

ROYAL
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

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Royal Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

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Introductory Section

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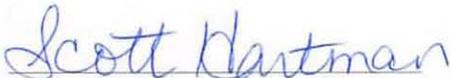
CERTIFICATE OF BOARD

Royal Independent School District
Name of School District

Waller
County

237-905
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on the 17 day of January, 2017.


Signature of Board Vice President
(Board Secretary Unavailable to Sign)


Signature of Board President

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

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Financial Section

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Independent Auditors' Report

To the Board of Trustees of the
Royal Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Independent School District (the "District") as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 Royal Independent School District as of August 31, 2016, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
713.263.1123

Austin

400 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



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 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 Royal Independent School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other supplementary information 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 (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information 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 December 13, 2016 on our consideration of Royal 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 Royal Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

 BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Bellville, Texas
December 13, 2016

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Management's Discussion and Analysis

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ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2016

This discussion and analysis of the Royal Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2016. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2016 was a deficit of \$2,461,523.
- For the fiscal year ended August 31, 2016, the District's general fund reported a total fund balance of \$5,019,290, of which \$600,000 is committed for other purposes, and \$4,419,290 is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$6,082,008.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views supplementary 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 fiduciary resources belong. This fund includes student activity funds.

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

GOVERNMENT-WIDE FINANCIAL 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 District's assets and liabilities. All of the current period's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

- 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 non-financial factors such as changes in the District's tax base, staffing patterns, enrollment, and attendance.

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

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 simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

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 explains the relationship (or differences) between them.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity 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 that are 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 and a statement of changes in 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 governmental operations.

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was a deficit of \$2,461,523 at August 31, 2016. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2016. The District reported an overall decrease in net position as a result of an increase in pension liabilities.

Table 1
Net Position

Description	Governmental Activities		Total Change
	2016	2015	2016-2015
Current assets	\$ 8,036,597	\$ 10,169,746	\$ (2,133,149)
Capital assets	65,164,728	65,532,143	(367,415)
Total Assets	<u>73,201,325</u>	<u>75,701,889</u>	<u>(2,500,564)</u>
Deferred charge on refunding	1,579,505	1,227,865	351,640
Deferred outflows - pension	3,394,354	625,551	2,768,803
Total Deferred Outflows of Resources	<u>4,973,859</u>	<u>1,853,416</u>	<u>3,120,443</u>
Current liabilities	1,423,824	1,058,227	365,597
Long-term liabilities	78,300,176	77,599,298	700,878
Total Liabilities	<u>79,724,000</u>	<u>78,657,525</u>	<u>1,066,475</u>
Deferred inflows - pension	912,697	694,461	218,236
Total Deferred Inflows of Resources	<u>912,697</u>	<u>694,461</u>	<u>218,236</u>
Net Position:			
Net invested in capital assets:	(6,599,477)	(6,344,627)	(254,850)
Restricted	974,417	737,686	236,731
Unrestricted	3,163,537	3,810,260	(646,723)
Total Net Position	<u>\$ (2,461,523)</u>	<u>\$ (1,796,681)</u>	<u>\$ (664,842)</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Table 2
Changes in Net Position

	Governmental Activities		Total Change
	2016	2015	2016-2015
Revenues			
Program revenues:			
Charges for services	\$ 160,110	\$ 202,772	\$ (42,662)
Operating grants and contributions	3,926,351	3,866,569	59,782
General revenues:			
Property taxes	16,131,469	15,712,264	419,205
Grants and contributions not restricted	8,385,944	8,359,923	26,021
Investment earnings	26,959	5,542	21,417
Miscellaneous	1,499,629	790,667	708,962
Total Revenue	<u>30,130,462</u>	<u>28,937,737</u>	<u>1,192,725</u>
Expenses			
Instruction	15,996,031	13,853,865	2,142,166
Instructional resources and media services	401,709	420,413	(18,704)
Curriculum and staff development	934,734	933,430	1,304
Instructional leadership	458,118	646,764	(188,646)
School leadership	1,445,660	1,313,196	132,464
Guidance, counseling, and evaluation services	681,839	529,371	152,468
Social work/health services	459,136	416,442	42,694
Student transportation	969,684	957,551	12,133
Food services	1,427,592	1,592,773	(165,181)
Co-curricular/extracurricular activities	1,285,580	1,134,266	151,314
General administration	916,892	846,505	70,387
Plant maintenance and operations	2,485,148	1,738,330	746,818
Security and monitoring	107,668	121,052	(13,384)
Data processing services	427,890	425,322	2,568
Community services	8,024	6,552	1,472
Interest on long-term debt	2,328,257	3,577,189	(1,248,932)
Bond issuance costs	174,617	456,782	(282,165)
Payments related to shared services arrangements	11,853	832,016	(820,163)
Other intergovernmental charges	274,872	277,916	(3,044)
Total Expenses	<u>30,795,304</u>	<u>30,079,735</u>	<u>715,569</u>
Change in Net Position	<u>(664,842)</u>	<u>(1,141,998)</u>	<u>477,156</u>
Beginning net position	(1,796,681)	(654,683)	(1,141,998)
Ending Net Position	<u>\$ (2,461,523)</u>	<u>\$ (1,796,681)</u>	<u>\$ (664,842)</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2016, the District's governmental funds reported a combined fund balance of \$6,082,008. This compares to a combined fund balance of \$8,467,650 at August 31, 2015. The fund balance decreased due to a decrease in state foundation revenue and an increase in expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2016, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's budgeted revenues exceeded actual revenues by \$1,085,647 and the actual expenditures exceeded budgeted expenditures by \$916,138.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the fiscal year ended August 31, 2016, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At August 31, 2016, the District had a total of \$103,527,796 invested in capital assets such as land, construction in progress, buildings, and District equipment. This total includes \$2,416,952 invested during the fiscal year ended August 31, 2016.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At August 31, 2016, the District had \$67,860,915 in general obligation bonds outstanding versus \$70,185,918 last year.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The District's management takes into consideration all aspects that influence school district budgets during the budget development process. This includes instructional improvements, student enrollment, property values, facility needs, economy, location, and new legislative mandates. The District encompasses 161 square miles located 35 miles west of Houston in southern Waller County along the West I-10 Corridor.

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

- Since tax year 2011, the assessed property values increased 30.9%, averaging 13.48% per year. From tax year 2014 to 2015, values increased by 2.28%, which reflects the slowdown in the economy. Despite the reduction, values continue to increase steadily at 2% to 3% for the 2016 tax year.

The land along I-10 provides potential development for prospective commercial businesses such as Igloo, Rooms-to-Go Distribution Center, Goya Foods, and Houston Executive Airport that currently exist within the District. To compete for new businesses, the District approved a Freeport exemption which initiated during the 2015 tax year.

- Since 2011-12, the total student population increased 7.74% from 2,107 to 2,270 in 2015-16. The average enrollment was 3.48% more per year during this period. The District expects this trend to continue.
- The District completed several capital improvement projects during 2015-16 that included new construction of a concession/restroom facility and a press box at the existing football stadium, renovations and repair of the HVAC and lighting system, and upgrades to the District's infrastructure network technology. These projects were made possible with Series 2016 Maintenance Tax Notes and Time Warrants funds, \$2,250,000 and \$265,000, respectively. The technology project was also funded with a \$269,232 E-Rate grant.

