

**EAST CHAMBERS INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017**

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

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INTRODUCTORY SECTION

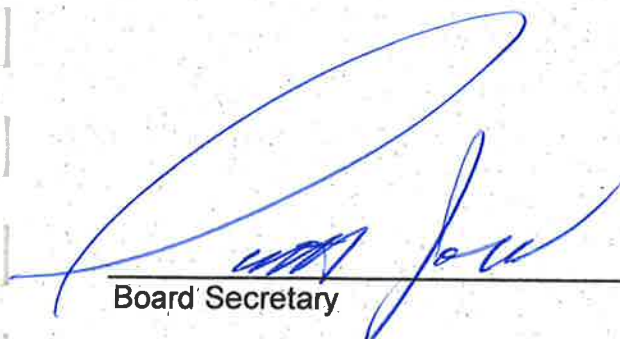
CERTIFICATE OF BOARD

East Chambers Independent School District
Name of School District


Chambers
County

036-903
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district was reviewed and ✓ approved _____ disapproved for the year ended August 31, 2017 at a meeting of the board of school trustees of such school district on the 11th day of December, 2017.



Board Secretary



Board President

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

FINANCIAL SECTION

J. R. Edwards & Associates, LLC

Certified Public Accountants

December 1, 2017

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
East Chambers Independent School District
1955 State Hwy. 124
Winnie, TX 77665

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of East Chambers Independent School District, as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Board of Trustees
East Chambers Independent School District
December 1, 2017

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 and The TRS pension schedules on pages 4-10 and 39-41 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 District's basic financial statements. The introductory section and other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code *Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and other supplementary information sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 1, 2017, on our consideration of the District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering District's internal control over financial reporting and compliance

J.R. Edwards & Associates, LLC

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

In this section of the Annual Financial Report, we, the managers of the East Chambers Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2016. We encourage readers to consider the information presented here in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$25,153,647 at August 31, 2017.
- During the year, the District's revenues were \$869,807 more than expenses.
- The general fund reported a fund balance this year of \$4,293,678, all of which is for unrestricted use by the District.
- The District received the highest rating (Superior Achievement) in the State's Financial Integrity Rating System of Texas once again.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplementary information.

Government-Wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. They include the Statement of Net Position and the Statement of Activities that provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The Statement of Net Position presents information in a format that displays assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources to equal net position. Net position is displayed in three components – net investment in capital assets, restricted, and unrestricted. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The *Statement of Activities* presents information showing how the government's net position changed during the current fiscal year. All changes in net position are reported for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

OVERVIEW OF THE FINANCIAL STATEMENTS, CONTINUED

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide detailed information about the District's most significant funds, *not* the District as a whole.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds organized according to their type. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the District's most significant funds. The District's major governmental fund is the General Fund. Data for the remaining governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The Texas Education Agency also requires the District to present a budgetary comparison statement for one of its special revenue funds (food service) and the debt service fund.

Fiduciary Funds. The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net position and Changes in Fiduciary Net position. These resources are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the Financial Statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-38 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on page 39 of this report.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and Changes in Net Position (Table II) of the District's governmental activities.

The District's combined net position was \$25,072,833 at August 31, 2017. (See Table I)

Table I
East Chambers Independent School District
Net Position

	August 31, 2017	August 31, 2016
Current and Other Assets	\$ 14,423,332	\$ 15,305,854
Capital Assets	\$ 30,610,413	\$ 29,070,566
Deferred Outflows	1,429,155	1,580,586
Total Assets	<u>46,462,900</u>	<u>45,957,006</u>
Long-term Liabilities	20,363,482	20,267,184
Other Liabilities	780,081	1,203,001
Deferred Inflows	165,690	202,981
Total Liabilities	<u>21,309,253</u>	<u>21,673,166</u>
Net Assets:		
Invested in Capital Assets Net of Related Debt	13,097,517	10,697,370
Restricted	8,934,558	10,939,813
Unrestricted	3,121,572	2,646,657
Total Net Position	<u>\$ 25,153,647</u>	<u>\$ 24,283,840</u>

Approximately \$13.1 million of the District's net position represent investments in capital assets net of related debt. Restricted net position includes assets restricted for debt service, construction and federal and state programs.

Changes in net position. The District's total revenues were \$16.9 million. A significant portion, 72 percent, of the District's revenue comes from federal and state aid, 20 percent comes from property taxes, while only 2 percent relates to charges for services and 6 percent to investment and other miscellaneous revenue.

Total Cost of all programs and services was \$16.1 million; of this amount \$8.6 million of these costs relate to functions for instruction.

Net position of the District's governmental activities for the current year increased \$870 thousand (see Table II on page 7 of this report). This is an indication that the government's overall financial position has improved.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS, CONTINUED

Key elements of the governmental activities of the District are reflected in the following table.

Table II
East Chambers Independent School District
Changes in Net Position

	August 31, 2017	August 31, 2016
Revenues:		
Program Revenues:		
Charges for Services	\$ 332,270	\$ 328,320
Operating Grants and Contributions	1,999,088	1,618,082
General Revenues:		
Property Taxes	3,370,439	3,825,427
State Aid - Formula Grants		
Grants and Contributions - Not Restricted to		
Specific Functions	10,106,417	9,918,993
Investment Earnings	97,266	56,010
Miscellaneous	952,217	1,172,351
Total Revenues	<u>16,857,697</u>	<u>16,919,183</u>
Expenses:		
Instruction	8,565,591	8,411,658
Instructional Resources and Media Services	215,156	212,331
Curriculum/Instructional Development	304,722	85,342
Instructional Leadership	165,377	161,087
School Leadership	628,956	653,575
Guidance and Counseling Services	476,592	508,611
Health Services	76,320	74,375
Student (Pupil) Transportation	417,136	444,263
Food Services	915,560	859,578
Cocurricular/Extracurricular Activities	1,012,960	921,754
General Administration	621,676	655,523
Plant Maintenance and Operations	1,888,186	1,862,223
Security and Monitoring Services	28,954	31,366
Data Processing Services	102,021	95,012
Community Services	-	-
Debt Services - Interest on Long-Term Debt	568,183	430,400
Debt Services - Bond Issuance Cost & Fees	500	246,494
Payments to Fiscal Agent/Member Districts of SSA	-	-
Total Expenses	<u>15,987,890</u>	<u>15,653,592</u>
Increase in Net Position	869,807	1,265,591
Net Position - September 1 (Beginning)	24,283,840	23,018,249
Prior Period Adjustment	-	-
Net Position - September 1 (Restated)	<u>24,283,840</u>	<u>23,018,249</u>
Net Position - August 31 (Ending)	<u>\$ 25,153,647</u>	<u>\$ 24,283,840</u>

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

GOVERNMENT-WIDE FINANCIAL ANALYSIS, CONTINUED

GOVERNMENTAL ACTIVITIES

- Property tax rates were set at \$1.17 per \$100 valuation for maintenance and operations and \$0.12 for debt service. The rate for 2017 is set at \$1.17 for maintenance and operations and \$0.12 for principal and interest on debts.
- The District continues to pay down the general obligation bonds.

