

**MELISSA INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

MELISSA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2017

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CERTIFICATE OF BOARD

Melissa Independent School District  
Name of School District

Collin  
County

043-908  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  X  approved \_\_\_\_\_ disapproved for the year ended August 31, 2017 at a meeting of the Board of Trustees of such school district on the  22nd  day of  January , 2018.

*/s/ Paul Anderson*

*/s/ George James*

\_\_\_\_\_  
Signature of Board **Secretary**

\_\_\_\_\_  
Signature of Board **President**

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

***Morgan, Davis, & Company, P.C.***

Post Office Box 8158  
Greenville, Texas 75404

**Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information  
and Other Information**

**Independent Auditor's Report**

Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Melissa Independent School 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 Melissa Independent School District as of August 31, 2017 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information:***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-10 and the Schedules contained in Exhibits G-1, G-2, & G-3 on pages 50-52 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 Melissa Independent School District's basic financial statements. The Combining Statements for Nonmajor Governmental Funds contained in Exhibits H-1 & H-2 on pages 56-59 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining Statements for Nonmajor Governmental Funds are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining Statements for Nonmajor Governmental Funds are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1, J-2, & J-3. We have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on inquiries of management about 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 Reporting Required by *Government Auditing Standard***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2017 on our consideration of Melissa Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Melissa Independent School District's internal control over financial reporting and compliance.

*/s/ Morgan, Davis, & Company, P.C.*

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Morgan, Davis, & Company, P.C.  
Greenville, Texas

December 31, 2017

MELISSA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2017

In this section of the Annual Financial and Compliance Report, we, the administrators of Melissa Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the District's Basic Financial Statements which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's total combined net position decreased by \$667,193 as a result of this year's operations.
- The District's liabilities exceeded its assets at the close of the most recent fiscal year by \$684,565 which represents the District's total combined net position. Of this amount, \$5,181,430 (unrestricted net position) may be used to meet the District's ongoing obligations.
- As of August 31, 2017, the District's governmental funds reported a combined fund balance of \$59,252,340 compared to \$45,042,877 for the last fiscal year. Included in this combined fund balance is \$51,329,037 of unspent bond proceeds in the Bond Construction Funds. The General Fund reported a fund balance of \$7,459,849 this fiscal year compared to \$5,958,421 the last fiscal year.
- The District's total tax rate for the 2016-2017 school year was \$ 1.67 with \$ 1.17 for maintenance & operation and \$ 0.50 for debt service.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 26) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by T.E.A. The section labeled Required Texas Education Agency Schedules contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

## **Reporting the District as a Whole**

### ***The Statement of Net Position and the Statement of Activities***

The analysis of the District's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

- Governmental activities—All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the ESEA Title I Part A from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds (a category of proprietary funds) report activities that provide services for the District's other programs and activities—such as the District's self-insurance programs.

## The District as Trustee

### *Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 25. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District is presenting government-wide financial analysis in the form of current year data and prior year data and the changes in these accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities decreased from (\$17,372) last year to (\$684,565) at August 31, 2017. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$4,348,341 last year to \$5,181,430 at August 31, 2017.

Changes in net position of the District's governmental activities were a \$422,244 increase last year compared to a \$667,193 decrease at August 31, 2017.

**Table I**  
**Melissa Independent School District**  
**NET POSITION**

	Governmental Activities 8/31/2017	Governmental Activities 8/31/2016	Net Change
Current and other assets	\$60,941,234	\$46,303,604	\$14,637,630
Capital assets	65,678,790	56,129,804	9,548,986
Total assets	<u>\$126,620,024</u>	<u>\$102,433,408</u>	<u>\$24,186,616</u>
Deferred Outflows	\$2,573,512	\$2,253,456	\$320,056
Current and other liabilities	\$1,844,694	\$1,233,892	\$610,802
Long-term liabilities	123,403,573	99,671,222	23,732,351
Net Pension Liability (District's Share)	4,377,552	3,536,069	841,483
Total liabilities	<u>\$129,625,819</u>	<u>\$104,441,183</u>	<u>\$25,184,636</u>
Deferred Inflows	\$252,282	\$263,053	(\$10,771)
Net Position:			
Net Investment in Capital Assets	(\$6,395,746)	(\$5,214,102)	(\$1,181,644)
Restricted	529,751	848,389	(318,638)
Unrestricted	5,181,430	4,348,341	833,089
Total Net Position	<u><u>(\$684,565)</u></u>	<u><u>(\$17,372)</u></u>	<u><u>(\$667,193)</u></u>

**Table II**  
**Melissa Independent School District**  
**CHANGES IN NET POSITION**

	Governmental Activities Yr Ended 8/31/2017	Governmental Activities Yr Ended 8/31/2016	Net Change
<b>Revenues:</b>			
<b>Program Revenues:</b>			
Charges for Services	\$1,546,627	\$1,041,727	\$504,900
Operating grants and contributions	1,658,742	1,872,750	(214,008)
<b>General Revenues:</b>			
Maintenance and operations taxes	9,288,928	7,714,714	1,574,214
Debt service taxes	3,969,604	3,296,867	672,737
State aid - formula grants	12,772,119	12,477,625	294,494
Grants & Contributions not restricted to specific functions	149,556	183,072	(33,516)
Investment Earnings	356,732	60,197	296,535
Miscellaneous	347,287	529,323	(182,036)
<b>Total Revenue</b>	<b>\$30,089,595</b>	<b>\$27,176,275</b>	<b>\$2,913,320</b>
<b>Expenses:</b>			
Instruction, curriculum and media services	\$16,159,332	\$13,900,252	\$2,259,080
Instructional and school leadership	1,341,109	1,284,094	57,015
Student support services	1,399,425	1,301,456	97,969
Child nutrition	737,583	713,126	24,457
Co curricular activities	1,829,941	1,667,441	162,500
General administration	910,274	912,030	(1,756)
Plant maintenance, security & data processing	3,407,021	3,512,289	(105,268)
Debt services	4,873,119	3,286,486	1,586,633
Payments to fiscal agents	0	109,550	(109,550)
Other intergovernmental charges	83,842	67,307	16,535
<b>Total Expenses</b>	<b>\$30,741,646</b>	<b>\$26,754,031</b>	<b>\$3,987,615</b>
<b>Increase in net position before transfers and special items</b>	<b>(\$652,051)</b>	<b>\$422,244</b>	<b>(\$1,074,295)</b>
Transfers	0	0	0
Special Items - Loss on Asset Sale	(15,142)	0	(15,142)
Net Position at Beginning of Fiscal Year	(17,372)	(439,616)	422,244
<b>Net Position at End of Fiscal Year</b>	<b>(\$684,565)</b>	<b>(\$17,372)</b>	<b>(\$667,193)</b>

**THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in Exhibit C-3 on page 18) reported a combined fund balance of \$59,252,340 compared to \$45,042,877 for the last fiscal year. The District's General Fund reported a fund balance increase of \$1,501,428, ending the year with \$7,459,849. The District's Special Revenue Funds reported a fund balance increase of \$21,182, ending the year with \$185,672. The District's Debt Service Fund reported a fund balance decrease of \$314,868, ending the year with \$277,782. The District's Bond Construction Funds reported a fund balance increase of \$13,001,721, ending the year with \$51,329,037.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments included amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2016) and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets:

During the year ended August 31, 2017, the District invested \$11,942,319 in capital assets, consisting of construction in progress, various facility improvements, playground improvements, technology equipment, athletic equipment, maintenance equipment, bus cameras, and two school buses.