The District expects to save approximately \$150,000 annually due to the energy savings project to fund a major portion of the repayment of the tax maintenance notes and time warrants.

- The District has continued its partnership with the Boys and Girls Club of Greater Houston with its location on the District's premises, to provide sports and quality after-school programs and activities for the students. The average daily attendance for the Royal Boys and Girls Club is approximately 170 students.
- Through a competitive bid process, the District refinanced \$9,334,997 in unlimited tax bonds, series 2016, resulting in a net Present Value savings of \$2,614,325, a savings of 28.005641%. This was a partial refinancing of series 2008 and series 2008-A.
- A Royal ISD Education Foundation is being established to supplement the District's programs and activities.
- Royal Early College High School (RECHS) opened in August 2015 with 18 freshman students. RECHS is partnered with Lone Star College and offers the opportunity for students enrolled to graduate with both a high school diploma and an associate's degree. Plans are to expand enrollment to freshman and sophomore students in the 2016-2017 school year and continue adding a grade per year until it is a 9-12 campus.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at P.O. Box 489, Pattison, Texas 77466 or by calling (281) 934-1330.

Basic Financial Statements

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ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

AUGUST 31, 2016

1

Data Control Codes	Governmental Activities
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 3,054,517
1120 <i>Current Investments</i>	3,674,355
1220 <i>Property Taxes Receivable</i>	1,417,943
1230 <i>Allowance for Uncollectible Taxes</i>	(556,623)
1240 <i>Due from Other Governments</i>	374,922
1290 <i>Other Receivables (Net)</i>	50,000
1300 <i>Inventories</i>	21,473
Capital Assets:	
1510 <i>Land</i>	816,226
1520 <i>Buildings and Improvements, Net</i>	63,474,015
1530 <i>Furniture and Equipment, Net</i>	874,487
1000 Total Assets	<u>73,201,315</u>
DEFERRED OUTFLOWS OF RESOURCES:	
1700 <i>Deferred Charges on Refunding</i>	1,579,505
1705 <i>Deferred Outflows Related to Pensions</i>	3,394,354
1700 Total Deferred Outflows of Resources	<u>4,973,859</u>
LIABILITIES:	
2110 <i>Accounts Payable</i>	409,786
2120 <i>Short-Term Debt Payable</i>	100,000
2140 <i>Interest Payable</i>	245,577
2165 <i>Accrued Liabilities</i>	302
2180 <i>Due to Other Governments</i>	646,686
2300 <i>Unearned Revenue</i>	21,473
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	1,072,223
2502 <i>Due in More Than One Year</i>	71,940,923
2540 <i>Net Pension Liability</i>	5,287,030
2000 Total Liabilities	<u>79,724,000</u>
DEFERRED INFLOWS OF RESOURCES:	
2605 <i>Deferred Inflows Related to Pensions</i>	912,697
2600 Total Deferred Inflows of Resources	<u>912,697</u>
NET POSITION:	
3200 Net Investment in Capital Assets	(6,599,477)
Restricted For:	
3850 Debt Service	965,834
3870 Campus Activities	8,583
3900 Unrestricted	3,163,537
3000 Total Net Position	<u>\$ (2,461,523)</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
	Governmental Activities:				
11	Instruction	\$ 15,996,031	\$ --	\$ 2,165,892	\$ (13,830,139)
12	Instructional Resources and Media Services	401,709	--	14,653	(387,056)
13	Curriculum and Staff Development	934,734	--	143,217	(791,517)
21	Instructional Leadership	458,118	--	28,547	(429,571)
23	School Leadership	1,445,660	--	101,795	(1,343,865)
31	Guidance, Counseling, & Evaluation Services	681,839	--	46,642	(635,197)
32	Social Work Services	131,724	--	6,212	(125,512)
33	Health Services	327,412	--	18,933	(308,479)
34	Student Transportation	969,684	--	60,075	(909,609)
35	Food Service	1,427,592	135,665	996,922	(295,005)
36	Cocurricular/Extracurricular Activities	1,285,580	24,445	26,328	(1,234,807)
41	General Administration	916,892	--	62,156	(854,736)
51	Facilities Maintenance and Operations	2,485,148	--	157,230	(2,327,918)
52	Security and Monitoring Services	107,668	--	6,952	(100,716)
53	Data Processing Services	427,890	--	20,116	(407,774)
61	Community Services	8,024	--	5,928	(2,096)
72	Interest on Long-term Debt	2,328,257	--	64,753	(2,263,504)
73	Bond Issuance Costs and Fees	174,617	--	--	(174,617)
93	Payments Related to Shared Services Arrangements	11,853	--	--	(11,853)
99	Other Intergovernmental Charges	274,872	--	--	(274,872)
TG	Total Governmental Activities	<u>30,795,304</u>	<u>160,110</u>	<u>3,926,351</u>	<u>(26,708,843)</u>
TP	Total Primary Government	<u>\$ 30,795,304</u>	<u>\$ 160,110</u>	<u>\$ 3,926,351</u>	<u>(26,708,843)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				10,984,403
DT	Property Taxes, Levied for Debt Service				5,147,066
IE	Investment Earnings				26,959
GC	Grants and Contributions Not Restricted to Specific Programs				8,385,944
MI	Miscellaneous				1,499,629
TR	Total General Revenues				<u>26,044,001</u>
CN	Change in Net Position				(664,842)
NB	Net Position - Beginning				(1,796,681)
NE	Net Position - Ending				<u>\$ (2,461,523)</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 2,161,502	\$ 777,988	\$ 115,028	\$ 3,054,518
1120 Current Investments	3,495,602	178,753	--	3,674,355
1220 Property Taxes Receivable	970,665	447,278	--	1,417,943
1230 Allowance for Uncollectible Taxes	(391,287)	(165,336)	--	(556,623)
1240 Due from Other Governments	153,343	24,106	197,473	374,922
1260 Due from Other Funds	254,734	--	--	254,734
1290 Other Receivables	--	--	50,000	50,000
1300 Inventories	--	--	21,473	21,473
1000 Total Assets	<u>6,644,559</u>	<u>1,262,789</u>	<u>383,974</u>	<u>8,291,322</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 399,079	\$ --	\$ 10,707	\$ 409,786
2140 Interest Payable	--	15,013	--	15,013
2150 Payroll Deductions & Withholdings	126	--	176	302
2170 Due to Other Funds	--	--	254,734	254,734
2180 Due to Other Governments	646,686	--	--	646,686
2300 Unearned Revenue	--	--	21,473	21,473
2000 Total Liabilities	<u>1,045,891</u>	<u>15,013</u>	<u>287,090</u>	<u>1,347,994</u>
DEFERRED INFLOWS OF RESOURCES:				
2600 Unavailable Revenue for Property Taxes	579,378	281,942	--	861,320
2600 Total Deferred Inflows of Resources	<u>579,378</u>	<u>281,942</u>	<u>--</u>	<u>861,320</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 Inventories	--	--	21,473	21,473
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	44,867	44,867
3480 Retirement of Long-Term Debt	--	965,834	--	965,834
3490 Other Restrictions of Fund Balance	--	--	30,544	30,544
Committed Fund Balances:				
3525 Retirement of Loans/Notes Payable	600,000	--	--	600,000
3600 Unassigned	4,419,290	--	--	4,419,290
3000 Total Fund Balances	<u>5,019,290</u>	<u>965,834</u>	<u>96,884</u>	<u>6,082,008</u>
4000 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 6,644,559</u>	<u>\$ 1,262,789</u>	<u>\$ 383,974</u>	<u>\$ 8,291,322</u>

