Projects Fund: This capital projects fund accounts for the resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities and procurement of equipment necessary for providing educational programs for all students within the District.

In addition, the District reports the following fund types:

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. 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. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

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 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

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	7-20
Equipment	3-20

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

f. Receivable and Payable Balances

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.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

There are no significant receivables which are not scheduled for collection within one year of year end.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

k. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

l. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

4. Pensions

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

At August 31, 2017 the District reported the following:

Net Pension Asset	\$	--
Net Pension Liability	\$	10,241,560

B. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,329,794 and the bank balance was \$8,790,495. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2017

principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2017 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	30 days	\$ 3,383,210
Lone Star Investment Pool:		
Government Overnight	22 days	27,809,555
Total Investments		<u>\$ 31,192,765</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At August 31, 2017, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

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This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal 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 persons 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 investment 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 2a7-like, in which case they are reported at share value. A 2a7-like 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.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to

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TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

C. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,492,735	\$ 75,525	--	\$ 3,568,260
Construction in progress	229,624	24,527,846	--	24,757,470
Total capital assets not being depreciated	<u>3,722,359</u>	<u>24,603,371</u>	<u>--</u>	<u>28,325,730</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	91,726,038	84,205	149,995	91,660,248
Equipment	5,266,395	219,614	--	5,486,009
Total capital assets being depreciated	<u>96,992,433</u>	<u>303,819</u>	<u>149,995</u>	<u>97,146,257</u>
Less accumulated depreciation for:				
Buildings and improvements	(42,409,002)	(2,444,292)	(149,995)	(44,703,299)
Equipment	(2,987,605)	(412,110)	--	(3,399,715)
Total accumulated depreciation	<u>(45,396,607)</u>	<u>(2,856,402)</u>	<u>(149,995)</u>	<u>(48,103,014)</u>
Total capital assets being depreciated, net	51,595,826	(2,552,583)	--	49,043,243
Governmental activities capital assets, net	<u>\$ 55,318,185</u>	<u>\$ 22,050,788</u>	<u>\$ --</u>	<u>\$ 77,368,973</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,803,949
Instructional Resources and Media Services	49,991
Curriculum and Staff Development	7,973
Instructional Leadership	773
School Leadership	25,263
Guidance, Counseling, & Evaluation Services	16,195
Social Work Services	636
Health Services	18,206
Student Transportation	6,239
Food Services	130,260
Extracurricular Activities	492,109
General Administration	64,865
Plant Maintenance and Operations	139,858
Security and Monitoring Services	41,921
Data Processing Services	35,738
Community Services	22,426
	<u>\$ 2,856,402</u>

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D. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2017, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Food Service Fund	\$ 2,013	Short-term amount
General Fund	Capital Projects Fund	229,624	Capital projects expenditures
Debt Service Fund	General Fund	226,912	Short-term amount
	Total	<u>\$ 458,593</u>	

All amounts due are scheduled to be repaid within one year.

E. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2017, are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 60,501,098	\$ --	\$ 2,211,520	\$ 58,289,578	\$ 2,157,168
Accreted interest payable	19,825,322	1,983,380	2,043,481	19,765,221	2,132,832
Sub-Total Bonds	<u>80,326,420</u>	<u>1,983,380</u>	<u>4,255,001</u>	<u>78,054,799</u>	<u>4,290,000</u>
Maintenance Tax Notes	8,540,000	--	245,000	8,295,000	245,000
Time warrants	1,000,000	--	245,000	755,000	250,000
Issuance premiums/discounts	5,556,574	--	182,550	5,374,025	--
Total governmental activities	<u>\$ 95,422,994</u>	<u>\$ 1,983,380</u>	<u>\$ 4,927,551</u>	<u>\$ 92,478,824</u>	<u>\$ 4,785,000</u>

Bonded debt will be paid by the Debt Service Fund, and the Maintenance Tax Notes and Time Warrants will be paid by the General Fund. After adoption of GASB 65, the deferred amounts on refunding are now reported as deferred outflows of resources.

Maintenance Tax Notes and Time Warrants

On February 20, 2014, the District issued \$8,560,000 in Terrell Independent School District Maintenance Tax Notes, Series 2014 with interest rates of 2% to 4% to fund payment for renovations to existing District facilities and the costs of issuance on the Notes.