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

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Land	\$3,931,525	\$0	\$0	\$3,931,525
Buildings & Improvements	61,401,242	726,222	0	62,127,464
Equipment	4,261,649	307,633	0	4,569,282
Vehicles	1,995,815	191,670	(39,100)	2,148,385
Construction in Progress	358,096	10,716,794	0	11,074,890
Totals at Historical Cost	<u>71,948,327</u>	<u>11,942,319</u>	<u>(39,100)</u>	<u>83,851,546</u>
Less accumulated depreciation for:				
Buildings & Improvements	(14,028,011)	(1,605,572)	0	(15,633,583)
Equipment	(1,205,440)	(540,704)	0	(1,746,144)
Vehicles	(585,072)	(228,493)	20,536	(793,029)
Total accumulated depreciation	<u>(15,818,523)</u>	<u>(2,374,769)</u>	<u>20,536</u>	<u>(18,172,756)</u>
Capital Assets, Net	<u>\$56,129,804</u>	<u>\$9,567,550</u>	<u>(\$18,564)</u>	<u>\$65,678,790</u>

### Debt:

At year-end August 31, 2017, the District had \$123,403,573 outstanding in bonds compared to \$99,671,222 last year. During the current fiscal year, the District issued Series 2016B building bonds of \$23,360,000, and Series 2017 refunding bonds of \$4,790,000 to early redeem Series 2008 bonds of \$2,500,000, and Series 2009 bonds of \$2,380,000. The aggregate difference in debt service between the refunding debt and the refunded debt is a savings of \$1,125,882, which is a net present value economic gain of \$878,507.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2017 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2017. Amounts available for appropriation in the General Fund budget are \$6,159,849. The District has added no major new programs or initiatives to the 2017 budget.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Melissa Independent School District, 1904 Cooper Street, Melissa, Texas.

## BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 892,095
1120 Current Investments	56,783,235
1220 Property Taxes Receivable (Delinquent)	317,910
1230 Allowance for Uncollectible Taxes	(1,942)
1240 Due from Other Governments	2,949,936
Capital Assets:	
1510 Land	3,931,525
1520 Buildings, Net	46,493,881
1530 Equipment, Net	2,823,138
1540 Vehicles, Net	1,355,356
1580 Construction in Progress	11,074,890
1000 Total Assets	126,620,024
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705 Deferred Outflow Related to TRS	2,573,512
1700 Total Deferred Outflows of Resources	2,573,512
<b>LIABILITIES</b>	
2110 Accounts Payable	687,134
2140 Interest Payable	377,232
2160 Accrued Wages Payable	660,541
2180 Due to Other Governments	9,253
2200 Accrued Expenses	15,998
2300 Unearned Revenue	94,536
Noncurrent Liabilities	
2501 Due Within One Year	1,400,437
2502 Due in More Than One Year	122,003,136
2540 Net Pension Liability (District's Share)	4,377,552
2000 Total Liabilities	129,625,819
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS	252,282
2600 Total Deferred Inflows of Resources	252,282
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	(6,395,746)
3850 Restricted for Debt Service	344,079
3870 Restricted for Campus Activities	185,672
3900 Unrestricted	5,181,430
3000 Total Net Position	\$ (684,565)

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities

**Primary Government:**

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 15,744,806	\$ 579,612	\$ 1,120,812	\$ (14,044,382)
12 Instructional Resources and Media Services	252,903	-	12,215	(240,688)
13 Curriculum and Staff Development	161,623	-	14,135	(147,488)
21 Instructional Leadership	130,074	-	4,318	(125,756)
23 School Leadership	1,211,035	-	61,270	(1,149,765)
31 Guidance, Counseling and Evaluation Services	435,367	-	19,155	(416,212)
33 Health Services	194,851	-	8,847	(186,004)
34 Student (Pupil) Transportation	769,207	-	29,358	(739,849)
35 Food Services	737,583	402,405	216,293	(118,885)
36 Extracurricular Activities	1,829,941	509,528	35,158	(1,285,255)
41 General Administration	910,274	-	23,638	(886,636)
51 Facilities Maintenance and Operations	2,558,129	55,082	69,865	(2,433,182)
52 Security and Monitoring Services	131,973	-	6,869	(125,104)
53 Data Processing Services	716,919	-	36,809	(680,110)
72 Debt Service - Interest on Long Term Debt	4,488,204	-	-	(4,488,204)
73 Debt Service - Bond Issuance Cost and Fees	384,915	-	-	(384,915)
99 Other Intergovernmental Charges	83,842	-	-	(83,842)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 30,741,646</u>	<u>\$ 1,546,627</u>	<u>\$ 1,658,742</u>	<u>(27,536,277)</u>