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

Total fund balances - governmental funds balance sheet	\$ 6,082,008
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.	65,164,729
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	861,320
Payables for bond principal which are not due in the current period are not reported in the funds.	(68,973,640)
Payables for bond interest which are not due in the current period are not reported in the funds.	(227,999)
Payables for notes which are not due in the current period are not reported in the funds.	(2,560,000)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(2,565)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(5,588,019)
Deferred inflows of resources related to Teacher Retirement System of Texas (TRS) are not reported in the funds.	(912,698)
Deferred outflows of resources related to TRS are not reported in the funds.	<u>3,695,342</u>
Net position of governmental activities - Statement of Net Position	<u>\$ (2,461,523)</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 11,274,944	\$ 5,174,108	\$ 259,252	\$ 16,708,304
5800 State Program Revenues	8,956,672	64,753	248,411	9,269,836
5900 Federal Program Revenues	525,131	--	2,516,154	3,041,285
5020 Total Revenues	<u>20,756,747</u>	<u>5,238,861</u>	<u>3,023,817</u>	<u>29,019,425</u>
EXPENDITURES:				
Current:				
0011 Instruction	12,068,972	--	1,444,740	13,513,712
0012 Instructional Resources and Media Services	177,095	--	2,273	179,368
0013 Curriculum and Staff Development	772,354	--	90,817	863,171
0021 Instructional Leadership	392,439	--	33,069	425,508
0023 School Leadership	1,255,549	--	12,067	1,267,616
0031 Guidance, Counseling, & Evaluation Services	472,829	--	144,090	616,919
0032 Social Work Services	87,079	--	--	87,079
0033 Health Services	259,195	--	--	259,195
0034 Student Transportation	974,282	--	4,150	978,432
0035 Food Service	7,800	--	1,180,313	1,188,113
0036 Cocurricular/Extracurricular Activities	887,585	--	22,717	910,302
0041 General Administration	786,451	--	5,356	791,807
0051 Facilities Maintenance and Operations	2,320,408	--	6,000	2,326,408
0052 Security and Monitoring Services	100,844	--	--	100,844
0053 Data Processing Services	443,504	--	--	443,504
0061 Community Services	2,207	--	5,817	8,024
0071 Principal on Long-term Debt	45,000	2,280,000	--	2,325,000
0072 Interest on Long-term Debt	69,041	2,720,967	--	2,790,008
0073 Bond Issuance Costs and Fees	200	175,044	--	175,244
0081 Capital Outlay	2,019,349	--	10,000	2,029,349
0093 Payments to Shared Services Arrangements	--	--	11,853	11,853
0099 Other Intergovernmental Charges	274,872	--	--	274,872
6030 Total Expenditures	<u>23,417,055</u>	<u>5,176,011</u>	<u>2,973,262</u>	<u>31,566,328</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(2,660,308)</u>	<u>62,850</u>	<u>50,555</u>	<u>(2,546,903)</u>
Other Financing Sources and (Uses):				
7911 Capital-Related Debt Issued (Regular Bonds)	--	9,334,997	--	9,334,997
7915 Transfers In	--	--	12,044	12,044
7916 Premium or Discount on Issuance of Bonds	--	605,816	--	605,816
8911 Transfers Out	(12,044)	--	--	(12,044)
8949 Other Uses	--	(9,767,327)	(12,044)	(9,779,371)
7080 Total Other Financing Sources and (Uses)	<u>(12,044)</u>	<u>173,486</u>	<u>--</u>	<u>161,442</u>
1200 Net Change in Fund Balances	<u>(2,672,352)</u>	<u>236,336</u>	<u>50,555</u>	<u>(2,385,461)</u>
0100 Fund Balances - Beginning	7,691,642	729,498	46,329	8,467,469
3000 Fund Balances - Ending	<u>\$ 5,019,290</u>	<u>\$ 965,834</u>	<u>\$ 96,884</u>	<u>\$ 6,082,008</u>

The accompanying notes are an integral part of this statement.

ROYAL 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, 2016

Net change in fund balances - total governmental funds	\$ (2,385,461)
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	2,260,953
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,628,371)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(58,638)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(605,816)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,280,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	45,000
Deferred charges and similar items are amortized in the SOA but not in the funds.	24,808
The accretion of interest on capital appreciation bonds is not reported in the funds.	437,227
(Increase) decrease in accrued interest from beginning of period to end of period.	344
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.	9,767,328
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(9,334,996)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred outflows of resources.	1,170,633
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(1,636,895)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(958)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ (664,842)</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2016

Data Control Codes	Private-Purpose Trust Fund	Agency Fund
<u>ASSETS:</u>	<u>Private Purpose Trust Fund</u>	<u>Student Activity</u>
1110 <i>Cash and Cash Equivalents</i>	\$ 1,500	\$ 32,261
1000 Total Assets	<u>1,500</u>	<u>32,261</u>
 LIABILITIES:		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	\$ --	\$ 32,261
2000 Total Liabilities	<u>--</u>	<u>32,261</u>
 NET POSITION:		
3800 <i>Held in Trust</i>	1,500	--
3000 Total Net Position	<u>\$ 1,500</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 1,000
Total Additions	<u>1,000</u>
Deductions:	
Change in Net Position	1,000
Net Position-Beginning of the Year	500
Net Position-End of the Year	<u>\$ 1,500</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Significant Accounting Policies

The basic financial statements of Royal 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 (the "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 is used to account for tax revenues and for the repayment of principal, interest, and related costs on long-term debt for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for revenues and expenditures related to grant awards and entitlements from federal, state, and local agencies. These funds are primarily on a reimbursement basis. Nearly all of these funds cannot carry a fund balance and, other than the food service fund, none of these funds are legally required to have an adopted budget.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

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 and Basis of Accounting**

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They 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. **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 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. Property tax revenues are considered available when they become due or past due and receivable within the current period.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

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.

b. 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.

c. 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>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to one or more future periods and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has four items that qualify for reporting in this category on the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. A deferred charge has been recognized employer pension plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

In addition to assets, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to one or more future periods and so will *not* be recognized as an inflow of resources (revenue) until then. The District has two items that qualify for reporting in this category in the government-wide statement of net position. Deferred inflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. Another deferral is recognized for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report available revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

e. 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.

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

f. 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.

g. Use of Estimates

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

h. 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.

i. 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).

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

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.

j. 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 fiduciary 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.

k. 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.

l. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other interally dedicated resources are reported as general revenues rather than as program revenues.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

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.