On February 20, 2014, the District issued \$1,000,000 in Terrell Independent School District Time Warrant, Series 2014 with an interest rate of 0.99% to fund payment for renovations to existing District facilities and the costs of issuance of the Time Warrant.

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2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2017, are as follows:

Bonds Payable

Debt service requirements on bonded debt at August 31, 2017, are as follows:

Year Ending August 31,	Bonded Long-Term Debt		
	Principal	Interest	Total
2018	\$ 2,157,168	\$ 3,835,982	\$ 5,993,150
2019	1,675,155	3,899,695	5,574,850
2020	1,605,408	3,968,942	5,574,350
2021	1,542,648	4,031,053	5,573,701
2022	1,489,290	4,082,560	5,571,850
2023-2027	6,741,674	21,128,976	27,870,650
2028-2032	6,673,235	19,061,514	25,734,749
2031-2032	10,795,000	6,429,000	17,224,000
Totals	<u>\$ 58,289,578</u>	<u>\$ 71,826,522</u>	<u>\$ 130,116,100</u>

Description	Interest Rates	Original Amount	Outstanding Balance
Unlimited Tax School Building and Refunding Bonds, Series 2001	4.625% - 5.76%	\$ 39,078,681	\$ 13,469,578
Unlimited Tax School Building Bonds, Series 2016	2% - 4%	40,660,000	40,195,000
Totals			<u>\$ 58,289,578</u>

Maintenance Tax Notes Payable

As of August 31, 2017, the District's loan payable balance totaled \$8,295,000. The following represents the annual payments due:

Year Ending August 31,	Principal	Interest	Total	Interest Rates
2018	245,000	291,500	536,500	2.00%
2019	255,000	286,600	541,600	2.00%
2020	255,000	281,500	536,500	3.00%
2021	520,000	273,850	793,850	3.00%
2022	535,000	258,250	793,250	3.00%
2023-2027	2,945,000	1,030,975	3,975,975	3.00% - 4.00%
2028-2032	3,540,000	435,800	3,975,800	4.00%
Totals	<u>\$ 8,295,000</u>	<u>\$ 2,858,475</u>	<u>\$ 11,153,475</u>	

The Maintenance Tax Notes will be paid by the General Fund.

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Time Warrant Payable

As of August 31, 2017, the District's time warrant payable balance totaled \$1,000,000. The following represents the annual payments due:

Year Ending August 31,	Principal	Interest	Total	Interest Rates
2018	250,000	7,475	257,475	0.99%
2019	250,000	5,000	255,000	0.99%
2020	255,000	2,525	257,525	0.99%
Totals	\$ 755,000	\$ 15,000	\$ 770,000	

The Time Warrants will be paid by the General Fund.

F. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2017, as follows:

<u>Year Ending August 31,</u>	
2018	\$ 109,601
2019	84,939
2020	9,111
Total Minimum Rentals	\$ 203,651
Rental Expenditures in 2017	\$ 115,512

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

Detail 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 https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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3. 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 in (1.) above.

4. Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates

	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$ 1,147,014	
District's 2017 Member Contributions	\$ 912,885	
NECE 2016 On-Behalf Contributions to District	\$ 1,138,602	

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the

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statutory minimum under Section 21.402 of the Texas Education Code.

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

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

5. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. 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

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adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Teacher Retirement System of Texas			
Asset Allocation and Long-Term Expected Real Rate of Return			
As of August 31, 2016			
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 & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 15,850,485	\$ 10,241,560	\$ 5,484,058

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8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the District reported a liability of \$10,241,560 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 10,241,560
State's proportionate share that is associated with District	<u>13,515,033</u>
Total	<u>\$ 23,756,593</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 through August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0271023%. which was an increase (decrease) of 0.0271023% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, the District recognized pension expense of \$1,402,538 and revenue of \$1,402,538 for support provided by the State.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 160,586	\$ 305,807
Changes in actuarial assumptions	312,144	283,882
Difference between projected and actual investment earnings	867,235	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,477,655	951
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>912,885</u>	<u>--</u>
Total	<u>\$ 3,730,505</u>	<u>\$ 590,640</u>