Table III presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all governmental activities this year was \$16.07 million.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$3.4 million.
- Some of the cost was paid by those who directly benefited from the programs \$332,270, or by grants and contributions \$2.0 million.

Table III
Net Cost of Selected District Functions

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction	8,565,591	\$ 8,411,658	7,772,298	\$ 7,642,724
School Administration	621,676	655,523	605,022	638,712
School Leadership	628,956	653,575	598,404	623,792
Plant Maintenance & Operations	1,919,184	1,862,223	1,882,535	1,830,013
Cocurricular/Extracurricular Activities	1,012,960	921,754	920,493	852,972
Food Service	915,560	859,578	222,889	(9,415)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

East Chambers ISD continues its commitment to approach fiscal matters in a conservative manner. Student population increases continue at a consistent and predictable rate with total enrollment reaching 1520 students this year. This is a higher enrollment than budget estimates predicted and will result in additional state funding.

The District continues to invest in the physical plant. Construction of the new elementary has commenced and it is one-third complete. Projections are for it to be completed in July 2018 and occupied for 2018-19 school year. The student center/technology center will be added to the high school and the design/development stage is complete. The District approved the sale of a parcel of property to Chambers County to locate a new county library adjacent to the elementary school. The District continues its commitment to security by completing a connector between the middle and back classrooms at the elementary, restricting access. The plan is to connect the middle and front classrooms in 2017-18 which will completely self-contain all classroom buildings at the elementary with public access only through the front office.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS, CONTINUED

To save between \$400,000-\$425,000 in interest on debt, the District is set to move forward on an advance refunding of \$5.5 million balance of the 2008 bonds outstanding. The S&P bond rating was received on 12/07/2017 and set at plus on the underlying rating, of the District.

East Chambers continues to receive a transparency star by the Texas Comptroller for disclosures on our website regarding finance and budget.

General Fund Budgetary Highlights:

There were few budget amendments for the 2016-2017 school year, and those were mostly related to capital project costs. Revenue and expenditure projections were realized as relatively expected. Revenue exceeded budgeted amounts due primarily to student growth, and expenditures were within budgeted targets.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets. At August 31, 2017 the District had \$30.6 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment used for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase (including additions and deductions) of \$500 thousand over last year.

East Chambers Independent School District
Capital Assets
Governmental Activities

	August 31, 2017	August 31, 2016
Land	\$ 1,295,620	\$ 1,295,621
Construction in Progress	2,399,484	972,249
Buildings and Improvements	38,362,467	37,271,894
Equipment	2,292,990	2,231,152
Vehicles	2,119,734	2,061,816
Totals at Historical Cost	<u>46,470,295</u>	<u>43,832,732</u>
Less Accumulated Depreciation:		
Buildings and Improvements	(12,333,278)	(11,477,762)
Equipment	(1,854,463)	(1,694,804)
Vehicles	(1,672,141)	(1,589,599)
Total Accumulated Depreciation	<u>(15,859,882)</u>	<u>(14,762,165)</u>
Net Capital Assets	<u>\$ 30,610,413</u>	<u>\$ 29,070,567</u>

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2017

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY, CONTINUED

Long-Term Debt. At year-end, the District had \$18.339 million in bonds and notes outstanding. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

**East Chambers Independent School District
Outstanding Debt**

	<u>August 31, 2017</u>	<u>August 31, 2016</u>
Governmental activities:		
General Obligation Bonds Bonds	\$ 15,739,000	\$ 16,370,000
Add: Premium on Bonds	649,865	690,095
Maintenance Tax Note	915,000	1,000,000
Capital Leases Payable	161,356	212,702
Compensated absences	23,836	33,343
Notes Payable	-	33,711
Total	<u>\$ 17,489,057</u>	<u>\$ 18,339,851</u>

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

Appraised values continue to increase at a modest rate as well as student growth patterns which allows for additional state funding each year. This is expected to continue. The District remains solidly within guidelines for student/teacher ratios and student/staff ratios. Administrative costs continue to be less than average for our size school district. The District saw little financial impact from Hurricane Harvey on its school buildings and did not have enough damage to file an insurance claim. The storm also did not adversely affect student enrollment.

Spending per pupil continues to increase as funding from the state increases. Results of the legislative had little impact on District finances except to incrementally increase state funding.

In adopting the budget for 2017-2018, the Board considered all of its options and attempted to forecast beyond the 2017-2018. In the end, the most conservative estimates of revenues and pupil growth were used as models in developing the budget. The District continues to give an average 3% raise to its employees to maintain a competitive advantage in our market and plans to continue this practice. The District completed a comprehensive market pay study as it remains committed to remaining competitive in the market and adopted a very progression/competition pay plan for its employees.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Business Services Department, 1955 State Hwy. 124 Winnie, Texas 77665.

STATEMENT OF NET POSITION

AUGUST 31, 2017

Data Control Codes		Primary Government Governmental Activities
Assets		
1110	Cash and Cash Equivalents	\$ 13,489,603
1220	Property Taxes Receivable (Delinquent)	523,465
1230	Allowance for Uncollectible Taxes	(77,741)
1240	Due from Other Governments	284,860
1267	Due from Fiduciary Funds	-
1290	Other Receivables	-
1410	Prepayments	203,145
	Capital Assets (Net of Accumulated Depreciation):	
1510	Land	1,295,620
1520	Buildings and Improvements, Net	26,029,189
1530	Furniture and Equipment, Net	886,120
1580	Construction in Progress	2,399,484
1000	Total Assets	45,033,745
1700	Deferred Outflows:	
1705	Deferred Outflow Related to TRS	1,429,155
	Total Assets and Deferred Outflows	46,462,900
Liabilities		
2110	Accounts Payable and Accrued Expenses	417,925
2160	Accrued Wages Payable	350,549
2180	Due to Other Governments	3,766
2200	Accrued Expenditures	7,841
	Long-Term Liabilities:	
2501	Due Within One Year	859,174
2502	Due in More Than One Year	16,629,886
2540	Net Pension Liability (District's Share)	2,874,422
2000	Total Liabilities	21,143,563
2600	Deferred Inflows:	
2605	Deferred Inflow Related to TRS	165,690
	Total Liabilities and Deferred Inflows	21,309,253
Net Position		
3200	Invested in Capital Assets, Net of Related Debt	13,097,517
3820	Restricted for Federal and State Programs	217,390
3850	Restricted for Debt Service	170,698
3860	Restricted for Capital Projects	8,546,470
3900	Unrestricted Net Position	3,121,572
3000	Total Net Position	\$ 25,153,647