5. New Accounting Standards Adopted

In fiscal year 2016, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
- Statement No. 77, *Tax Abatement Disclosures*

- a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques. It also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.
- b. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.
- c. Statement No. 77 requires governments granting tax abatements to individuals and businesses to disclose program information in the notes to the financial statements through the agreement's duration and also requires disclosures about tax abatements entered into by other governments that reduce the reporting government's tax revenue. Prior year balances were not restated because there are no tax abatements associated with the District or any other government which affect the District's tax revenue.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

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C. 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, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,088,280 and the bank balance was \$3,330,484. The District's cash deposits at August 31, 2016, and during the year ended August 31, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The 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, 2016 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexStar Investment	N/A	\$ 839,117
TexPool Investment	N/A	215,592
LOGIC Investment	N/A	2,619,646
Total Investments		<u>\$ 3,674,355</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.

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At August 31, 2016, 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:

<u>Investment or Investment Type</u>	<u>Administrator</u>	<u>Rating</u>
TexStar Investment	First Southwest & JPMorgan Chase	AAAm*
TexPool Investment	Federated Investors, Inc	AAAm*
LOGIC Investment	First Southwest & JPMorgan Chase	AAA*

*Rated by Standard & Poor's Investor Services

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

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.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

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.

LOGIC

The District invests in the Local Government Investment Cooperative (LOGIC), which is a local government investment pool organized 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. LOGIC's governing body is a five-member board of directors comprised of employees, officers, or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators of LOGIC. The co-administrators of the day to day administration of LOGIC are First Southwest Company and J. P. Morgan Investment Management, Inc. LOGIC is rated at a 'AAA' or equivalent rating from at least one nationally recognized rating agency and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. LOGIC seeks to maintain a net asset value of \$1.00 per unit and is designed to be used for investment of funds which may be needed at any time.

TexSTAR

The District invests in the Texas Short Term Asset Reserve Program ("TexSTAR"), which has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member board of directors ("Board"). In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Company (FSC) serve as co-administrators for TexSTAR under an agreement with the Board. JPMIM provides investment management services, and FSC provides participant services and marketing. Custodial, fund accounting, and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary, J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. The business affairs of TexSTAR are managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated 'AAAm' by Standard and Poor's and is not operated 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 generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

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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 (the "Board") to advise with respect to TexPool. The Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool and are qualified to advise in respect to TexPool. The 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.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 816,227	\$ --	\$ --	\$ 816,227
Construction in progress	155,999	--	155,999	--
Total capital assets not being depreciated	<u>972,226</u>	<u>--</u>	<u>155,999</u>	<u>816,227</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	96,678,708	2,168,518	--	98,847,226
Equipment	1,211,466	61,581	--	1,273,047
Vehicles	2,404,444	186,852	--	2,591,296
Total capital assets being depreciated	<u>100,294,618</u>	<u>2,416,952</u>	<u>--</u>	<u>102,711,569</u>
Less accumulated depreciation for:				
Buildings and improvements	(33,032,119)	(2,341,092)	--	(35,373,211)
Equipment	(670,857)	(158,448)	--	(829,306)
Vehicles	(2,031,724)	(128,827)	--	(2,160,551)
Total accumulated depreciation	<u>(35,734,700)</u>	<u>(2,628,368)</u>	<u>--</u>	<u>(38,363,067)</u>
Total capital assets being depreciated, net	<u>64,559,918</u>	<u>(211,416)</u>	<u>--</u>	<u>64,348,502</u>
Governmental activities capital assets, net	<u>\$ 65,532,144</u>	<u>\$ (211,416)</u>	<u>\$ 155,999</u>	<u>\$ 65,164,729</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
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Depreciation was charged to functions as follows:

Instruction	\$ 1,254,223
Instructional Resources and Media Services	209,582
Curriculum and Staff Development	18,268
Instructional Leadership	4,565
School Leadership	79,551
Guidance, Counseling, & Evaluation Services	22,767
Social Work Services	40,341
Health Services	47,157
Student Transportation	140,051
Food Services	239,479
Extracurricular Activities	357,165
General Administration	72,858
Plant Maintenance and Operations	126,722
Security and Monitoring Services	2,510
Data Processing Services	13,132
	<u>\$ 2,628,368</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2016 consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Special Revenue Funds	\$ <u>254,734</u>	Short-term loans

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2016 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Special Revenue Funds	\$ <u>12,044</u>	Supplement other funds sources

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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F. Long-Term Obligations

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, 2016 are as follows:

	Original Issue	Beginning Balance	Net Changes	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Building Bonds, Series 2008	\$ 33,098,597	\$ 29,311,516	\$ (1,475,001)	\$ 27,836,515	\$ 12,140
Building Bonds, Series 2008A	19,998,357	14,504,411	(9,175,000)	5,329,411	105,083
Refunding Bonds, Series 2010	4,774,587	4,630,000	(325,000)	4,305,000	345,000
Refunding Bonds, Series 2013	6,084,994	5,924,994	(45,000)	5,879,994	45,000
Refunding Bonds, Series 2014	6,930,000	6,810,000	(390,000)	6,420,000	405,000
Refunding Bonds, Series 2015	6,564,997	6,444,997	(100,000)	6,344,997	100,000
Maintenance Tax Notes, 2015	2,250,000	2,250,000	--	2,250,000	--
Time Warrants, Series 2015	310,000	310,000	(45,000)	265,000	100,000
Refunding Bonds, Series 2016	9,334,997	--	9,229,997	9,229,997	60,000
Total bonds and notes	<u>\$ 89,346,529</u>	<u>\$ 70,185,919</u>	<u>\$ (2,325,004)</u>	<u>\$ 67,860,915</u>	<u>\$ 1,172,223</u>
<u>Other liabilities:</u>					
Net issuance premiums (discounts)	\$ --	\$ 1,690,852	\$ 500,320	\$ 2,191,172	--
Accreted interest	--	3,498,286	(437,227)	3,061,059	--
Net pension liability	--	2,270,201	3,016,829	5,287,030	--
Total governmental activities	<u>\$ 89,346,529</u>	<u>\$ 75,375,057</u>	<u>\$ (2,261,910)</u>	<u>\$ 78,400,176</u>	<u>\$ 1,172,223</u>
Long-term liabilities due in more than one year				<u>\$ 77,227,953</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in the governmental funds, but rather recognized as an expenditure when due.

Current requirements for principal and interest expenditures are accounted for in the General Fund and the Debt Service Fund. These bonds were issued as school building bonds, refunding bonds, tax notes, and time warrants. Interest rates on the bonds, tax notes, and time warrants are 1.60 percent to 5.70 percent, 2.00 percent to 3.25 percent, and 1.65 percent, respectively. Interest expense was \$2,791,154 for the year ended August 31, 2016.