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

Year Ended August 31	Pension Expense Amount
2018	\$ 377,872
2019	\$ 377,872
2020	\$ 931,036
2021	\$ 335,371
2022	\$ 177,166
Thereafter	\$ 27,662

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2015 and 2014, and 0.5% for fiscal year 2013. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016 and 2015. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$258,378, \$248,430, and \$241,176, respectively, the active member contributions were \$167,946, \$161,484, and \$156,763, respectively, and the District's contributions were \$142,110, \$136,638, and \$132,648, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$79,106, \$94,719, and \$96,987, respectively.

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J. Employee Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$248 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Aetna are available for the year ended , have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at August 31, 2017.

L. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for two federal programs with the Region 10 ESC and with Mesquite ISD for deaf education services.

M. Subsequent Events

Management has evaluated subsequent events through January 25, 2018, the date which the financial statements were available for distribution. There were none noted.

N. Negative net position - net investment in capital assets

At August 31, 2017, the District's net position balance for net investment in capital assets was a negative \$14,982,333. The negative net position balance should only be temporary as the District has remaining restricted net position for capital projects of \$20,499,338 from the 2016 bond issue that will be used to fund current construction of facilities and other projects. As construction costs are incurred, the net position balances should liquidate those restricted for capital projects and increase the balance for net investment in capital assets.

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

TERRELL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1		2		3		Variance with Final Budget Positive (Negative)
		Budgeted Amounts						
		Original		Final		Actual		
REVENUES:								
5700	Local and Intermediate Sources	\$ 16,725,125	\$ 16,725,125	\$ 16,979,541	\$ 254,416			
5800	State Program Revenues	19,739,986	19,739,986	20,571,416	831,430			
5900	Federal Program Revenues	351,676	351,676	701,986	350,310			
5020	Total Revenues	<u>36,816,787</u>	<u>36,816,787</u>	<u>38,252,943</u>	<u>1,436,156</u>			
EXPENDITURES:								
Current:								
Instruction & Instructional Related Services:								
0011	Instruction	19,026,093	18,804,693	18,404,298	400,395			
0012	Instructional Resources and Media Services	389,638	514,638	464,350	50,288			
0013	Curriculum and Staff Development	1,069,047	1,069,047	835,017	234,030			
	Total Instruction & Instr. Related Services	<u>20,484,778</u>	<u>20,388,378</u>	<u>19,703,665</u>	<u>684,713</u>			
Instructional and School Leadership:								
0021	Instructional Leadership	445,412	445,412	431,024	14,388			
0023	School Leadership	2,262,520	2,291,520	2,298,496	(6,976)			
	Total Instructional & School Leadership	<u>2,707,932</u>	<u>2,736,932</u>	<u>2,729,520</u>	<u>7,412</u>			
Support Services - Student (Pupil):								
0031	Guidance, Counseling and Evaluation Services	1,411,777	1,496,777	1,479,555	17,222			
0032	Social Work Services	238,874	248,874	246,476	2,398			
0033	Health Services	311,962	342,962	340,976	1,986			
0034	Student (Pupil) Transportation	1,877,750	1,922,750	1,883,219	39,531			
0036	Cocurricular/Extracurricular Activities	1,452,571	1,502,571	1,464,843	37,728			
	Total Support Services - Student (Pupil)	<u>5,292,934</u>	<u>5,513,935</u>	<u>5,415,069</u>	<u>98,866</u>			
Administrative Support Services:								
0041	General Administration	1,563,573	1,608,573	1,565,445	43,128			
	Total Administrative Support Services	<u>1,563,573</u>	<u>1,608,573</u>	<u>1,565,445</u>	<u>43,128</u>			
Support Services - Nonstudent Based:								
0051	Plant Maintenance and Operations	4,346,799	4,846,799	4,637,169	209,630			
0052	Security and Monitoring Services	496,178	574,178	541,018	33,160			
0053	Data Processing Services	643,477	649,477	595,345	54,132			
	Total Support Services - Nonstudent Based	<u>5,486,454</u>	<u>6,070,454</u>	<u>5,773,532</u>	<u>296,922</u>			
Ancillary Services:								
0061	Community Services	223,116	223,116	207,332	15,784			
	Total Ancillary Services	<u>223,116</u>	<u>223,116</u>	<u>207,332</u>	<u>15,784</u>			
Debt Service:								
0071	Principal on Long-Term Debt	798,000	490,000	490,000	--			
0072	Interest on Long-Term Debt	--	306,300	306,300	--			
0073	Bond Issuance Costs and Fees	--	1,700	800	900			
	Total Debt Service	<u>798,000</u>	<u>798,000</u>	<u>797,100</u>	<u>900</u>			
Capital Outlay:								
0081	Capital Outlay	--	80,000	75,525	4,475			
	Total Capital Outlay	<u>--</u>	<u>80,000</u>	<u>75,525</u>	<u>4,475</u>			
0099	Other Intergovernmental Charges	260,000	261,400	261,369	31			
	Total Intergovernmental Charges	<u>260,000</u>	<u>261,400</u>	<u>261,369</u>	<u>31</u>			