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

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

EXHIBIT B-1

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Data Control Codes		Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities					
0011	Instruction	\$ 8,565,591	\$ -	\$ 793,293	\$ (7,772,298)
0012	Instructional Resources & Media Services	215,156	-	8,107	(207,049)
0013	Curriculum/Instructional Development	304,722	-	63,393	(241,329)
0021	Instructional Leadership	165,377	-	9,524	(155,853)
0023	School Leadership	628,956	-	30,552	(598,404)
0031	Guidance and Counseling Services	476,592	-	118,770	(357,822)
0033	Health Services	76,320	-	2,988	(73,332)
0034	Student (Pupil) Transportation	417,136	-	15,626	(401,510)
12,874,4	Food Services	915,560	263,033	875,416	222,889
0036	Cocurricular/Extracurricular Activities	1,012,960	69,237	23,230	(920,493)
0041	General Administration	621,676	-	16,654	(605,022)
0051	Plant Maintenance and Operations	1,888,186	-	36,649	(1,851,537)
0052	Security and Monitoring Services	28,954	-	1,392	(27,562)
0053	Data Processing Services	102,021	-	3,494	(98,527)
0072	Debt Service - Interest on Long-Term Debt	568,183	-	-	(568,183)
0073	Debt Service - Bond Issuance Cost & Fees	500	-	-	(500)
TP	Total Primary Government:	<u>\$ 15,987,890</u>	<u>\$ 332,270</u>	<u>\$ 1,999,088</u>	<u>(13,656,532)</u>

Data Control Codes		
General Revenues:		
Taxes:		
MT	Property Taxes, levied for general purposes	3,048,770
DT	Property Taxes, levied for debt service	321,669
GC	Grants and Contributions not restricted	10,106,417
IE	Investment Earnings	97,266
MI	Miscellaneous Local and Intermediate	952,217
TR	Total General Revenues	<u>14,526,339</u>
CN	Change in Net Position	869,807
NB	Net Position - September 1 (Beginning)	24,283,840
PA	Prior Period Adjustment	-
NB	Net Position - September 1 (Restated)	<u>24,283,840</u>
NE	Net Position - August 31 (Ending)	<u>\$ 25,153,647</u>

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

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-1

BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Funds	Total Governmental Funds	
Assets					
1110	Cash and Temporary Investments (market)	\$ 4,389,865	\$ 8,427,066	\$ 672,672	\$ 13,489,603
1220	Property Taxes - Delinquent	466,026	-	57,439	523,465
1230	Allowance for Uncollectible Taxes (credit)	(69,211)	-	(8,530)	(77,741)
1240	Due from Other Governments	163,829	-	121,031	284,860
1260	Due from Other Funds	176,220	-	137,560	313,780
1410	Prepayments	203,158	-	(13)	203,145
1000	Total Assets	\$ 5,329,887	\$ 8,427,066	\$ 980,159	\$ 14,737,112
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities:					
2110	Accounts Payable	\$ 175,627	\$ 220,288	\$ 22,010	\$ 417,925
2160	Accrued Wages Payable	346,368	-	4,181	350,549
2170	Due to Other Funds	137,560	-	176,220	313,780
2180	Due to Other Governments	-	-	3,766	3,766
2200	Accrued Expenditures	7,416	-	425	7,841
2000	Total Liabilities	\$ 666,971	\$ 220,288	\$ 206,602	\$ 1,093,861
Deferred Inflows of Resources					
2601	Unavailable Revenue - Property Taxes	\$ 369,238	\$ -	\$ 45,777	\$ 415,015
2600	Total Deferred Inflows of Resources	\$ 369,238	\$ -	\$ 45,777	\$ 415,015
Fund Balances:					
Restricted Fund Balance:					
3450	Federal or State Funds	\$ -	\$ -	\$ 217,390	\$ 217,390
3470	Capital Projects	-	8,206,778	339,692	8,546,470
3480	Retirement of Long-Term Debt	-	-	170,698	170,698
3600	Unassigned Fund Balance	4,293,678	-	-	4,293,678
3000	Total Fund Balances	\$ 4,293,678	\$ 8,206,778	\$ 727,780	\$ 13,228,236
4000	Total Liabilities and Fund Balances	\$ 5,329,887	\$ 8,427,066	\$ 980,159	\$ 14,737,112

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Total Fund Balances - Governmental Funds	\$ 13,228,236
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	30,610,413
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	415,015
Bonds and notes payable which are not due in the current period and related amortized premiums are not reported in the funds.	(17,465,224)
Payables for compensated absences which are not due in the current period are not reported in the funds	(23,836)
Included in the items related to debit is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$2,874,422, and Deferred Resource Inflow related to TRS in the amount of \$165,690, and a Deferred Resource Outflow related to TRS in the amount of \$1,429,155.	<u>(1,610,957)</u>
Net Position of Governmental Activities	<u><u>\$ 25,153,647</u></u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Data Control Codes		10 General Fund	60 Capital Projects Fund	Other Funds	Total Governmental Funds
Revenues					
5700	Local and Intermediate Sources	\$ 4,380,621	\$ 57,920	\$ 623,891	\$ 5,062,432
5800	State Program Revenues	9,743,300	-	650,251	10,393,551
5900	Federal Program Revenues	323,100	-	1,054,310	1,377,410
5020	Total Revenues	<u>14,447,021</u>	<u>57,920</u>	<u>2,328,452</u>	<u>16,833,393</u>
Expenditures					
Current					
0011	Instruction	7,386,352	-	461,208	7,847,560
0012	Instructional Resources and Media Services	194,236	-	-	194,236
0013	Curriculum and Instructional Development	215,866	-	62,110	277,976
0021	Instructional Leadership	148,026	-	-	148,026
0023	School Leadership	566,054	-	-	566,054
0031	Guidance and Counseling Services	338,832	-	101,851	440,683
0033	Health Services	67,770	-	-	67,770
0034	Student (Pupil) Transportation	378,655	-	-	378,655
0035	Food Services	-	-	850,841	850,841
0036	Cocurricular/Extracurricular Activities	928,021	-	-	928,021
0041	General Administration	567,205	-	-	567,205
0051	Facilities Maintenance and Operations	1,783,826	-	-	1,783,826
0052	Security and Monitoring Services	26,878	-	-	26,878
0053	Data Processing Services	92,292	-	-	92,292
Debt Service					
0071	Principal on long-term debt	170,056	-	631,000	801,056
0072	Interest on long-term debt	37,758	-	570,655	608,413
0073	Debt Service - Bond Issuance Cost and Fees	500	-	-	500
Capital Outlay					
0081	Facilities Acquisition and Construction	752,892	1,713,962	-	2,466,854
6030	Total Expenditures	<u>13,655,219</u>	<u>1,713,962</u>	<u>2,677,665</u>	<u>18,046,846</u>
1200	Net Change in Fund Balances	791,802	(1,656,042)	(349,213)	(1,213,453)
0100	Fund Balance - September 1 (Beginning)	<u>3,501,876</u>	<u>9,862,820</u>	<u>1,076,993</u>	<u>14,441,689</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 4,293,678</u>	<u>\$ 8,206,778</u>	<u>\$ 727,780</u>	<u>\$ 13,228,236</u>