Data  
Control  
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	9,288,928
DT	Property Taxes, Levied for Debt Service	3,969,604
SF	State Aid - Formula Grants	12,772,119
GC	Grants and Contributions not Restricted	149,556
IE	Investment Earnings	356,732
MI	Miscellaneous Local and Intermediate Revenue	347,287
S2	Special Item - Loss on Asset Sale	(15,142)
TR	Total General Revenues & Special Items	<u>26,869,084</u>
CN	Change in Net Position	(667,193)
NB	Net Position - Beginning	<u>(17,372)</u>
NE	Net Position--Ending	<u>\$ (684,565)</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Bond Const. Series 2016
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 685,447	\$ -	\$ -
1120 Investments - Current	4,771,731	81,554	28,838,815
1220 Property Taxes - Delinquent	223,964	93,946	-
1230 Allowance for Uncollectible Taxes (Credit)	(1,368)	(574)	-
1240 Receivables from Other Governments	2,718,912	196,228	-
1000 Total Assets	<u>\$ 8,398,686</u>	<u>\$ 371,154</u>	<u>\$ 28,838,815</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 18,749	\$ -	\$ 523,537
2160 Accrued Wages Payable	628,504	-	-
2170 Due to Other Funds	46,215	-	-
2180 Due to Other Governments	9,253	-	-
2200 Accrued Expenditures	13,520	-	-
2300 Unearned Revenues	66,232	28,304	-
2000 Total Liabilities	<u>782,473</u>	<u>28,304</u>	<u>523,537</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	156,364	65,068	-
2600 Total Deferred Inflows of Resources	<u>156,364</u>	<u>65,068</u>	<u>-</u>
<b>FUND BALANCES</b>			
Restricted Fund Balance:			
3470 Capital Acquisition and Contractual Obligation	-	-	28,315,278
3480 Retirement of Long-Term Debt	-	277,782	-
Committed Fund Balance:			
3510 Construction	1,300,000	-	-
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	6,159,849	-	-
3000 Total Fund Balances	<u>7,459,849</u>	<u>277,782</u>	<u>28,315,278</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 8,398,686</u>	<u>\$ 371,154</u>	<u>\$ 28,838,815</u>

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

60 Bond Const. Series 2016B	Other Governmental Funds	Total Governmental Funds
\$ -	\$ 192,174	\$ 877,621
23,091,135	-	56,783,235
-	-	317,910
-	-	(1,942)
-	34,796	2,949,936
<u>\$ 23,091,135</u>	<u>\$ 226,970</u>	<u>\$ 60,926,760</u>
\$ 77,376	\$ 6,783	\$ 626,445
-	32,037	660,541
-	-	46,215
-	-	9,253
-	2,478	15,998
-	-	94,536
<u>77,376</u>	<u>41,298</u>	<u>1,452,988</u>
-	-	221,432
-	-	221,432
23,013,759	-	51,329,037
-	-	277,782
-	-	1,300,000
-	185,672	185,672
-	-	6,159,849
<u>23,013,759</u>	<u>185,672</u>	<u>59,252,340</u>
<u>\$ 23,091,135</u>	<u>\$ 226,970</u>	<u>\$ 60,926,760</u>

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

<b>Total Fund Balances - Governmental Funds</b>	\$	59,252,340
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position.		-
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$71,948,327 and the accumulated depreciation was \$15,818,523. In addition, long-term liabilities, including bonds payable of \$99,671,222, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. Accrued interest payable on long term debt of \$329,239 is not reflected in the fund financial statements, but is shown in the government-wide financial statements. The net effect of including the beginning balances for capital assets (net of depreciation), and long-term debt in the governmental activities, is to increase (decrease) net position.		(43,870,657)
3 Current year capital outlays of \$11,942,319 and long-term debt principal payments of \$1,197,882 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$14,905, amortization of bond premiums of \$386,951, and interest payable of \$47,993 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.		13,464,254
4 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(2,374,769)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes of \$221,432 as revenue, eliminating interfund transactions, reclassifying the net cost of assets sold of \$18,564, reclassifying net bond proceeds of \$25,302,279, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(25,099,411)
6 The District is required to recognize its proportionate share of the net pension liability required by GASB 68 in the amount of \$4,377,552, a deferred resource inflow related to TRS in the amount of \$252,282, and a deferred resource outflow related to TRS in the amount of \$2,573,512. The net effect of including the net pension liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.		(2,056,322)
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>(684,565)</b>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Bond Const. Series 2016
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 10,318,732	\$ 4,074,720	\$ 266,517
5800 State Program Revenues	12,937,828	688,312	-
5900 Federal Program Revenues	147,957	-	-
5020 Total Revenues	<u>23,404,517</u>	<u>4,763,032</u>	<u>266,517</u>
EXPENDITURES:			
Current:			
0011 Instruction	13,683,131	-	-
0012 Instructional Resources and Media Services	225,288	-	-
0013 Curriculum and Instructional Staff Development	125,780	-	-
0021 Instructional Leadership	129,028	-	-
0023 School Leadership	1,067,853	-	-
0031 Guidance, Counseling and Evaluation Services	380,136	-	-
0033 Health Services	167,236	-	-
0034 Student (Pupil) Transportation	718,438	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	1,281,419	-	-
0041 General Administration	808,981	-	-
0051 Facilities Maintenance and Operations	2,305,444	-	-
0052 Security and Monitoring Services	126,867	-	-
0053 Data Processing Services	630,015	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	1,197,882	-
0072 Interest on Long Term Debt	-	4,549,577	-
0073 Bond Issuance Cost and Fees	-	384,915	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	129,523	-	10,272,791
Intergovernmental:			
0099 Other Intergovernmental Charges	83,842	-	-
6030 Total Expenditures	<u>21,862,981</u>	<u>6,132,374</u>	<u>10,272,791</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,541,536</u>	<u>(1,369,342)</u>	<u>(10,006,274)</u>
OTHER FINANCING SOURCES (USES):			
7901 Refunding Bonds Issued	-	4,804,875	-
7911 Capital Related Debt Issued (Regular Bonds)	-	-	-
7912 Sale of Real and Personal Property	3,422	-	-
7915 Transfers In	-	-	-
7916 Premium or Discount on Issuance of Bonds	-	1,392,279	-
8911 Transfers Out (Use)	(43,530)	-	-
8940 Payment to Bond Refunding Escrow Agent (Use)	-	(5,142,680)	-
7080 Total Other Financing Sources (Uses)	<u>(40,108)</u>	<u>1,054,474</u>	<u>-</u>
1200 Net Change in Fund Balances	1,501,428	(314,868)	(10,006,274)
0100 Fund Balance - September 1 (Beginning)	<u>5,958,421</u>	<u>592,650</u>	<u>38,321,552</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 7,459,849</u>	<u>\$ 277,782</u>	<u>\$ 28,315,278</u>

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

60 Bond Const. Series 2016B	Other Governmental Funds	Total Governmental Funds
\$ 64,731	\$ 852,943	\$ 15,577,643
-	134,867	13,761,007
-	566,894	714,851
64,731	1,554,704	30,053,501
-	479,331	14,162,462
-	-	225,288
-	8,228	134,008
-	-	129,028
-	-	1,067,853
-	-	380,136
-	-	167,236
-	-	718,438
-	660,890	660,890
-	428,603	1,710,022
-	-	808,981
-	-	2,305,444
-	-	126,867
-	-	630,015
-	-	1,197,882
-	-	4,549,577
-	-	384,915
1,050,972	5,764	11,459,050
-	-	83,842
1,050,972	1,582,816	40,901,934
(986,241)	(28,112)	(10,848,433)
-	-	4,804,875
23,360,000	-	23,360,000
-	-	3,422
-	43,530	43,530
640,000	-	2,032,279
-	-	(43,530)
-	-	(5,142,680)
24,000,000	43,530	25,057,896
23,013,759	15,418	14,209,463
-	170,254	45,042,877
\$ 23,013,759	\$ 185,672	\$ 59,252,340