The District issued the Royal Independent School District Unlimited Tax Refunding Bonds, Series 2016, dated March 23, 2016, in the amount of \$9,334,997 of general obligation bonds for an advanced refunding of \$755,000 of the Series 2008 bonds and \$8,580,000 of the Series 2008A bonds. The refunding was undertaken to reduce the total of future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$432,327. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the life of the old debt. The transaction also resulted in an economic gain of \$2,614,326 and a reduction of \$3,094,030 in future debt service payments.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2016 are as follows:

Year Ending August 31,	Bonds		
	Principal	Interest	Total
2017	\$ 1,072,223	\$ 3,802,089	\$ 4,874,313
2018	1,519,242	3,355,096	4,874,338
2019	1,459,557	3,417,981	4,877,538
2020	1,650,647	3,175,190	4,825,838
2021	2,370,000	2,462,560	4,832,560
2022-2026	13,395,000	10,777,833	24,172,833
2027-2031	14,904,994	8,952,767	23,857,761
2032-2036	20,025,000	4,514,514	24,539,514
2037-2041	8,949,252	497,141	10,612,141
Totals	<u>\$ 65,345,915</u>	<u>\$ 40,955,171</u>	<u>\$ 107,466,834</u>

Year Ending August 31,	Maintenance Tax Notes and Time Warrant		
	Principal	Interest	Total
2017	\$ 100,000	\$ 70,570	\$ 170,570
2018	105,000	61,710	166,710
2019	60,000	59,978	119,978
2020	100,000	57,988	157,988
2021	175,000	55,238	230,238
2022-2026	920,000	219,975	1,139,975
2027-2031	1,055,000	83,456	1,138,456
Totals	<u>\$ 2,515,000</u>	<u>\$ 608,913</u>	<u>\$ 3,123,913</u>

3. Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2016, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

Bond Issue	Amount
Series 2006	\$ 4,080,000
Series 2007	5,580,000
Series 2008	755,000
Series 2008A	9,335,000
Total	<u>\$ 19,750,000</u>

G. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2016 as follows:

Year Ending August 31,	
Rental Expenditures in 2016	<u>\$ 146,672</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

H. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, 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.

I. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The TRS 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

Detailed information about the TRS' 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 www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

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% (multiplier) times the average of the 5 highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the 3 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 cost of living adjustments (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.

ROYAL INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016*

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

	<u>Contribution Rates</u>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2015 Employer Contributions	\$ 442,876	
District's 2015 Member Contributions	\$ 385,291	
NECE 2015 On-Behalf Contributions to District	\$ 688,423	

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 TRS pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

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

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

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

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

5. Actuarial Assumptions

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
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 primarily based 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 adding expected inflation.

ROYAL INDEPENDENT SCHOOL DISTRICT
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Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2015 are summarized below:

Teacher Retirement System of Texas			
Asset Allocation and Long-Term Expected Real Rate of Return			
As of August 31, 2015			
	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	-	1.8%	-
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	-
Real Return			
Global Inflat. Linked Bonds	3%	0.9%	-
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	-	1.2%	-
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 2015 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	\$ 8,283,755	\$ 5,287,030	\$ 2,790,916

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

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

At August 31, 2016, the District reported a liability of \$5,287,030 for its proportionate share of the TRS' 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	\$ 5,287,030
State's proportionate share of the net pension liability associated with the District	<u>8,215,895</u>
Total	<u>\$ 13,502,925</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015, the District's proportion of the collective net pension liability was 0.0149568%, which was an increase of 0.0064578% from its proportion measured as of August 31, 2014.

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

Economic Assumptions

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

Mortality Assumptions

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

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

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

For the year ended August 31, 2016, the District recognized pension expense of \$1,170,633 and revenue of \$1,170,633 for support provided by the State.

At August 31, 2016, 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	\$ 29,199	\$ (203,185)
Changes in actuarial assumptions	122,725	(188,618)
Difference between projected and actual investment earnings	1,302,078	(520,399)
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	1,474,697	(495)
District contributions paid to TRS subsequent to the measurement date	<u>465,654</u>	<u>-</u>
Total	<u>\$ 3,394,354</u>	<u>\$ (912,697)</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

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
2017	\$ 366,154
2018	366,154
2019	366,154
2020	539,622
2021	212,281
Thereafter	165,639
Total	<u>\$ 2,016,003</u>

J. 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 website 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 2016, 2015, and 2014. 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 2016, 2015, and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$6,329, \$4,278, and \$5,712, respectively; the active member contributions were \$98,636, \$84,393, and \$144,415, respectively; and the District's contributions were \$83,461, \$71,410, and \$122,198, respectively; which equaled the required contributions each year.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

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, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$31,720, \$56,705, and \$58,066, respectively.

K. Employee Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$225 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 third-party administrator, acting on behalf of the 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 third-party administrator is renewable September 1, 2016, and terms of coverage and premium costs are included in the contractual provisions.

L. 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, 2016.

M. Shared Services Arrangements

The District participates in a shared services arrangement (SSA) for Deaf Education with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Katy Regional Day School for the Deaf, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

The District participates in an SSA for electricity services (Energy for Schools). The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Deer Park Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

N. Workers' Compensation

During the year ended August 31, 2016, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's workers' compensation program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claims in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2015, the Fund carries a discounted reserve of \$58,364,320 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2015, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. This audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

O. Unemployment Compensation

During the year ended August 31, 2016, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the unemployment compensation pool.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015 are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

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.

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ROYAL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 1 of 2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	<i>Local and Intermediate Sources</i>	\$ 11,646,174	\$ 11,668,635	\$ 11,274,944	\$ (393,691)
5800	<i>State Program Revenues</i>	9,572,207	9,582,625	8,956,672	(625,953)
5900	<i>Federal Program Revenues</i>	343,023	591,134	525,131	(66,003)
5020	Total Revenues	<u>21,561,404</u>	<u>21,842,394</u>	<u>20,756,747</u>	<u>(1,085,647)</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	<i>Instruction</i>	11,939,057	12,454,318	12,068,972	385,346
0012	<i>Instructional Resources and Media Services</i>	195,991	189,991	177,095	12,896
0013	<i>Curriculum and Staff Development</i>	888,512	868,512	772,354	96,158
	Total Instruction & Instr. Related Services	<u>13,023,560</u>	<u>13,512,821</u>	<u>13,018,421</u>	<u>494,400</u>
Instructional and School Leadership:					
0021	<i>Instructional Leadership</i>	483,776	412,496	392,439	20,057
0023	<i>School Leadership</i>	1,298,473	1,307,503	1,255,549	51,954
	Total Instructional & School Leadership	<u>1,782,249</u>	<u>1,719,999</u>	<u>1,647,988</u>	<u>72,011</u>
Support Services - Student (Pupil):					
0031	<i>Guidance, Counseling and Evaluation Services</i>	455,798	479,750	472,829	6,921
0032	<i>Social Work Services</i>	103,914	97,714	87,079	10,635
0033	<i>Health Services</i>	256,191	262,691	259,195	3,496
0034	<i>Student (Pupil) Transportation</i>	1,156,938	1,075,678	974,282	101,396
0035	<i>Food Services</i>	7,800	8,000	7,800	200
0036	<i>Cocurricular/Extracurricular Activities</i>	853,180	930,873	887,585	43,288
	Total Support Services - Student (Pupil)	<u>2,833,821</u>	<u>2,854,706</u>	<u>2,688,770</u>	<u>165,936</u>
Administrative Support Services:					
0041	<i>General Administration</i>	797,921	810,421	786,451	23,970
	Total Administrative Support Services	<u>797,921</u>	<u>810,421</u>	<u>786,451</u>	<u>23,970</u>
Support Services - Nonstudent Based:					
0051	<i>Plant Maintenance and Operations</i>	1,636,795	2,421,180	2,320,408	100,772
0052	<i>Security and Monitoring Services</i>	113,382	116,072	100,844	15,228
0053	<i>Data Processing Services</i>	469,133	476,133	443,504	32,629
	Total Support Services - Nonstudent Based	<u>2,219,310</u>	<u>3,013,385</u>	<u>2,864,756</u>	<u>148,629</u>
Ancillary Services:					
0061	<i>Community Services</i>	4,500	4,590	2,207	2,383
	Total Ancillary Services	<u>4,500</u>	<u>4,590</u>	<u>2,207</u>	<u>2,383</u>
Debt Service:					
0071	<i>Principal on Long-Term Debt</i>	45,000	45,000	45,000	--
0072	<i>Interest on Long-Term Debt</i>	70,188	70,188	69,041	1,147
0073	<i>Bond Issuance Costs and Fees</i>	1,000	1,000	200	800
	Total Debt Service	<u>116,188</u>	<u>116,188</u>	<u>114,241</u>	<u>1,947</u>
Capital Outlay:					
0081	<i>Capital Outlay</i>	1,585,911	2,026,083	2,019,349	6,734
	Total Capital Outlay	<u>1,585,911</u>	<u>2,026,083</u>	<u>2,019,349</u>	<u>6,734</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Intergovernmental Charges:				
0093	Payments to Fiscal Agent/Member Dist.-SSA	775,000	--	--	--
0099	Other Intergovernmental Charges	290,000	275,000	274,872	128
	Total Intergovernmental Charges	1,065,000	275,000	274,872	128
6030	Total Expenditures	23,428,460	24,333,193	23,417,055	916,138
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(1,867,056)	(2,490,799)	(2,660,308)	(169,509)
	Other Financing Sources (Uses):				
8911	Transfers Out	--	--	(12,044)	(12,044)
7080	Total Other Financing Sources and (Uses)	--	--	(12,044)	(12,044)
1200	Net Change in Fund Balance	(1,867,056)	(2,490,799)	(2,672,352)	(181,553)
0100	Fund Balance - Beginning	7,691,642	6,244,312	7,691,642	1,447,330
3000	Fund Balance - Ending	\$ 5,824,586	\$ 3,753,513	\$ 5,019,290	\$ 1,265,777