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

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017**

Total Net Change in Fund Balances - Governmental Funds	\$ (1,213,453)
Capital outlays are not reported as expenses in the statement of activities.	2,637,564
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(1,097,717)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(47,206)
Repayment of loan principal is an expenditure in the funds but is not an expense in the statement of activities.	801,056
Bond issuance costs and premiums are amortized in the statement of activities but not in the funds.	40,230
Repayment of accrued compensated absences is an expenditure in the funds but is not an expense in the statement of activities	9,508
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 08/31/15 caused the change in the ending net position to increase in the amount of \$248,596. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability for the District. This caused a decrease in the change in net position totaling (\$241,681). The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by (\$267,090). The net result is to increase (decrease) the change in net position by \$(260,175).	<u>(260,175)</u>
Change in Net Position of Governmental Activities	<u>\$ 869,807</u>

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

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2017

	<u>Agency Fund</u>
Assets	
Cash and Cash Equivalents	\$ 169,080
Total Assets	<u>\$ 169,080</u>
Liabilities	
Accounts Payable	\$ -
Due to Student Groups	169,080
Total Liabilities	<u>\$ 169,080</u>

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

East Chambers Independent School District ("District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide (FASRG)* and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity" and there are no component units included within the reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all non-fiduciary activities of the District. The effect of the interfund activity in the government-wide statements eliminates services provided and used in the process of consolidation. Governmental activities are mainly supported by tax revenues and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. All capital asset depreciation is reported as a direct expense of the functional program that benefits from the use of the capital assets. *Program revenues* include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function. They also include grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as *general revenues*. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when the payment is due.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept and so have been recognized as revenues of the current fiscal period. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The 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.

Major Capital Projects Fund: This fund is the District's primary fund to account for construction activities.

In addition, the District reports the following 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. 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.

D. Assets, Liabilities, and Net Position or Equity

1. Cash, Cash Equivalents and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, money market bank sweep accounts, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

For cash management purposes, the District's funds must be deposited and invested under the terms of a depository contract, contents of which are set out in the Depository Contract Law. 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.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Assets, Liabilities, and Net Position or Equity, Continued

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Property taxes are levied by October 1, on the assessed value listed as of the prior January 1, for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the following year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General Fund 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.

3. Inventories and Deferred Expenditures

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as deferred expenditures.

4. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in the accounting system in order to assign the portion of the applicable appropriation, is employed in the governmental fund financial statements. Encumbrances, which have not been liquidated, are reported as an assigned portion of fund balance in the governmental funds.

5. Capital Assets

Capital assets which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Assets, Liabilities, and Net Position or Equity, Continued

5. Capital Assets, Continued

Buildings, furniture and equipment and vehicles of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

6. Compensated Absences

Upon retirement, employees having served the District for at least 25 years prior to the beginning of the 1998-99 school year shall be reimbursed for some portion of unused state leave, at a rate based on each individual employee's daily rate of pay during the 1997-98 school year. Such reimbursement shall be for a number of state leave days, not exceeding the number accumulated by the end of the 1997-98 school year; however, any such accumulated state leave used prior to retirement shall be deducted from that number. No interest shall accumulate nor shall any interest be paid on the funds paid to an employee under this reimbursement program.

An eligible employee having completed at least 30 years of service with the District prior to the beginning of the 1998-99 school year shall be reimbursed for 100 percent of the state leave days he or she had accumulated, in accordance with provisions outlined above.

An eligible employee having completed at least 25, but fewer than 30, years of service with the District prior to the beginning of the 1998-99 school year shall be reimbursed for 50 percent of the state leave days he or she had accumulated in accordance with provisions outlined above.

Except for employees grandfathered under the policies above, no other compensated absences are allowed under the District's personnel policies.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

8. Arbitrage Payable

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. The District had no arbitrage liability as of August 31, 2017.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Assets, Liabilities, and Net Position or Equity, Continued

9. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide data base for policy development and funding plans.

10. Government-Wide Net Position

Net investment in capital assets – the component of net position that represents capital assets less capital debt plus unspent bond proceeds. As of August 31, 2017 this amount was \$13,097,517.

Restricted for Federal and State Programs – the component of net position that reports the difference between assets and liabilities of the Federal and State special revenue programs that consists of assets with constraints placed on their use by the Department of Education, Agriculture or Texas Education Agency ("TEA") of \$217,390.

Restricted for debt service – the component of net position that reports the difference between assets and liabilities of the Debt Service Fund net of accrued interest at August 31, 2017 that consist of assets with constraints placed on their use by the bond covenants of \$170,698.

Restricted for capital projects – the component of net position that reports the difference between assets and liabilities of the Capital projects fund in the amount of \$8,546,470.

Unrestricted – the difference between the assets and liabilities that are not restricted for any purposes in the amount of \$3,040,759.

11. Fund Equity

In the fund financial statements, governmental funds report classifications of fund balance based on controls placed upon the funds. In accordance with GASB Statement No. 54, fund balance classifications are recorded as follows:

Non-spendable Fund Balance – amounts that are not in spendable form or amounts that are legally and contractually required to be maintained intact.

Restricted Fund Balance – amounts constrained to a specific purpose by external parties through constitutional provisions or by enabling legislation.

Committed Fund Balance – amounts constrained to a specific purpose by the Board of Trustees (the highest level of authority within the District); amount cannot be used for any other purpose unless the Board of Trustees takes the same action to remove or change the constraint.

Assigned Fund Balance- general fund amounts constrained to a specific purpose by the Superintendent.

Unassigned Fund balance – residual classification applicable to the general fund only.

The District's unassigned general fund balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned general fund balance may only be appropriated by resolution of the Board of Trustees.

When it is appropriate for fund balance to be assigned, the Board delegates authority to the Superintendent.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

11. Fund Equity, Continued

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is from the least restrictive to the most restrictive, unless otherwise approved by the Board of Trustees.

12. 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's 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.

D. Assets, Liabilities, and Net Position or Equity, Continued

13. Management's review of subsequent events

Management has evaluated subsequent events through December 1, 2017, the date the financial statements were available to be issued.

Note 2: COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Board of Trustees adopts an "appropriated budget" on a basis consistent with GAAP for the General Fund, Debt Service Fund, and Food Service Fund, which is included in the Special Revenue Funds. At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these three funds.

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

- Prior to August 20th, the District prepares a budget for the next fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
- After one or more budget workshops with the Board of Trustees, a meeting is called for the purpose of adopting the proposed budget. At least ten (10) days but no more than thirty (30) days public notice for the meeting is required.
- Prior to August 31st, the Board of Trustees legally adopts the budget for the General Fund, Debt Service Fund and Food Service Fund through passage of a resolution.