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

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	14,209,463
 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.		(51,302)
 Current year capital outlays of \$11,942,319 and long-term debt principal payments of \$1,197,882 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$14,905, amortization of bond premiums of \$386,951, and interest payable of \$47,993 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.		13,464,254
 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.		(2,374,769)
 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue by \$83,340 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the net cost of assets sold of \$18,564, reclassifying net bond proceeds of \$25,302,279, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(25,404,183)
 Current year changes due to GASB 68 increased revenues in the amount of \$104,559, but also increased expenses in the amount of \$615,215. The impact of these items is to increase (decrease) the change in net position.		(510,656)
 <b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>(667,193)</b>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2017

	Governmental Activities -	
		Internal Service Fund
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 14,474	
Due from Other Funds	<u>46,215</u>	
Total Assets		<u>60,689</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable		<u>60,689</u>
Total Liabilities		<u>60,689</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2017

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 34,621
Total Operating Revenues	34,621
OPERATING EXPENSES:	
Other Operating Costs	85,923
Total Operating Expenses	85,923
Operating Income (Loss)	(51,302)
Total Net Position - September 1 (Beginning)	51,302
 Total Net Position - August 31 (Ending)	 \$ -

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

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

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 11
Cash Payments for Insurance Claims	(66,874)
Net Cash Used for Operating Activities	<u>(66,863)</u>
Net Decrease in Cash and Cash Equivalents	(66,863)
Cash and Cash Equivalents at Beginning of Year	<u>81,337</u>
Cash and Cash Equivalents at End of Year	<u>\$ 14,474</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (51,302)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(34,610)
Increase (decrease) in Accounts Payable	<u>19,049</u>
Net Cash Used for Operating Activities	<u>\$ (66,863)</u>

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

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

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	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 26,873
Total Assets	<u>\$ 26,873</u>
LIABILITIES	
Due to Other Funds	\$ 60
Due to Student Groups	26,813
Total Liabilities	<u>\$ 26,873</u>

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

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

**Note A. Summary of Significant Accounting Policies**

Melissa Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

*Pensions.* The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to 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.

As of August 31, 2017, Melissa Independent School District retrospectively and prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

**1. Reporting Entity**

The Board of Trustees has governance responsibilities over all activities related to public elementary and secondary public education within the jurisdiction of Melissa Independent School District. The members of the Board of Trustees are elected by the public, have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. The District is not included in any other "governmental entity" as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *The Financial Reporting Entity*. There are no component units included within the reporting entity. The District receives funding from local, state, and federal governmental sources and must comply with the requirements of these funding source entities.

**2. Government-Wide and Fund Financial Statements**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Melissa Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act Title I. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Property taxes are always general revenues.

Interfund activities between governmental funds, and between governmental funds and proprietary funds, appear as “due to & due from” on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position, and as “other resources & other uses” on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as “due to & due from” on the government-wide Statement of Activities.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

### **3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Revenues are considered to be available when they are collectible within 60 days after year-end.

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of

these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position

#### **4. Fund Accounting**

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues and expenditures.

The District reports the following **major** governmental funds:

**General Fund** – This governmental fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities

**Debt Service Fund** – This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met. It is considered major because its resources exceed 10% of the District's total resources.

**Bond Construction Fund-Series 2016** – This governmental fund is established to account for proceeds from bonds to be used for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. It is considered major because its resources exceed 10% of the District's total resources.

**Bond Construction Fund-Series 2016B** – This governmental fund is established to account for proceeds from bonds to be used for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. It is considered major because its resources exceed 10% of the District's total resources.

Additionally, the District reports the following **nonmajor** fund types:

Governmental Fund Types:

**Special Revenue Funds** – These governmental funds are established to account for resources restricted to, or designated for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods. Project accounting is employed to maintain integrity of the various sources of funds.

The District's Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program, (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of the National School Lunch Program, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes.

Proprietary Funds:

**Internal Service Fund** – This fund is established to account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is for Workers Compensation Self-Insurance.

Fiduciary Funds:

**Agency Funds** – These funds are established to account for resources held for others in a custodial capacity. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. The District's Agency Funds are for Student Activity Funds.

**5. Cash and Cash Equivalents**

For purposes of the statement of cash flows for proprietary funds, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. Cash and cash equivalents in the Internal Service fund was \$14,474 as of August 31, 2017.

**6. Investments**

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

**7. Inventories**

All inventories are valued at cost using the first in/first out (FIFO) method. The District purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their cost is recorded as inventory and fund balance is reserved for the same amount.

**8. Asset Capitalization and Useful Lives**

Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual unit cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	39-50
Building Improvements	15-40
Vehicles & Buses	5-10
Equipment	5-7

**9. Compensated Absences**

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

## 10. Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expenses when incurred.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of bonded debt issued plus the premiums/discounts received on the issuance of bonds are reported as other financing sources. The amounts of issuance costs are reported as expenditures.

## 11. Fund Balance

In accordance with GASB 54 and school board policy, the District is reporting its fund balances in the governmental fund financial statements in each of the following categories:

*Non-spendable fund balance* – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

*Restricted fund balance* – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

*Committed fund balance* – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the School Board. Committed resources cannot be used for any other purposes unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

*Assigned fund balance* – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated with the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

*Unassigned fund balance* – represents the residual classification for the general fund or deficit balances in other funds.

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 as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

As of August 31, 2017, the District’s fund balances are classified as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Bond Construction Funds</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
<b>Restricted for:</b>					
Bond Construction			\$51,329,037		\$51,329,037
Debt Service		\$277,782			277,782
<b>Committed for:</b>					
Construction	1,300,000				1,300,000
Campus Activity Funds				185,672	185,672
<b>Unassigned</b>	6,159,849				6,159,849
<b>Total Fund Balances</b>	<b>\$7,459,849</b>	<b>\$277,782</b>	<b>\$51,329,037</b>	<b>\$185,672</b>	<b>\$59,252,340</b>

## **12. Functions**

School Districts are required to report all expenses by function, except certain indirect expenses. General administration, data processing services, and other intergovernmental charges functions (data control codes 41, 53, and 99 respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

## **13. Restricted Assets**

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

## **14. Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

## **15. Risk Management – Claims and Judgments**

In the normal course of operations, the District is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The District attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. For insured programs, there have been no significant reductions in coverage. Settlement amounts have not exceeded insurance coverage for the current year or the past three years.