Notes to the Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
 FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-2

	Measurement Year*	
	2015	2014
District's proportion of the net pension liability (asset)	0.049568%	0.0084990%
District's proportionate share of the net pension liability (asset)	\$ 5,287,030	\$ 2,270,201
State's proportionate share of the net pension liability (asset) associated with the District	8,215,895	6,515,686
Total	<u>\$ 13,502,925</u>	<u>\$ 8,785,887</u>
District's covered employee payroll**	\$ 12,983,588	\$ 12,027,683
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	40.72%	18.87%
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

* Only two years' worth of information is currently available.

** As of the measurement date.

Notes to Required Supplementary Information:*Changes of Assumptions:*

See notes to the financial statements (Defined Benefit Pension Plan, Teacher Retirement System disclosure) for changes.

Changes of Benefits:

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

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
 LAST TEN FISCAL YEARS *

	Fiscal Year				
	2016	2015	2014	2013	2012
Contractually required contribution	\$ 465,654	\$ 420,813	\$ 215,472	\$ 186,739	\$ 160,896
Contributions in relation to the contractually required contribution	465,654	420,813	215,472	186,739	160,896
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered employee payroll	\$ 15,174,769	\$ 12,983,588	\$ 12,027,683	\$ 12,190,150	\$ 11,498,613
Contributions as a percentage of covered employee payroll	3.07%	3.24%	1.79%	1.53%	1.40%

*Only seven years' worth of information is currently available.

Fiscal Year	
2011	2010
\$ 168,911	\$ 174,296
168,911	174,296
<u>\$ --</u>	<u>\$ --</u>
\$ 11,793,663	\$ 12,274,465
1.43%	1.42%

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Combining Statements as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

ROYAL INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2016

Data Control Codes	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula	225 IDEA B Preschool Grant	240 National School Breakfast/Lunch Program
ASSETS:				
1110 Cash and Cash Equivalents	\$ 40,947	\$ 254	\$ --	\$ 16,340
1240 Due from Other Governments	15,321	162,306	2,100	--
1290 Other Receivables	--	--	--	50,000
1300 Inventories	--	--	--	21,473
1000 Total Assets	<u>56,268</u>	<u>162,560</u>	<u>2,100</u>	<u>87,813</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ --	\$ 10,707	\$ --	\$ --
2150 Payroll Deductions & Withholdings	176	--	--	--
2170 Due to Other Funds	56,092	151,853	2,100	--
2300 Unearned Revenue	--	--	--	21,473
2000 Total Liabilities	<u>56,268</u>	<u>162,560</u>	<u>2,100</u>	<u>21,473</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 Inventories	--	--	--	21,473
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	--	44,867
3490 Other Restrictions of Fund Balance	--	--	--	--
3000 Total Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>	<u>66,340</u>
4000 Total Liabilities and Fund Balances	<u>\$ 56,268</u>	<u>\$ 162,560</u>	<u>\$ 2,100</u>	<u>\$ 87,813</u>

244 Carl D. Perkins Basic Formula Grant	255 ESEA Title II Training & Recruiting	263 English Language Acquisition and Enhancement	270 ESEA, Title VI Part B, Subpart 2 Rural School	289 Summer School LEP
\$ --	\$ 245	\$ --	\$ --	\$ --
--	10,471	--	3,975	--
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>10,716</u>	<u>--</u>	<u>3,975</u>	<u>--</u>
<u><u>--</u></u>	<u><u>10,716</u></u>	<u><u>--</u></u>	<u><u>3,975</u></u>	<u><u>--</u></u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	10,716	--	3,975	--
--	--	--	--	--
<u>--</u>	<u>10,716</u>	<u>--</u>	<u>3,975</u>	<u>--</u>
<u><u>--</u></u>	<u><u>10,716</u></u>	<u><u>--</u></u>	<u><u>3,975</u></u>	<u><u>--</u></u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u><u>--</u></u>	<u><u>10,716</u></u>	<u><u>--</u></u>	<u><u>3,975</u></u>	<u><u>--</u></u>

ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2016

Data Control Codes	397 Advanced Placement Incentives	410 State Textbook Fund
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 18,340
1240 <i>Due from Other Governments</i>	--	--
1290 <i>Other Receivables</i>	--	--
1300 <i>Inventories</i>	--	--
1000 Total Assets	<u> --</u>	<u> 18,340</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ --	\$ --
2150 <i>Payroll Deductions & Withholdings</i>	--	--
2170 <i>Due to Other Funds</i>	--	--
2300 <i>Unearned Revenue</i>	--	--
2000 Total Liabilities	<u> --</u>	<u> --</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410 <i>Inventories</i>	--	--
Restricted Fund Balances:		
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--
3490 <i>Other Restrictions of Fund Balance</i>	--	18,340
3000 Total Fund Balances	<u> --</u>	<u> 18,340</u>
4000 Total Liabilities and Fund Balances	<u> \$ --</u>	<u> \$ 18,340</u>