TERRELL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
6030	Total Expenditures	<u>36,816,787</u>	<u>37,680,788</u>	<u>36,528,557</u>	<u>1,152,231</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>--</u>	<u>(864,001)</u>	<u>1,724,386</u>	<u>2,588,387</u>
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	<u>--</u>	<u>--</u>	<u>1,320</u>	<u>1,320</u>
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>	<u>1,320</u>	<u>1,320</u>
1200	Net Change in Fund Balance	<u>--</u>	<u>(864,001)</u>	<u>1,725,706</u>	<u>2,589,707</u>
0100	Fund Balance - Beginning	<u>11,625,079</u>	<u>11,625,079</u>	<u>11,625,077</u>	<u>(2)</u>
3000	Fund Balance - Ending	<u>\$ 11,625,079</u>	<u>\$ 10,761,078</u>	<u>\$ 13,350,783</u>	<u>\$ 2,589,705</u>

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

	Measurement Year Ended August 31,		
	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0271023%	0.0276250%	0.0204683%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 10,241,560	\$ 9,765,070	\$ 5,467,366
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	13,515,033	13,358,204	12,538,626
Total	<u>\$ 23,756,593</u>	<u>\$ 23,123,274</u>	<u>\$ 18,005,992</u>
District's Covered Employee Payroll	\$ 24,842,976	\$ 24,117,593	\$ 24,906,145
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	41.23%	40.49%	21.95%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.00%	78.43%	83.25%

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

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

	Fiscal Year Ended August 31,		
	2017	2016	2015
Contractually Required Contribution	\$ 912,885	\$ 861,264	\$ 817,988
Contribution in Relation to the Contractually Required Contribution	(912,885)	(861,264)	(817,988)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 25,837,754	\$ 24,842,976	\$ 24,117,593
Contributions as a percentage of Covered Employee Payroll	3.53%	3.47%	3.39%

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

TERRELL INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED AUGUST 31, 2017

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only 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. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

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

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

TERRELL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2017

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2008 and Prior Years	\$	Various	\$	Various	\$	Various
2009		1.04		.27		1,447,901,221
2010		1.04		.27		1,406,918,626
2011		1.17		.14		1,323,383,511
2012		1.17		.14		1,311,002,595
2013		1.17		.14		1,303,573,664
2014		1.17		.14		1,339,354,351
2015		1.17		.29		1,342,353,689
2016		1.17		.29		1,373,402,602
2017 (School Year Under Audit)		1.17		.4297		1,401,561,793

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/16	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/17
\$ 414,763	\$ --	\$ 28,910	\$ 6,006	\$ (135,879)	\$ 243,968
101,240	--	11,413	2,963	(2,736)	84,128
113,571	--	12,097	3,141	(4,677)	93,656
98,979	--	14,929	1,786	(3,937)	78,327
112,978	--	24,881	2,977	(2,617)	82,503
121,658	--	26,047	3,117	(1,756)	90,738
152,041	--	32,528	3,892	(688)	114,933
221,990	--	61,296	15,193	3,163	148,664
417,301	--	150,560	37,318	(12,516)	216,907
--	22,420,784	15,992,840	5,873,614	(69,596)	484,734
<u>\$ 1,754,521</u>	<u>\$ 22,420,784</u>	<u>\$ 16,355,501</u>	<u>\$ 5,950,007</u>	<u>\$ (231,239)</u>	<u>\$ 1,638,558</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