### **Health Care Coverage**

During the year ended August 31, 2017, employees of the District were covered by a uniform statewide health care program for public education employees. The District contributed \$529 per month, which includes \$75 per month which is reimbursed by the State of Texas, per employee to the Plan. Employees, at their option, may authorize payroll withholdings to pay the remaining balance of the premium for employee coverage and/or dependents. All contributions/premiums were paid to the statewide health care program. The Plan was authorized by House Bill 3343 and is administered by the Teacher Retirement System of Texas (TRS).

### **Workers Compensation Coverage**

The District has entered into an agreement with the Texas Educational Insurance Association to self-fund their workers compensation plan. The agreement is administered by Claims Administrative Services, Inc. Transactions related to the plan are accounted for in the Workers Compensation Insurance Fund (the "Fund"), an internal service fund of the District. The District makes all contributions to the fund. Claims Administrative Services, Inc. obtained excess loss insurance, which limited annual claims paid from the entire fund for the year ended August 31, 2017, to \$225,000 for any individual participant.

Estimates of claims payable and of claims incurred, but not reported at August 31, 2017, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claims liabilities during the past two years are as follows:

	<u>Year Ended August 31, 2017</u>	<u>Year Ended August 31, 2016</u>
Unpaid claims, beginning of fiscal year	\$41,640	\$57,814
Incurred claims (including IBNR's)	85,923	47,630
Claim payments	(66,874)	(63,804)
Unpaid claims, end of fiscal year	<u>\$60,689</u>	<u>\$41,640</u>

## 16. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### Note B. Reconciliation of Government-Wide and Fund Financial Statements

#### **Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets:**

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details for these elements are as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$3,931,525		\$3,931,525	
Buildings	61,401,242	(14,028,011)	47,373,231	
Equipment	4,261,649	(1,205,440)	3,056,209	
Vehicles	1,995,815	(585,072)	1,410,743	
Construction in Progress	358,096		358,096	
Change in Net Position				\$56,129,804
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the year</u>	
Bonds Payable			\$88,783,319	
Accumulated Accretion on CABs			197,622	
Unamortized Bond Premiums			10,690,281	
Bond Interest Payable			329,239	
Change in Net Assets			<u>(\$100,000,461)</u>	
Net Adjustment to Net Position				<u>(\$43,870,657)</u>

**Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:**

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities.

One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. These adjustments affect both the net position balance and the change in net assets. The details of these adjustments are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current Year Capital Outlay</u>			
Buildings & Improvements	\$726,222		
Equipment	307,633		
Vehicles	191,670		
Construction in Progress	10,716,794		
Total Capital Outlay	<u>\$11,942,319</u>	\$11,942,319	\$11,942,319
<u>Debt Service Payments</u>			
Bond Principal	\$1,197,882		
Accretion on Capital Appreciation Bonds	(14,905)		
Amortization of Bond Premiums	386,951		
Bond Interest Payable	(47,993)		
Total Principal Payments	<u>\$1,521,935</u>	\$1,521,935	\$1,521,935
Total Adjustment to Net Position		<u>\$13,464,254</u>	<u>\$13,464,254</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Unavailable Revenue</u>			
Net Property Tax Revenue Adjustment	(\$83,340)	(\$83,340)	\$221,432
<u>Reclassify Net Bond Proceeds</u>			
Reclassify Net Bond Proceeds to Bonds Payable	(25,302,279)	(25,302,279)	(25,302,279)
<u>Reclassify Net Cost of Assets Sold</u>			
Reclassify Net Cost of Assets Sold	(18,564)	(18,564)	(18,564)
Totals		<u>(\$25,404,183)</u>	<u>(\$25,099,411)</u>

**Note C. Stewardship, Compliance, and Accountability**

**Budgetary Data**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-2 and J-3.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. 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. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are amended by the Board. All budget appropriations lapse at year-end.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

<u>August 31, 2017 Fund Balance</u>	
Appropriated Budget Funds - Food Service	\$0
Nonappropriated Budget Funds-Campus Activity Funds	185,672
All Special Revenue Funds	<u>\$185,672</u>

**Note D. Cash, Cash Equivalents, and Investments**

**District Policies and Legal and Contractual Provisions Governing Deposits and Investments:**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas, (3) obligations of states, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than "A"; (4) no load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for

bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. Melissa Independent School District is in substantial compliance with the requirements of the Act and with local policies.

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

*Credit Risk* – To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in certificates of deposits, no-load money market accounts, and public investment pools.

As of August 31, 2017, the District's investments in public funds investment pools were rated AAAM by Standard & Poor's.

*Custodial Credit Risk for Deposits* – State law requires the District to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the

District and held by the entity or its agent. Since the District complies with this law, it has no custodial risk for deposits

*Custodial Credit Risk for Investments* – To limit the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This includes securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

*Concentration of Credit Risk* – To limit the risk of loss attributed to the magnitude of the District's investment in a single issuer, the District diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

*Interest Rate Risk* – To limit the risk of changes in interest rates will adversely affect the fair value of investments, the District requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded

*Foreign Currency Risk* – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in foreign currency.

#### Fair Value Measurements:

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the below hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset.

Melissa Independent School District has the following recurring fair value measurements as of August 31, 2017:

Cash & Cash Equivalents of \$57,675,330 are valued using quoted market prices (Level 1 inputs)

The District has no investments measured at the Net Asset Value (NAV) per Share or its equivalent.

#### Deposit Collateral Information

At August 31, 2017, the carrying amount of the District's deposits was \$57,675,330, which includes Independent Bank checking accounts of \$892,095, and Independent Bank money market accounts of \$56,783,235. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017 were entirely covered by FDIC insurance or by pledged deposit collateral held by the District's agent bank in the District's name, or by letters of credit.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Independent Bank, McKinney, Texas
- b. The highest combined balance of cash, savings, and time deposits accounts amounted to \$76,360,894 and occurred during the month of December 2016.
- c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$77,729,266.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$750,000.

#### **Note E. Property Taxes**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when collected.

The assessed value of the tax roll on January 1, 2016, upon which the tax levy for the 2017 fiscal year was based, was \$793,924,065. The tax rates assessed for the year ended August 31, 2017 to finance general fund operations and the payment of principal & interest on general obligation bonds were \$ 1.17 and \$ 0.50 per \$ 100 valuation, respectively, for a total of \$ 1.67 per \$ 100 valuation. Current year (including prior year delinquent) tax collections for the year ended August 31, 2017 were 101.77% of the tax levy.