After the budget is approved, it can only be amended at the function and fund level by approval of a majority of the Board. Amendments are presented to the Board at its regular meetings for their approval.

As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Total expenditures may not exceed total appropriations, as amended, by fund at function level. Because the District has a policy of careful budgetary control, budget amendments are necessary throughout the year.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 2: COMPLIANCE AND ACCOUNTABILITY, Continued

B. Finance-Related Legal and Contractual Provisions

1. 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 Assets of Individual Funds

The District did not have any deficit fund balances or negative fund Net Position for the fiscal year ended August 31, 2017.

Note 3: DEPOSITS AND INVESTMENTS

At August 31, 2017, the carrying amount of the District's demand deposits and cash on hand was \$163,978. The \$282,882 bank balance was covered by federal deposit insurance through the FDIC and was collateralized by securities held by the District or by the District's agent in name of the District.

All cash balances and investments are held separately in each of its funds. Funds held at the depository bank were properly secured at all times, and the following was disclosed:

- a. Name of depository bank: East Chambers County Bank
- b. Amount of bond or securities pledged as of the date of the highest combined balance on deposit was \$1,290,000.
- c. Highest cash balance amounted to \$1,090,637 and occurred during the month of July 2017.
- d. Total amount of Federal Deposit Insurance Corporation ("FDIC") coverage at the time of the highest combined balance was \$250,000.

Investments

The State Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. It requires the District to adopt, implement and publicize an investment policy. The investment 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.

Statutes authorize the District to invest in (1) obligations of the United States Treasury, certain United States agencies, and obligations of the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. Management of the District believes it is in compliance with the requirements of the Act and with local policies. The District's investments in public funds investment pools and money market mutual funds include those with the Lone Star Investment Pool (LSIP) and TexPool.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017

Note 3: DEPOSITS AND INVESTMENTS, CONTINUED

LSIP is a public funds investment pool administered by First Public (formerly known as the Texas Association of School Board Financial Service). LSIP is a public funds investment pool created under the authorization of the Interlocal Cooperation Act of the State of Texas, Article 4413 (32c), Vernon's Texas Civil Statutes, as amended. It is designed to provide participating local governments with investment vehicles for (1) local funds that are not required to be spent immediately and are available for investment in securities with maturities and returns generally greater than those for money market instruments and (2) local funds which provide daily liquidity. The objective of the LSIP is to provide participating local governments with the highest possible rate of return for such funds, while maintaining safety of principal.

To achieve its objective, the LSIP invests primarily in obligations issued or secured by the U.S. Government, its agencies and instrumentalities, and in commercial paper. Standish Mellon Asset Management and AMR Investments provide investment advisory services. Each fund within the Pool has received the highest rating, AAA, from Standard & Poor's as required by the Public Funds Investment Act

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company to provide a safe environment for the placement of local government funds. The State Comptroller of Texas administers TexPool. Lehman Brothers and Federated Investors manage the daily operations of the pool under a contract with the Comptroller. TexPool operated in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. TexPool is rated as AAAm money market fund by Standard & Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

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. 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.

The overall objective of the District's investment policy is to ensure that District financial assets are properly safeguarded, provide sufficient liquidity, and produce a reasonable rate of return while enabling the District to react to changes in economic conditions.

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

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Investments not subject to categorization			
TexPool	\$ 1,822,110	\$ 1,822,110	Weighted average < 60 days
LoneStar	<u>11,673,293</u>	<u>11,673,293</u>	Weighted average < 120 days
Total Investments	<u>\$ 13,495,403</u>	<u>\$ 13,495,403</u>	

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:

Note 3: DEPOSITS AND INVESTMENTS, CONTINUED

Credit Risk: Credit Ratings

District investments conform to the District's banking and investment policies and are in accordance with laws and regulations of the State of Texas and TEA. Statutes of the State of Texas and policies mandated by the District's Board authorize the District to invest in obligations of the U.S. Government or its agencies, repurchase agreements, commercial paper, public funds, investment pools, mutual funds and money market accounts. As stated above, Lonestar has received the highest rating, AAA, from Standard & Poor's, and Texpool is rated as AAA money market fund by Standard & Poor's. At year end, the District was not significantly exposed to credit risk.

Custodial Credit Risk

Deposits are exposed to custodial 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.

The District was not exposed to custodial credit risk during the course of the fiscal year.

Concentration of Credit Risk

It is the policy of the District to reduce risk associated with investments by diversification of the portfolio. The District was not exposed to concentration of credit risk during the course of the fiscal year.

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District concentrates its investment portfolio in short and intermediate term securities to limit market risk caused by changes in interest rates. At year end, the District was not exposed to interest rate risk.

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.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017

Note 4: CAPITAL ASSETS

Prior to GASB Statement No. 34, the District was not required to calculate depreciation expense for reporting capital assets. In accordance with the implementation of GASB Statement No. 34, capital assets have been adjusted to reflect historical cost for the purpose of calculating depreciation.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 1,295,621	\$ -	\$ -	\$ 1,295,621
Construction in Progress	972,249	2,418,853	(991,618)	2,399,484
Total Capital Assets, Not Being Depreciated	2,267,870	2,418,853	(991,618)	3,695,105
Capital Assets, Being Depreciated:				
Buildings & Improvements	37,271,894	1,090,573	-	38,362,467
Furniture & Equipment	2,231,152	61,838	-	2,292,990
Vehicles	2,061,816	57,918	-	2,119,734
Total Capital Assets, Being Depreciated:	41,564,862	1,210,329	-	42,775,191
Less Accumulated Depreciation:				
Buildings & Improvements	(11,477,762)	(855,516)	-	(12,333,278)
Furniture & Equipment	(1,714,524)	(139,940)	-	(1,854,464)
Vehicles	(1,569,879)	(102,261)	-	(1,672,140)
Total Accumulated Depreciation	(14,762,165)	(1,097,717)	-	(15,859,882)
Total Capital Assets, Being Depreciated, Net	26,802,697	112,612	-	26,915,309
Governmental Activities Capital Assets, Net	\$ 29,070,567	\$ 2,531,465	\$ (991,618)	\$ 30,610,414

The District has active construction projects as of August 31, 2017 related to various projects to upgrade older facilities of the District. As of August 31, 2017, construction in progress totaled \$2,399,484. This represents expenditures on the junior high parking lot and expenditures on the new elementary school.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 4: CAPITAL ASSETS, CONTINUED

At September 1, 2001, the District also implemented a capitalization policy for assets, defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. The District will continue to maintain a controllable asset inventory for items not capitalized in order to safeguard district assets.