TERRELL INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT J-3

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original		Final				
REVENUES:							
5700	Local and Intermediate Sources	\$ 479,660	\$ 479,660	\$ 462,636	\$ (17,024)		
5800	State Program Revenues	12,900	12,900	12,520	(380)		
5900	Federal Program Revenues	2,002,112	2,002,112	2,028,072	25,960		
5020	Total Revenues	<u>2,494,672</u>	<u>2,494,672</u>	<u>2,503,228</u>	<u>8,556</u>		
EXPENDITURES:							
Current:							
Support Services - Student (Pupil):							
0035	Food Services	2,494,672	2,704,672	2,679,108	25,564		
	Total Support Services - Student (Pupil)	<u>2,494,672</u>	<u>2,704,672</u>	<u>2,679,108</u>	<u>25,564</u>		
6030	Total Expenditures	<u>2,494,672</u>	<u>2,704,672</u>	<u>2,679,108</u>	<u>25,564</u>		
1100	Excess (Deficiency) of Revenues Over (Under)						
1100	Expenditures	--	(210,000)	(175,880)	34,120		
1200	Net Change in Fund Balance	--	(210,000)	(175,880)	34,120		
0100	Fund Balance - Beginning	577,919	577,919	577,919	--		
3000	Fund Balance - Ending	<u>\$ 577,919</u>	<u>\$ 367,919</u>	<u>\$ 402,039</u>	<u>\$ 34,120</u>		

TERRELL INDEPENDENT SCHOOL DISTRICT

DEBT SERVICE

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT J-4

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)	
	Budgeted Amounts		Actual		
	Original	Final			
REVENUES:					
5700	<i>Local and Intermediate Sources</i>	\$ 5,990,100	\$ 5,990,100	\$ 6,040,956	\$ 50,856
5800	<i>State Program Revenues</i>	--	--	97,412	97,412
5020	Total Revenues	<u>5,990,100</u>	<u>5,990,100</u>	<u>6,138,368</u>	<u>148,268</u>
EXPENDITURES:					
Debt Service:					
0071	<i>Principal on Long-Term Debt</i>	2,211,160	2,211,160	2,211,520	(360)
0072	<i>Interest on Long-Term Debt</i>	3,774,684	3,774,684	3,774,684	--
0073	<i>Bond Issuance Costs and Fees</i>	4,256	4,256	1,175	3,081
	Total Debt Service	<u>5,990,100</u>	<u>5,990,100</u>	<u>5,987,379</u>	<u>2,721</u>
6030	Total Expenditures	<u>5,990,100</u>	<u>5,990,100</u>	<u>5,987,379</u>	<u>2,721</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	150,989	150,989
1200	Net Change in Fund Balance	--	--	150,989	150,989
0100	Fund Balance - Beginning	746,733	746,733	746,733	--
3000	Fund Balance - Ending	<u>\$ 746,733</u>	<u>\$ 746,733</u>	<u>\$ 897,722</u>	<u>\$ 150,989</u>

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MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

Board of Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

Members of the Board of Trustees:

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 Terrell Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Terrell Independent School District's basic financial statements and have issued our report thereon dated January 25, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Terrell Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Terrell Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Terrell Independent School District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item(s) 2017-01, that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Terrell Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on

compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2017-1.

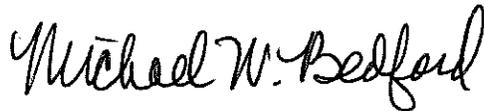
Terrell Independent School District's Response to Findings

Terrell Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Terrell Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael W. Bedford". The signature is written in a cursive style with a large, prominent initial "M".

Michael W. Bedford, CPA

Terrell, TX
January 25, 2018

MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

Independent Auditor's Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the Terrell Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2017.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2017-1 to be a significant deficiency.