#### **Note F. Delinquent Taxes Receivable**

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

#### **Note G. Disaggregation of Receivables and Payables**

Receivables at August 31, 2017, were as follows:

	<u>Property Taxes</u>	<u>Due from Other Governments</u>	<u>Due from Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$223,964	\$2,718,912	\$0	\$0	\$2,942,876
Debt Service Fund	93,946	196,228	0	0	290,174
Nonmajor Governmental Funds	0	34,796	0	0	34,796
Total Governmental Activities	<u>\$317,910</u>	<u>\$2,949,936</u>	<u>\$0</u>	<u>\$0</u>	<u>\$3,267,846</u>
Amounts not scheduled for collection during the subsequent year	<u>\$1,942</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$1,942</u>

Payables at August 31, 2017, were as follows:

	<u>Accounts</u>	<u>Salaries &amp; Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:						
General Fund	\$18,749	\$628,504	\$46,215	\$9,253	\$13,520	\$716,241
Bond Construction Fund-Series 2016	523,537	0	0	0	0	523,537
Bond Construction Fund-Series 2016B	77,376	0	0	0	0	77,376
Nonmajor Governmental Funds	6,783	32,037	0	0	2,478	41,298
Total Governmental Activities	<u>\$626,445</u>	<u>\$660,541</u>	<u>\$46,215</u>	<u>\$9,253</u>	<u>\$15,998</u>	<u>\$1,358,452</u>
Amounts not scheduled for collection during the subsequent year	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

#### **Note H. Capital Asset Activity**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Land	\$3,931,525	\$0	\$0	\$3,931,525
Buildings & Improvements	61,401,242	726,222	0	62,127,464
Equipment	4,261,649	307,633	0	4,569,282
Vehicles	1,995,815	191,670	(39,100)	2,148,385
Construction in Progress	358,096	10,716,794	0	11,074,890
Totals at Historical Cost	<u>71,948,327</u>	<u>11,942,319</u>	<u>(39,100)</u>	<u>83,851,546</u>
Less accumulated depreciation for:				
Buildings & Improvements	(14,028,011)	(1,605,572)	0	(15,633,583)
Equipment	(1,205,440)	(540,704)	0	(1,746,144)
Vehicles	(585,072)	(228,493)	20,536	(793,029)
Total accumulated depreciation	<u>(15,818,523)</u>	<u>(2,374,769)</u>	<u>20,536</u>	<u>(18,172,756)</u>
Capital Assets, Net	<u>\$56,129,804</u>	<u>\$9,567,550</u>	<u>(\$18,564)</u>	<u>\$65,678,790</u>

Depreciation expense for the current year was charged to governmental functions as follows:

11 Instruction	\$1,309,227
12 Instructional Resources & Media Services	21,463
13 Curriculum & Instructional Staff Development	21,463
23 School Leadership	107,314
31 Guidance, Counseling, & Evaluation Services	42,926
33 Health Services	21,463
34 Student (Pupil) Transportation	271,419
35 Food Services	64,388
36 Cocurricular/Extracurricular Activities	150,239
41 General Administration	85,851
51 Plant Maintenance & Operations	214,628
53 Data Processing Services	64,388
	<hr/>
Total Depreciation Expense	<u>\$2,374,769</u>

**Note I. Changes in Long-Term Liabilities**

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

	<u>Beginning</u>				<u>Amounts Due</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>within One</u>
					<u>Year</u>
Governmental Activities:					
General Obligation Bonds	\$88,783,319	\$28,150,000	(\$6,077,882)	\$110,855,437	\$1,400,437
Accumulated Accretion on CABs	197,622	58,825	(43,920)	212,527	
Unamortized Bond Premiums	10,690,281	2,032,279	(386,951)	12,335,609	
Total Bonds Payable, Government-Wide	<u>\$99,671,222</u>	<u>\$30,241,104</u>	<u>(\$6,508,753)</u>	<u>\$123,403,573</u>	<u>\$1,400,437</u>

**Note J. Bonds Payable & Debt Service Requirements**

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2017.

In the governmental fund financial statements, current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. The proceeds from the sale of bonds are shown in the governmental fund financial statements as Other Resources and principal payments are shown as expenditures.

A summary of changes in bonds for the year ended August 31, 2017 is as follows:

<u>Description</u>	<u>Interest Rates Payable</u>	<u>Amounts of Original Issue</u>	<u>Interest Current Year</u>	<u>Beginning Amounts Outstanding 9/01/16</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Amounts Outstanding 8/31/17</u>
Unlimited Tax Bldg Bonds-Series 2007	4.00-5.25%	\$9,900,000	\$13,913	\$265,000	\$0	(\$265,000)	\$0
Unlimited Tax Bldg Bonds-Series 2008	4.00-5.25%	3,000,000	127,870	2,650,000	0	(2,570,000)	80,000
Unlimited Tax Bldg Bonds-Series 2009	2.00-5.20%	3,380,000	135,897	2,810,000	0	(2,480,000)	330,000
Capital Appreciation Bonds-Series 2009	2.45-4.625%	596,873	97,118	53,319	0	(22,882)	30,437
Unlimited Tax Refunding Bonds-Series 2012	2.00-3.25%	2,365,000	57,925	1,995,000	0	(85,000)	1,910,000
Unlimited Tax Bldg Bonds-Series 2013	3.00-5.00%	18,495,000	792,650	18,495,000	0	(40,000)	18,455,000
Capital Appreciation Bonds-Series 2013	4.60%	5,000	0	5,000	0	0	5,000
Unlimited Tax Refunding Bonds-Series 2014	2.00-4.00%	8,720,000	315,575	8,425,000	0	(55,000)	8,370,000
Capital Appreciation Bonds-Series 2014	2.35-2.70%	270,000	0	270,000	0	0	270,000
Unlimited Tax Bldg & Refunding Bonds-Series 2015	2.00-4.50%	8,940,000	296,500	8,290,000	0	(500,000)	7,790,000
Unlimited Tax Bldg & Refunding Bonds-Series 2016	2.00-5.00%	45,525,000	2,052,646	45,525,000	0	(60,000)	45,465,000
Unlimited Tax Bldg Bonds-Series 2016B	2.00-5.00%	23,360,000	659,483	0	23,360,000	0	23,360,000
Unlimited Tax Refunding Bonds-Series 2017	2.00-5.00%	4,790,000	0	0	4,790,000	0	4,790,000
Total General Obligation Bonds			<u>\$4,549,577</u>	<u>\$88,783,319</u>	<u>\$28,150,000</u>	<u>(\$6,077,882)</u>	<u>\$110,855,437</u>
Accumulated Accretion on CABs				197,622	58,825	(43,920)	212,527
Unamortized Bond Premiums on CABs				1,091,250	0	(53,198)	1,038,052
Unamortized Bond Premiums on GOBs				9,599,031	2,032,279	(333,753)	11,297,557
Total Bonds Payable, Government-Wide Financials				<u>\$99,671,222</u>	<u>\$30,241,104</u>	<u>(\$6,508,753)</u>	<u>\$123,403,573</u>

During the current fiscal year, the District issued Series 2016B building bonds of \$23,360,000, and Series 2017 refunding bonds of \$4,790,000 to early redeem Series 2008 bonds of \$2,500,000, and Series 2009 bonds of \$2,380,000. The aggregate difference in debt service between the refunding debt and the refunded debt is a savings of \$1,125,882, which is a net present value economic gain of \$878,507.