Depreciation expense of the governmental activities was charged to functions/programs as follows:

Instruction	\$	603,192
Instructional Resources & Media Services		15,001
Current Development and Staff Development		25,315
Instructional leadership		11,432
School Leadership		43,716
Guidance, Counseling & Evaluation Services		34,034
Health Services		5,234
Student (Pupil) Transportation		29,244
Food Services		65,710
Cocurricular Activities		71,671
General Administration		43,805
Plant Maintenance & Operations		140,159
Security and Monitoring Services		2,076
Data Processing Services		7,128
Total Depreciation Expense	\$	<u>1,097,717</u>

Note 5: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables are short-term transactions between funds that are accounted for in the appropriate interfund receivable and payable accounts. Interfund balances at August 31, 2017 consisted of the following individual fund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	\$ 43,579
Capital Projects	General	72,522
General	Debt Service	132,641
Special Revenue	General	65,038
		<u>\$ 313,780</u>

The receivables in the general fund totaling \$43,579 and \$132,641 represents amounts due from the special revenue funds and Debt Service Fund for reimbursement of expenditures paid by the General Fund. The receivable in the Capital Projects Fund and Special Revenue Funds from the General Fund in the amount of \$72,522 and \$65,038, respectively, include amounts initially deposited into Lone Star for other funds.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
AUGUST 31, 2017

Note 6: CAPITAL LEASES

The Public Property Finance Act gives the District authority to enter into capital leases for the acquisition of personal property. The District has entered into lease agreements as lessee for financing the acquisition of a phone system in accordance with provisions of the Texas Education Code Section 45.109. This lease agreement qualifies as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. Capital leases at August 31, 2017 are summarized as follows:

Date of Issue / Maturity	Interest Rate Payable	Amounts Original Issue	Current Interest	Outstanding 8/31/16	Issued	Retired	Outstanding 8/31/17
04/2015 - 07/2020	5.50%	\$ 266,786	\$ 4,801	\$ 212,702	\$ -	\$ 51,346	\$ 161,356

Future minimum lease payments as of August 31, 2017 are as follows:

Year ending August 31,	
2018	61,524
2019	61,524
2020	51,270
Total	174,318
Less: Interest	12,962
Present value of Minimum Lease Payments	\$ 161,356

Note 7: LONG-TERM DEBT

The District issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for only governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Current principal and interest requirements are payable solely from future revenues of the debt service fund which consists principally of property taxes collected by the District and interest earnings. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indentures. The District has never defaulted on any principal or interest payment.

General obligation bonds payable at August 31, 2017 are summarized as follows:

Date of Issue	Original Issue	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2008	\$ 9,495,639	2027	\$289,174 to \$715,000	4.00%	\$ 6,005,000
2015	\$ 500,000	2021	\$91,000 to \$106,000	2.00%	409,000
2016	\$ 9,385,000	2041	\$60,000 to \$630,000	3.0-4.0%	9,325,000
					\$ 15,739,000

The District entered into a finance contract with Mercedes-Benz Financial Services USA, LLC for the purpose of financing a school bus. The contract is designated as a "qualified tax exempt obligation" for the purposes of Section 265 (b) (3) of the Internal Revenue Code. Amounts outstanding as of August 31, 2017 are as follows:

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 7: LONG-TERM DEBT, CONTINUED

Date of Issue	Amount	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2014	\$ 101,160	2016	\$ 34,679.05	2.85%	\$ -

The District issued maintenance tax notes. Maintenance tax notes outstanding at year end are as follows:

Date of Issue	Original Issue	Final Maturity	Annual Installments	% Rate	Outstanding Balance
2015	\$ 1,000,000	2026	\$85,000 - \$109,000	.75% - 2.2%	\$ 915,000

Annual debt service requirements to maturity for the bonds, maintenance tax notes, and notes payable are as follows:

Year Ending August 31	Principal	Interest	Total
2018	805,000	553,573	1,358,573
2019	833,000	525,611	1,358,611
2020	861,000	496,428	1,357,428
2021	890,000	465,960	1,355,960
2022	921,000	433,299	1,354,299
2023-2027	5,059,000	1,606,102	6,665,102
2028-2032	2,255,000	957,763	3,212,763
2033-2037	2,625,000	591,716	3,216,716
2038-2041	2,405,000	158,972	2,563,972
Total	\$ 16,654,000	\$ 5,789,424	\$ 22,443,424

Changes in long-term liabilities

Long-term liability activity for the year ended August 31, 2017, was as follows:

	Beginning Balance	Additions	Retirements/ Payments	Ending Balance	Due Within One Year
Governmental activities:					
General Obligation Bonds	\$ 16,370,000	\$ -	\$ 631,000	\$ 15,739,000	\$ 709,000
Add: Premium on Bonds	690,095	-	40,230	649,865	-
Maintenance tax notes	1,000,000	-	85,000	915,000	96,000
Notes Payable	33,711	-	33,711	-	-
Capital Leases	212,702	-	51,346	161,356	54,174
Compensated absences	33,343	-	9,507	23,836	-
Total	\$ 18,339,851	\$ -	\$ 850,794	\$ 17,489,057	\$ 859,174

All compensated absences, claims and judgments are normally liquidated by the general fund.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 8: Operating Leases

The District is committed under various noncancelable operating leases, primarily for office equipment (principally in the General Fund). Future minimum operating lease commitments are as follows:

<u>Year ending August 31,</u>	
2018	\$ 35,880
2019	35,880
2020	35,880
2021	35,880
2022	<u>35,880</u>
Total	<u>\$ 179,400</u>

Note 9: RETIREMENT BENEFITS

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description note above.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 9: RETIREMENT BENEFITS, Continued

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Legislature GAA established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates

	<u>2016</u>	<u>2017</u>
Member	7.2%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
East Chambers ISD 2015 Employer Contributions		\$ 248,596
East Chambers ISD 2015 Member Contributions		\$ 646,753
East Chambers ISD 2015 NECE On-Behalf Contributions		\$ 405,040

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

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

1. 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.
2. During a new member's first 90 days of employment.
3. 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.

Note 9: RETIREMENT BENEFITS, Continued

4. 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, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions

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

Actuarial Cost Method	Valuation Date	August 31, 2016
Amortization Method	Individual Entry Age Normal	
Remaining Amortization Period	Level Percentage of Payroll, Open	
Asset Valuation Method	30 years	
Discount Rate	Market Value	
Long-term expected Investment Rate of Return*	8.00%	
Salary Increases*	8.00%	
Payroll Growth Rate	3.50% to 9.50%	
Benefit Changes During the Year	2.50%	
Ad hoc post-employment benefit changes	None	
	None	

**Includes Inflation of 2.5%*

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

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 9: RETIREMENT BENEFITS, Continued

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

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9.0%)</u>
District's proportionate share of the net pension liability: \$	\$ 4,448,637	\$ 2,874,422	\$ 1,539,169

Note 9: RETIREMENT BENEFITS, Continued

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

At August 31, 2016, the District reported a liability of \$2,728,387 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 2,874,422
State's proportionate share that is associated with District	\$ 4,807,767
Total	<u>\$ 7,682,189</u>

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.000076066019% which was an increase of 0.0077185% from its proportion measured as of August 31, 2015.