429 State Funded Special Revenue Fund	461 Campus Activity Funds	499 Locally Funded Grants	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 28,098	\$ 8,583	\$ 2,221	\$ 115,028
3,300	--	--	197,473
--	--	--	50,000
--	--	--	21,473
<u>31,398</u>	<u>8,583</u>	<u>2,221</u>	<u>383,974</u>
\$ --	\$ --	\$ --	\$ 10,707
--	--	--	176
29,998	--	--	254,734
--	--	--	21,473
<u>29,998</u>	<u>--</u>	<u>--</u>	<u>287,090</u>
--	--	--	21,473
--	--	--	44,867
1,400	8,583	2,221	30,544
<u>1,400</u>	<u>8,583</u>	<u>2,221</u>	<u>96,884</u>
<u>\$ 31,398</u>	<u>\$ 8,583</u>	<u>\$ 2,221</u>	<u>\$ 383,974</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula	225 IDEA B Preschool Grant	240 National School Breakfast/Lunch Program
REVENUES:				
5700 Local and Intermediate Sources	\$ --	\$ --	\$ --	\$ 212,181
5800 State Program Revenues	--	--	--	7,095
5900 Federal Program Revenues	849,975	382,079	5,005	989,235
5020 Total Revenues	<u>849,975</u>	<u>382,079</u>	<u>5,005</u>	<u>1,208,511</u>
EXPENDITURES:				
Current:				
0011 Instruction	769,125	200,342	155	--
0012 Instructional Resources and Media Services	1,764	--	--	--
0013 Curriculum and Staff Development	56,760	3,141	--	--
0021 Instructional Leadership	--	33,069	--	--
0023 School Leadership	5,432	1,361	--	--
0031 Guidance, Counseling, & Evaluation Services	6,927	132,313	4,850	--
0034 Student Transportation	4,150	--	--	--
0035 Food Service	--	--	--	1,180,313
0036 Cocurricular/Extracurricular Activities	--	--	--	--
0041 General Administration	--	--	--	--
0051 Facilities Maintenance and Operations	--	--	--	--
0061 Community Services	5,817	--	--	--
0081 Capital Outlay	--	--	--	--
0093 Payments to Shared Services Arrangements	--	11,853	--	--
6030 Total Expenditures	<u>849,975</u>	<u>382,079</u>	<u>5,005</u>	<u>1,180,313</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	--	--	--	28,198
Other Financing Sources and (Uses):				
7915 Transfers In	12,044	--	--	--
8949 Other Uses	(12,044)	--	--	--
7080 Total Other Financing Sources and (Uses)	--	--	--	--
1200 Net Change in Fund Balances	--	--	--	28,198
0100 Fund Balances - Beginning	--	--	--	38,142
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 66,340</u>

244 Carl D. Perkins Basic Formula Grant	255 ESEA Title II Training & Recruiting	263 English Language Acquisition and Enhancement	270 ESEA, Title VI Part B, Subpart 2 Rural School	289 Summer School LEP
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
30,231	98,317	96,199	55,095	10,018
<u>30,231</u>	<u>98,317</u>	<u>96,199</u>	<u>55,095</u>	<u>10,018</u>
30,231	73,234	85,359	55,095	10,018
--	--	--	--	--
--	15,078	10,840	--	--
--	--	--	--	--
--	4,649	--	--	--
--	--	--	--	--
--	--	--	--	--
--	5,356	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>30,231</u>	<u>98,317</u>	<u>96,199</u>	<u>55,095</u>	<u>10,018</u>
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	397 Advanced Placement Incentives	410 State Textbook Fund
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --
5800 <i>State Program Revenues</i>	2,250	231,816
5900 <i>Federal Program Revenues</i>	--	--
5020 Total Revenues	<u>2,250</u>	<u>231,816</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	--	213,476
0012 <i>Instructional Resources and Media Services</i>	--	--
0013 <i>Curriculum and Staff Development</i>	2,250	--
0021 <i>Instructional Leadership</i>	--	--
0023 <i>School Leadership</i>	--	--
0031 <i>Guidance, Counseling, & Evaluation Services</i>	--	--
0034 <i>Student Transportation</i>	--	--
0035 <i>Food Service</i>	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--
0041 <i>General Administration</i>	--	--
0051 <i>Facilities Maintenance and Operations</i>	--	--
0061 <i>Community Services</i>	--	--
0081 <i>Capital Outlay</i>	--	--
0093 <i>Payments to Shared Services Arrangements</i>	--	--
6030 Total Expenditures	<u>2,250</u>	<u>213,476</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	<u>--</u>	<u>18,340</u>
Other Financing Sources and (Uses):		
7915 <i>Transfers In</i>	--	--
8949 <i>Other Uses</i>	--	--
7080 Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>--</u>	<u>18,340</u>
0100 Fund Balances - Beginning	<u>--</u>	<u>--</u>
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ 18,340</u>

429 State Funded Special Revenue Fund	461 Campus Activity Funds	499 Locally Funded Grants	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ 23,541	\$ 23,530	\$ 259,252
7,250	--	--	248,411
--	--	--	2,516,154
<u>7,250</u>	<u>23,541</u>	<u>23,530</u>	<u>3,023,817</u>
3,950	--	3,755	1,444,740
--	--	509	2,273
1,900	--	848	90,817
--	--	--	33,069
--	--	625	12,067
--	--	--	144,090
--	--	--	4,150
--	--	--	1,180,313
--	21,788	929	22,717
--	--	--	5,356
--	--	6,000	6,000
--	--	--	5,817
--	--	10,000	10,000
--	--	--	11,853
<u>5,850</u>	<u>21,788</u>	<u>22,666</u>	<u>2,973,262</u>
1,400	1,753	864	50,555
--	--	--	12,044
--	--	--	(12,044)
<u>1,400</u>	<u>1,753</u>	<u>864</u>	<u>50,555</u>
--	6,830	1,357	46,329
<u>\$ 1,400</u>	<u>\$ 8,583</u>	<u>\$ 2,221</u>	<u>\$ 96,884</u>

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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.

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2016

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2007 and Prior Years	\$	Various	\$	Various	\$	Various
2008	\$	1.04	\$	.28	\$	594,604,328
2009	\$	1.04	\$	.426	\$	665,503,572
2010	\$	1.04	\$	.4795	\$	715,254,629
2011	\$	1.04	\$	.59	\$	733,799,563
2012	\$	1.04	\$	.545	\$	760,439,175
2013	\$	1.04	\$	.5264	\$	798,783,864
2014	\$	1.04	\$	.5563	\$	876,060,060
2015	\$	1.04	\$	.50	\$	995,418,384
2016 (School Year Under Audit)	\$	1.04	\$	.4888	\$	1,037,758,434

1000 Totals

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

10 Beginning Balance 9/1/15	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/16
\$ 418,517	\$ --	\$ 17,631	\$ 7,355	\$ (65,788)	\$ 327,742
54,568	--	6,395	1,722	(2,275)	44,176
72,972	--	7,344	3,008	(2,797)	59,823
73,392	--	6,995	3,225	(1,029)	62,143
85,181	--	10,425	5,914	(487)	68,354
111,000	--	18,111	9,491	(1,170)	82,228
151,474	--	19,433	9,836	(812)	121,392
186,499	--	42,840	22,915	(4,204)	116,540
375,837	--	132,275	63,594	(22,545)	157,423
--	15,865,251	10,535,463	4,951,667	--	378,121
<u>\$ 1,529,441</u>	<u>\$ 15,865,251</u>	<u>\$ 10,796,913</u>	<u>\$ 5,078,728</u>	<u>\$ (101,108)</u>	<u>\$ 1,417,943</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