A portion of the above bonds were capital appreciation bonds, commonly referred to as “premium compound interest bonds”. These bonds were issued at a discount to their par or maturity value and will accrete interest until maturity. The accreted value equals the par value plus accreted interest plus the unamortized bond premium.

Summary information for the capital appreciation bonds is as follows:

<u>Series</u>	<u>Capital Appreciation Bonds</u>	
	<u>Stated Value</u>	<u>Accreted Value, 8/31/17</u>
2009	\$30,437	\$119,413
2013	\$5,000	\$642,681
2014	\$270,000	\$793,923

Debt service requirements for general obligation bonds are as follows:

<u>Year Ending August 31,</u>	<u>General Obligation Bonds</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2018	\$1,400,437	\$4,621,344	\$6,021,781
2019	1,860,000	4,493,481	6,353,481
2020	2,020,000	4,694,231	6,714,231
2021	2,305,000	4,752,481	7,057,481
2022	2,710,000	4,340,631	7,050,631
2023-2027	15,245,000	20,028,956	35,273,956
2028-2032	18,745,000	16,531,625	35,276,625
2033-2037	21,255,000	14,022,013	35,277,013
2038-2042	28,380,000	7,096,688	35,476,688
2043-Maturity	16,935,000	1,529,950	18,464,950
Total General Obligation Bonds	<u>\$110,855,437</u>	<u>\$82,111,400</u>	<u>\$192,966,837</u>

**Note K. Long Term Notes and Capital Leases Payable**

Long-Term Notes:

There were no long-term notes outstanding during the year ended August 31, 2017.

Capital Leases:

There were no capital leases outstanding during the year ended August 31, 2017.

**Note L. Accumulated Unpaid Vacation and Sick Leave Benefits**

District employees are entitled to certain compensated absences based upon their length of employment. Sick leave accrues at various rates established by the State of Texas and adopted by the Board of Trustees. Sick leave does not vest, but accumulates and is recorded as an expenditure as it is used and paid.

A summary of changes in the accumulated sick leave and vacation leave liability follows:

	<u>Sick Leave</u>	<u>Vacation Leave</u>
Balance, September 1, 2016	\$0	\$0
Additions - New Entrants and Salary Increments	0	0
Deductions - Payments to Participants	0	0
Balance, August 31, 2017	<u>\$0</u>	<u>\$0</u>

**Note M. Defined Benefit Pension Plan (TRS)**

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

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

**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.texas.gov/TRS%20Documents/cafr\\_2016.pdf](http://www.trs.state.texas.gov/TRS%20Documents/cafr_2016.pdf); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

**Contributions.** Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' 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 83<sup>rd</sup> Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83<sup>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<b><u>Contribution Rates</u></b>	
	<b><u>2016</u></b>	<b><u>2017</u></b>
Member	7.2%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Melissa ISD FY2017 Employer Contributions		\$ 520,142
Melissa ISD FY2017 Member Contributions		\$ 1,122,307
Melissa ISD FY2016 NECE On-Behalf Contributions		\$ 826,801

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

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

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

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

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

**Actuarial Assumptions.** The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Employment Benefit Changes	None

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

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

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
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%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
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%
<b>Risk Parity</b>			
Risk Parity	<u>5%</u>	<u>6.7%</u>	<u>0.3%</u>
Inflation Expectations			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

\* 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.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$6,774,976	\$4,377,552	\$2,344,052

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2017, Melissa Independent School District reported a liability of \$4,377,552 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Melissa Independent School District. The amount recognized by Melissa Independent School 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 Melissa Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 4,377,552
State's proportionate share that is associated with the District	<u>7,967,161</u>
Total	<u>\$12,344,713</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 0.000115843460% which was an increase of 0.000015809460% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, Melissa Independent School District recognized pension expense of \$826,801 and revenue of \$826,801 for support provided by the State.

At August 31, 2017, Melissa Independent School 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 actuarial experience	\$ 68,639	\$130,711
Changes in actuarial assumptions	13,342	121,340
Difference between projected and actual investment earnings, net	370,682	0
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,600,707	231
Contributions paid to TRS subsequent to the measurement date	520,142	0
Total	\$2,573,512	\$252,282

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	\$ 341,079
2019	341,079
2020	577,518
2021	322,908
2022	247,749
Thereafter	<u>90,834</u>
Total	\$1,921,167

**Note N. School District Retiree Health Plan (TRS-Care)**

**Plan Description** – Melissa Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides a 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.texas.gov/Pages/Homepage.aspx](http://www.trs.texas.gov/Pages/Homepage.aspx) under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of TRS 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, respectfully. 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 that 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2017-2015.

Contribution Rates and Contribution Amounts

Year	Member Contributions		State Contributions		District Contributions	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$84,728	1.000%	\$145,735	0.55%	\$80,154
2016	0.65%	\$83,798	1.000%	\$128,919	0.55%	\$70,906
2015	0.65%	\$69,757	1.000%	\$107,319	0.55%	\$59,025

**Note O. Medicare Part D (TRS-Care)**

*Federal Government Retiree Drug Subsidy* – The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. The allocation of these on-behalf payments is based on the ratio of a reporting entity’s covered payroll to the entire payroll reported by all reporting entities. TRS based this allocation percentage on the completed report submissions by reporting entities for the month of May. State Contributions for Medicare Part D made on behalf of Melissa Independent School District’s employees were \$67,006, \$48,589, and \$43,613, respectively for fiscal years ended August 31, 2017, 2016, and 2015.

**Note P. Due from Other Governments**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2017, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Totals</u>
General Fund	\$2,718,912	\$0	\$0	\$2,718,912
Debt Service Funds	196,228	0	0	196,228
Special Revenue Funds	0	34,796	0	34,796
<b>Totals</b>	<b>\$2,915,140</b>	<b>\$34,796</b>	<b>\$0</b>	<b>\$2,949,936</b>

**Note Q. Due to Other Governments**

As of August 31, 2017, the District had \$9,253 due to Texas Education Agency for 2016-2017 state foundation aid overpaid. The Texas Education Agency will deduct this amount from the 2017-2017 state funding.