Terrell Independent School District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Terrell Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Respectfully submitted,



Michael W. Bedford, CPA

Terrell, TX
January 25, 2018

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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	Title 1 Part A
84.027A	IDEA B Formula
84.173A	IDEA B Preschool

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

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

C. Federal Award Findings and Questioned Costs

Significant deficiencies over Federal Award

Finding #2017-01 Head Start (CFDA 93.600) Cash Management

CRITERIA: Grants should time cash draws of program revenue to be in compliance with Federal Cash Management requirements

CONDITION: Federal awards money were requested and received prior to expenditure and were held in the bank account.

CAUSE: Accrued payroll was inadvertently overstated but corrected prior to year end and thereby created excess cash.

EFFECT: Excess cash for over a month.

QUESTIONED COSTS: None

RECOMMENDATION: Expenditures for Federal awards should be closely monitored to comply with Federal Cash Management requirements.

TERRELL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
There were no prior year audit findings.		

TERRELL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2017

Finding #2017-01 Head Start (CFDA 93.600) Cash Management

The Director of Business recognizes the importance of the Cash Management regulation for all Federal programs (including Head Start), including the duty of insuring funds expenditures reporting is made within proper reporting guidelines. The District will implement checks and balances to improve the internal controls for cash management. The District; however, did not exceed the awarded Head Start Funding.

Date of Implementatioin: January, 2018

Responsible Person: Cheryl Ragsdale, Business Director

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

EXHIBIT K-1

(1)	(2)	(2A)	(3)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CHILD NUTRITION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through Texas Department of Agriculture:				
School Breakfast Program	10.553	71401701	\$ --	\$ 469,782
National School Lunch Program	10.555	71301701	--	1,377,149
National School Lunch Program (Non-cash)	10.555	71301701	--	162,511
Total CFDA Number 10.555			--	1,539,660
Summer Food Service Program	10.559	129-906	--	14,731
Total Passed Through Texas Department of Agriculture			--	2,024,173
Total U. S. Department of Agriculture			--	2,024,173
Total Child Nutrition Cluster			--	2,024,173
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
IDEA-B Formula	84.027A	1766000112990	--	877,126
IDEA-B Preschool	84.173A	1766100112990	--	25,437
Total Passed Through State Department of Education			--	902,563
Total U. S. Department of Education			--	902,563
Total Special Education (IDEA) Cluster			--	902,563
OTHER PROGRAMS:				
<u>U. S. Department of Health and Human Services</u>				
Direct Programs:				
Head Start	93.600	06CH719802	--	764,267
Head Start	93.600	129-906	--	202,780
Total Direct Programs			--	967,047
Total U. S. Department of Health and Human Services			--	967,047
<u>U. S. Department of Education</u>				
Passed Through Region 10 Education Service Center:				
ESEA Title III Part A - English Language Acquisition	84.365A	1767100105795	--	97,168
ESEA Title II, Part A, Teacher/Principal Training	84.367A	1769450105795	--	173,259
Total Passed Through Region 10 Education Service Center			--	270,427
Passed Through State Department of Education:				
ESEA Title 1 Part A - Improving Basic Programs	84.010A	1761010112990	--	1,172,060
Career and Technical - Basic Formula Grant	84.048A	1742000612990	--	69,875
Summer School Program for English Language Learners in Kindergarten	84.369A	69551702	--	--
Total Passed Through State Department of Education			--	1,241,935
Total U. S. Department of Education			--	1,512,362
<u>U. S. Department of Agriculture</u>				
Passed Through Texas Department of Agriculture:				
Child and Adult Care Food Program	10.558	129-906	--	18,630
Total U. S. Department of Agriculture			--	18,630
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ --	\$ 5,424,776

The accompanying notes are an integral part of this schedule.

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

Basis of Presentation

The accompanying schedule of expenditures of federal awards ("the Schedule") includes the federal grant activity of Terrell Independent School District. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Terrell Independent School District has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

TERRELL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2017

Data Control Codes		Responses
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?	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 governmental agencies?	Yes
SF8	Did the school district <u>not</u> 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	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ 19,765,221
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 10,241,560
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

In correspondence to all school administrators dated November 1, 2017, the TEA's Director of Financial Compliance stated "For 2017, and until further notice, no data should be entered in the field for data feed Schedule L-1 question SF13. If the AFR and data feed has been submitted no additional steps need to be taken."

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