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

Economic Assumptions

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

Mortality Assumptions

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

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2017

Note 9: RETIREMENT BENEFITS, Continued

10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years' service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

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

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

For the year ended August 31, 2016, the District recognized pension expense of \$498,932 and revenue of \$498,932 for support provided by the State.

At August 31, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 45,070	85,829
Changes in actuarial assumptions	87,607	79,675
Difference between projected and actual investment earnings	243,400	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions total as of August 31, 2015 measurement date	804,482	186
Contributions paid to TRS subsequent to the measure	1,180,559	165,690
Contributions paid to TRS subsequent to the measure	248,596	
Total	<u>\$ 1,429,155</u>	<u>\$ 165,690</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension, Continued

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

Year ended August 31:	Pension Expense Amount
2018	\$ 183,361
2019	338,614
2020	171,435
2021	120,718
2022	17,380
Thereafter	-

Note 10: SCHOOL DISTRICT RETIREE HEALTH PLAN

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

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2017

Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 54,596	1.0%	\$ 83,998	75.00%	\$ 46,196
2016	0.65%	\$ 51,630	1.0%	\$ 79,431	0.55%	\$ 43,687
2015	0.65%	\$ 50,171	1.0%	\$ 77,186	0.55%	\$ 4,245

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on-behalf of the District were \$31,415, \$31,415, and \$32,397, respectively. The information for the year ended August 31, 2016 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 11: RISK MANAGEMENT

Property, Casualty and Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of property; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded insurance coverage in any of the previous three years. There has not been any significant reduction in insurance coverage from that of the previous year. The District retains the risk of the first \$10,000 in property insurance after which insurance is purchased.

Note 12: COMMITMENTS AND CONTINGENCIES

During the year, the District received financial assistance from federal and state governmental agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies and the TEA. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, such disallowed claims, if any, will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at August 31, 2017.

As of August 31, 2017, there was no pending litigation against the District.

Note 13: SHARED SERVICE ARRANGEMENTS

The District is the fiscal agent for a Shared Service Arrangement ("SSA") which provides services to the member districts listed below. All services are provided by the fiscal agent.

The member districts provide the funds to the fiscal agents. According to guidance provided in TEA's Resource guide, The District has accounted for the fiscal agent's activities for the SSA in a special revenue fund and will be accounted for using Model 2 in the SSA section of the Resource Guide.

Expenditures of the SSA are summarized below:

	<u>Expenditures</u>
Anahuac	\$ 12,693
East Chambers	10,437
Total	<u>\$ 23,130</u>

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL - GENERAL FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local Sources	\$ 4,163,609	\$ 4,208,709	\$ 4,380,621	\$ 171,912
5800	State Program Revenues	8,925,891	8,925,891	9,743,300	817,409
5900	Federal Program Revenues	180,000	180,000	323,100	143,100
5020	Total Revenues	13,269,500	13,314,600	14,447,021	1,132,421
	Expenditures				
	Current				
0011	Instruction	7,545,905	7,498,681	7,386,352	112,329
0012	Instructional Resources & Media Svcs	192,477	203,277	194,236	9,041
0013	Curriculum and Instructional Development	166,234	216,049	215,866	183
0021	Instructional Leadership	146,915	151,915	148,026	3,889
0023	School Leadership	589,317	589,317	566,054	23,263
0031	Guidance and Counseling Services	360,627	360,627	338,832	21,795
0033	Health Services	67,770	67,770	67,770	-
0034	Student (Pupil) Transportation	404,500	404,500	378,655	25,845
0035	Food Services	-	-	-	-
0036	Cocurricular/Extracurricular Activities	924,972	974,972	928,021	46,951
0041	General Administration	632,227	632,227	567,205	65,022
0051	Plant Maintenance and Operations	2,038,975	1,983,825	1,783,826	199,999
0052	Security and Monitoring Services	35,490	35,490	26,878	8,612
0053	Data Processing Services	93,382	93,382	92,292	1,090
0061	Community Services	-	-	-	-
0071	Debt Service - Principal on long-term debt	34,680	246,316	170,056	76,260
0072	Debt Service - Interest on long-term debt	-	46,700	37,758	8,942
0073	Debt Service - Bond Issuance Costs and Fees	-	1,000	500	500
0081	Facilities Acquisition and Construction	48,000	824,222	752,892	71,330
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030	Total Expenditures	13,281,471	14,330,270	13,655,219	675,051
	Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,971)	(1,015,670)	791,802	1,807,472
	Other Financing Sources (Uses):				
7915	Transfers in	-	66,112	-	(66,112)
8911	Transfers Out	(416,112)	(416,112)	-	416,112
7080	Total Other Financing Sources (Uses)	(416,112)	(350,000)	-	350,000
1200	Net Changes in Fund Balance	(428,083)	(1,365,670)	791,802	2,157,472
0100	Fund Balance - September 1 (Beginning)	3,501,876	3,501,876	3,501,876	-
3000	Fund Balance - August 31 (Ending)	\$ 3,073,793	\$ 2,136,206	\$ 4,293,678	\$ 2,157,472

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

	Fiscal Year			
	2015	2016	2017	2018
District's Proportion of the Net Pension Liability	0.0040344%	0.0077185%	0.0076066%	-
District's Proportionate Share of Net Pension Liability	\$ 1,077,644	\$ 2,728,387	\$ 2,874,422	-
States Proportionate Share of the Net Pension Liability associated with the District	4,219,435	4,802,495	4,807,767	-
Total	<u>\$ 5,297,079</u>	<u>\$ 7,530,882</u>	<u>\$ 7,682,189</u>	-
District's Covered-Employee Payroll	\$ 7,151,467	\$ 7,680,888	\$ 8,399,798	-
District's Proportionate Share of the Net Pension Liability as a percentage of its Covered Employee Payroll	15.07%	35.52%	34.22%	-
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.25%	78.43%	78.00%	-

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

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

EXHIBIT G-3

	Fiscal Year			
	2015	2016	2017	2018
Contractually Required Contribution	\$ 241,681	228,591	241,681	-
Contribution in Relation to the Contractually Required Contribution	(241,681)	(228,591)	(241,681)	-
Contribution Deficiency (Excess)	\$ -			
District's Covered-Employee Payroll	\$ 7,944,045	7,680,888	8,399,798	
Contributions as a Percentage of Covered-Employee Payroll	3.04%	2.98%	2.88%	

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2015 - August 31, 2016.