ROYAL INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT J-2

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>	\$ 180,999	\$ 180,999	\$ 212,181	\$ 31,182
5800	<i>State Program Revenues</i>	7,201	7,201	7,095	(106)
5900	<i>Federal Program Revenues</i>	1,102,684	1,102,684	989,235	(113,449)
5020	Total Revenues	<u>1,290,884</u>	<u>1,290,884</u>	<u>1,208,511</u>	<u>(82,373)</u>
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	<i>Food Services</i>	1,290,884	1,292,348	1,180,313	112,035
	Total Support Services - Student (Pupil)	<u>1,290,884</u>	<u>1,292,348</u>	<u>1,180,313</u>	<u>112,035</u>
6030	Total Expenditures	<u>1,290,884</u>	<u>1,292,348</u>	<u>1,180,313</u>	<u>112,035</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(1,464)	28,198	29,662
1200	Net Change in Fund Balance	--	(1,464)	28,198	29,662
0100	Fund Balance - Beginning	38,142	38,142	38,142	--
3000	Fund Balance - Ending	<u>\$ 38,142</u>	<u>\$ 36,678</u>	<u>\$ 66,340</u>	<u>\$ 29,662</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 5,081,081	\$ 5,081,081	\$ 5,174,108	\$ 93,027
5800	State Program Revenues	--	--	64,753	64,753
5020	Total Revenues	<u>5,081,081</u>	<u>5,081,081</u>	<u>5,238,861</u>	<u>157,780</u>
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	2,280,000	2,280,000	2,280,000	--
0072	Interest on Long-Term Debt	2,781,081	2,781,081	2,720,967	60,114
0073	Bond Issuance Costs and Fees	20,000	191,845	175,044	16,801
	Total Debt Service	<u>5,081,081</u>	<u>5,252,926</u>	<u>5,176,011</u>	<u>76,915</u>
6030	Total Expenditures	<u>5,081,081</u>	<u>5,252,926</u>	<u>5,176,011</u>	<u>76,915</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(171,845)	62,850	234,695
Other Financing Sources (Uses):					
7911	Capital-Related Debt Issued (Regular Bonds)	--	171,845	9,334,997	9,163,152
7916	Premium or Discount on Issuance of Bonds	--	--	605,816	605,816
8949	Other Uses	--	--	(9,767,327)	(9,767,327)
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>171,845</u>	<u>173,486</u>	<u>1,641</u>
1200	Net Change in Fund Balance	--	--	236,336	236,336
0100	Fund Balance - Beginning	729,498	729,498	729,498	--
3000	Fund Balance - Ending	<u>\$ 729,498</u>	<u>\$ 729,498</u>	<u>\$ 965,834</u>	<u>\$ 236,336</u>

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

To the Board of Trustees of the
Royal Independent School District:

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 Royal Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Royal Independent School District's basic financial statements, and have issued our report thereon dated December 13, 2016.

Internal Control Over Financial Reporting

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

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
713.263.1123

Austin

100 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



Compliance and Other Matters

As part of obtaining reasonable assurance about whether Royal Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Respectfully submitted,

 BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Bellville, Texas
December 13, 2016



Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees of the
Royal Independent School District:

Report on Compliance for Each Major Federal Program

We have audited Royal 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 Royal Independent School District's major federal programs for the year ended August 31, 2016. Royal Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Royal 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 Royal 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 Royal Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Royal Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

Partners

Robert Belt, CPA
Stephanie E. Harris, CPA
Nathan Krupke, CPA

Houston

3210 Bingle Rd., Ste. 300
Houston, TX 77055
713.263.1123

Bellville

P.O. Box 826
Bellville, TX 77418
713.263.1123

Austin

400 Congress Ave., Ste. 2000
Austin, TX 78701
512.381.0222

All Offices

www.texasauditors.com
info@txauditors.com
713.263.1550 fax



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Report on Internal Control Over Compliance

Management of Royal 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 Royal 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 Royal Independent School District's internal control over compliance.

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

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

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

Respectfully submitted,

 BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Bellville, Texas
December 13, 2016

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

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' 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 None Reported

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 auditors' 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>
84.027 & 84.173	IDEA B Cluster
84.048	Carl D. Perkins Basic Grant
84.367	Title II, Part A

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

C. Federal Award Findings and Questioned Costs

NONE

ROYAL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
NONE NOTED		

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT K-1
Page 1 of 2

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER:			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	71401601	\$ 230,504
National School Lunch Program	10.555	71301601	684,780
Total Passed Through State Department of Education			<u>915,284</u>
Total U. S. Department of Agriculture			<u>915,284</u>
Total Child Nutrition Cluster			<u>915,284</u>
FOOD DISTRIBUTION CLUSTER:			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Commodity Supplemental Food Program (Non-cash)	10.565	237-905	73,951
Total U. S. Department of Agriculture			<u>73,951</u>
Total Food Distribution Cluster			<u>73,951</u>
MEDICAID CLUSTER:			
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Medicaid Administrative Claiming Program	93.778	237-905	15,179
Total U. S. Department of Health and Human Services			<u>15,179</u>
Total Medicaid Cluster			<u>15,179</u>
SPECIAL EDUCATION (IDEA) CLUSTER:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
IDEA-B Formula	84.027	166600012379056600	382,079
IDEA-B Preschool	84.173	166610012379056610	5,005
Total Passed Through State Department of Education			<u>387,084</u>
Total U. S. Department of Education			<u>387,084</u>
Total Special Education (IDEA) Cluster			<u>387,084</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2016

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
OTHER PROGRAMS:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010	16610101237905	849,975
<i>Carl D. Perkins Basic Formula Grant</i>	84.048	16420006237905	30,231
<i>ESEA, Title VI, Part B, Subpart 2 - Rural and Low Income School</i>	84.358	16696001237905	55,095
<i>Title III Part A English Language Acquisition & Language Enhancement</i>	84.365	16671001237905	96,199
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367	16694501237905	98,317
<i>Summer School LEP</i>	84.369	69551502	10,018
Total Passed Through State Department of Education			<u>1,139,835</u>
Total U. S. Department of Education			<u>1,139,835</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>2,531,333</u>
		Federal Revenue from SEFA	\$ 2,531,333
		General Fund SHARS	150,800
		General Fund ERATE	359,152
		Total Federal Revenue on C-2	\$ <u>3,041,285</u>

The accompanying notes are an integral part of this schedule.

ROYAL INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016*

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Royal Independent School District and is presented on the modified accrual basis of accounting. The information in this 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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The District has elected not to use the De Minimis Indirect Cost Rate.

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2016

<u>Data Control Codes</u>		<u>Responses</u>
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?	\$ 3,061,059
SF11	Net pension assets (object 1920) at fiscal year-end	\$ --
SF12	Net pension liabilities (object 2540) at fiscal year-end	\$ 5,287,030
SF13	Pension expense (object 6147) at fiscal year-end	\$ 466,262