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

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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.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Last Ten Years Ended August 31	Tax Rate*		Assessed/Appraised Value For School Tax Purposes
	Maintenance Various	Debt Service Various	
2008 and prior years			
2009	1.040050	0.299550	258,983,428
2010	1.040050	0.240000	220,269,599
2011	1.040050	0.180000	232,424,573
2012	1.040050	0.180000	222,139,994
2013	1.040050	0.180000	232,529,732
2014	1.040000	0.180050	228,553,994
2015	1.040000	0.180050	257,977,296
2016	1.170000	0.120000	259,432,421
2017	1.170000	0.120000	277,472,016
1000 Totals			

* - Per \$100 of assessed valuation

10 Beginning Balance 09/01/16	20 Current Year's Total Levy	30 Maintenance Total Collections	30a Debt Service Total Collections	40 Entire Year's Adjustments	50 Ending Balance 08/31/17
\$ 63,984	\$ -	\$ 880	\$ -		63,104
22,180	-	1,033	298	\$ (27)	20,822
28,184	-	1,802	446	(33)	25,903
32,171	-	1,708	306	(37)	30,120
16,481	-	1,867	323	(46)	14,245
31,066	-	2,517	445	901	29,005
26,657	-	5,645	979	474	20,507
84,743	-	15,616	2,712	458	66,873
286,796	-	186,664	19,233	(1,795)	79,104
-	3,579,389	3,072,764	324,949	(7,895)	173,781
<u>\$ 592,262</u>	<u>\$ 3,579,389</u>	<u>\$ 3,290,496</u>	<u>\$ 349,691</u>	<u>(\$8,000)</u>	<u>\$ 523,464</u>

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
	Revenues				
5700	Local Sources	\$ 275,100	\$ 275,100	\$ 263,033	\$ (12,067)
5800	State Program Revenues	30,700	30,700	3,912	(26,788)
5900	Federal Program Revenues	522,000	522,000	588,247	66,247
5020	Total Revenues	827,800	827,800	855,192	27,392
	Expenditures				
0035	Food Services	883,643	938,793	850,841	87,952
6030	Total Expenditures	883,643	938,793	850,841	87,952
1200	Net Changes in Fund Balance	(55,843)	(110,993)	4,351	115,344
0100	Fund Balance - September 1 (Beginning)	213,036	213,039	213,039	-
3000	Fund Balance - August 31 (Ending)	\$ 157,193	\$ 102,046	\$ 217,390	\$ 115,344

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
	Revenues				
5700	Local Sources	\$ 358,000	\$ 358,000	\$ 360,857	\$ 2,857
5800	State Program Revenues	320,758	320,758	487,235	166,477
5020	Total Revenues	<u>678,758</u>	<u>678,758</u>	<u>848,092</u>	<u>169,334</u>
	Expenditures				
	Debt Service:				
0071	Debt Service - Principal on Long-Term Debt	631,000	631,000	631,000	-
0072	Debt Service - Interest on Long Term-Debt	569,656	571,656	570,655	1,001
6030	Total Expenditures	<u>1,200,656</u>	<u>1,202,656</u>	<u>1,201,655</u>	<u>1,001</u>
1100	Over (Under) Expenditures:	<u>(521,898)</u>	<u>(523,898)</u>	<u>(353,563)</u>	<u>(877,461)</u>
	Other Financing Sources (Uses):				
7915	Transfer	350,000	350,000	-	(350,000)
	Total Other Financing Sources (Uses)	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>(350,000)</u>
1200	Net Changes in Fund Balance	(171,898)	(173,898)	(353,563)	(179,665)
0100	Fund Balance - September 1 (Beginning)	<u>524,261</u>	<u>524,261</u>	<u>524,261</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 352,363</u>	<u>\$ 350,363</u>	<u>\$ 170,698</u>	<u>\$ (179,665)</u>

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J. R. Edwards & Associates, LLC

Certified Public Accountants

December 1, 2017

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 GOVERNMENTAL AUDITING STANDARDS

Board of Trustees
East Chambers Independent School District
1955 State Hwy 124
Winnie, Texas 77665

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 East Chambers Independent School District (the "District"), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 1, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

Board of Trustees
East Chambers Independent School District
December 1, 2017

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.

J.R. Edwards & Associates, LLC

J. R. Edwards & Associates, LLC
Certified Public Accountants

December 1, 2017

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees
East Chambers Independent School District
1955 State Hwy 124
Winnie, Texas 77665

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the 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, 2017.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the 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 District's internal control over compliance.

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

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

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

J.R. Edwards & Associates, LLC

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

A. Summary of Auditor's Results

1 Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

 Yes X No

Significant deficiencies identified?

 Yes X None Reported

Noncompliance material to financial statements noted?

 Yes X No

2 Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 Yes X No

Significant deficiencies identified?

 Yes X None Reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of Uniform Guidance?

 Yes X No

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027

IDEA - Part B, Formula

84.173

IDEA - Part B, Preschool

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X Yes No

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

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

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

None

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

EXHIBIT K-1

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA Title I Part A Improving Basic Programs*	84.010A	17610101036903	\$ 135,831
IDEA, Part B Special Education Formula Grant*	84.027A	176600010369036600	222,854
IDEA, Part B Preschool*	84.173A	176610010369036610	3,962
Total Special Education Cluster (IDEA)			<u>226,816</u>
SSA - Career and Technical - Basic Grant	84.048A	17420006036903	22,530
Title III, Part A - English Language Acquisition	84.365A	17671001036903	33,339
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17694501036903	45,217
ESEA, Title VI, Part A, Summer School LEP	84.369A	699551602	2,330
Total Passed Through State Department of Education			<u>\$ 466,063</u>
TOTAL DEPARTMENT OF EDUCATION			<u>\$ 466,063</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Texas Dept of Human Services			
Medicaid Administrative Claiming Program - MAC	93.778		\$ 11,809
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>\$ 11,809</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Agriculture			
National School Breakfast*	10.553	71401701	\$ 144,282
National School Lunch Program*	10.555	71301701	394,542
National School Lunch Program - Non-Cash Assistance*	10.555	71301701	49,422
Total CFDA Number 10.555			<u>443,964</u>
Total Nutrition Cluster			<u>588,246</u>
Total Passed Through the State Department of Agriculture			<u>\$ 588,246</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>\$ 588,246</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,066,118</u>

* Clustered Programs

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AUGUST 31, 2017

Basis of Presentation

1. The District accounts for all awards under federal programs in the General and Certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*.

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state awards generally are accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of specified grant periods.

2. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing resources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as deferred revenues until earned. The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date, in accordance with provisions in *OMB Compliance Supplement*, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards*.
4. The District participates in numerous state and federal 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 adjustments by the grantor agencies; therefore, to the extent that the District has not complied with rules and regulations governing the grants, refund of any money received may be required and the collectability of any related receivable at August 31, 2017, may be impaired.

EAST CHAMBERS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2017

EXHIBIT L-1

**Data
Control
Codes**

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF7	Did the District make timely payments to Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS) and other government agencies?	Yes
SF8	Did the District not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of FSP funds as a result of financial hardship?	Yes
SF10	Total Accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$ -
SF11	District's proportionate share of Net Pension Assets	\$ -
SF12	District's proportionate share of Net Pension Liabilities	\$ 2,874,422
SF13	District's proportionate share of TRS Pension Expenses	\$ 260,175