**Note R. Unearned Revenue & Unavailable Revenue**

Unearned revenue is that portion of the net revenue receivable which is expected to be collected within the first 60 days following the fiscal year end. Unavailable revenue is that portion of the net revenue receivable which is not expected to be collected within the first 60 days following the fiscal year end.

Unearned revenue and Unavailable revenue at August 31, 2017 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Unearned Revenue:				
Property Tax Revenue	\$66,232	\$0	\$28,304	\$94,536
Total Unearned Revenue	<u>\$66,232</u>	<u>\$0</u>	<u>\$28,304</u>	<u>\$94,536</u>
Unavailable Revenue:				
Property Tax Revenue	\$156,364	\$0	\$65,068	\$221,432
Total Unavailable Revenue	<u>\$156,364</u>	<u>\$0</u>	<u>\$65,068</u>	<u>\$221,432</u>

**Note S. Commitments and Contingencies**

*Litigation* – The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of any lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly no provision for losses has been recorded.

*Grant Programs* – The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2017 may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

*Construction* – The District has construction in progress of \$11,074,890 as of August 31, 2017 for high school, new elementary, and baseball/softball projects. The total cost of high school project is projected to be \$32,082,555, the retainage payable as of August 31, 2017 was \$398,901, and the balance to finish including retainage is \$24,503,431. The total cost of new elementary project is projected to be \$17,115,029, the retainage payable as of August 31, 2017 was \$77,376, and the balance to finish including retainage is \$15,644,887. The total cost of baseball/softball project is projected to be \$3,884,541, the retainage payable as of August 31, 2017 was \$124,636, and the balance to finish including retainage is \$1,516,464.

**Note T. Revenue from Local and Intermediate Sources**

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Totals</u>
Property Taxes	\$9,458,259	\$0	\$4,034,980	\$0	\$13,493,239
Penalties, Interest, & Other Tax					
Related Income	88,325	0	32,325	0	120,650
Investment Income	18,069	0	7,415	331,248	356,732
Tuition	269,281	0	0	0	269,281
Rent	55,083	0	0	0	55,083
Gifts & Bequests	60,395	0	0	0	60,395
Food Service Sales	0	403,158	0	0	403,158
Athletics	59,743	0	0	0	59,743
Co-curricular	0	449,785	0	0	449,785
Other	309,577	0	0	0	309,577
<b>Totals</b>	<b>\$10,318,732</b>	<b>\$852,943</b>	<b>\$4,074,720</b>	<b>\$331,248</b>	<b>\$15,577,643</b>

**Note U. Interfund Balances and Transfers In & Out**

Interfund balances at August 31, 2017, consisted of the following amounts:

**Due to Internal Service Fund from:**

General Fund	<u>\$46,215</u>
Total to Internal Service Fund from Other Funds	<u><u>\$46,215</u></u>

Interfund transfers for the year ended August 31, 2017, consisted of the following individual amounts:

**Transfers to Nonmajor Governmental Funds from:**

General Fund	<u>\$43,530</u>
Total Transferred to Nonmajor Governmental Funds from Other Funds	<u><u>\$43,530</u></u>

**Note V. Joint Ventures – Shared Service Arrangements**

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

**Note W. Subsequent Events**

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through December 31, 2017, which is the date the financial statements were available to be issued.

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REQUIRED SUPPLEMENTAL INFORMATION

MELISSA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 9,690,602	\$ 9,734,602	\$ 10,318,732	\$ 584,130
5800	State Program Revenues	12,201,820	12,201,820	12,937,828	736,008
5900	Federal Program Revenues	180,000	180,000	147,957	(32,043)
5020	Total Revenues	22,072,422	22,116,422	23,404,517	1,288,095
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	13,759,440	13,855,486	13,683,131	172,355
0012	Instructional Resources and Media Services	211,866	226,316	225,288	1,028
0013	Curriculum and Instructional Staff Development	149,881	128,479	125,780	2,699
0021	Instructional Leadership	129,010	131,763	129,028	2,735
0023	School Leadership	1,030,979	1,069,444	1,067,853	1,591
0031	Guidance, Counseling and Evaluation Services	367,100	381,198	380,136	1,062
0033	Health Services	165,653	168,079	167,236	843
0034	Student (Pupil) Transportation	876,635	720,041	718,438	1,603
0036	Extracurricular Activities	1,055,724	1,285,447	1,281,419	4,028
0041	General Administration	829,534	811,308	808,981	2,327
0051	Facilities Maintenance and Operations	2,188,119	2,318,453	2,305,444	13,009
0052	Security and Monitoring Services	109,924	129,460	126,867	2,593
0053	Data Processing Services	641,557	632,582	630,015	2,567
Capital Outlay:					
0081	Facilities Acquisition and Construction	350,000	129,524	129,523	1
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	125,000	-	-	-
0099	Other Intergovernmental Charges	82,000	83,842	83,842	-
6030	Total Expenditures	22,072,422	22,071,422	21,862,981	208,441
1100	Excess of Revenues Over Expenditures	-	45,000	1,541,536	1,496,536
<b>OTHER FINANCING SOURCES (USES):</b>					
7912	Sale of Real and Personal Property	-	-	3,422	3,422
8911	Transfers Out (Use)	-	(44,000)	(43,530)	470
7080	Total Other Financing Sources (Uses)	-	(44,000)	(40,108)	3,892
1200	Net Change in Fund Balances	-	1,000	1,501,428	1,500,428
0100	Fund Balance - September 1 (Beginning)	5,958,421	5,958,421	5,958,421	-
3000	Fund Balance - August 31 (Ending)	\$ 5,958,421	\$ 5,959,421	\$ 7,459,849	\$ 1,500,428

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

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.000115843%	0.000100034%	0.000049488%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 4,377,552	\$ 3,536,069	\$ 1,321,893
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	7,967,161	6,791,628	5,464,793
Total	<u>\$ 12,344,713</u>	<u>\$ 10,327,697</u>	<u>\$ 6,786,686</u>
District's Covered-Employee Payroll	\$ 12,891,946	\$ 10,731,867	\$ 9,378,090
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	33.96%	32.95%	14.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	76.23%	78.43%	83.25%

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

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

MELISSA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2017

	2017	2016	2015
Contractually Required Contribution	\$ 520,142	\$ 442,127	\$ 357,731
Contribution in Relation to the Contractually Required Contribution	520,142	442,127	357,731
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 14,573,540	\$ 12,891,946	\$ 10,731,867
Contributions as a Percentage of Covered-Employee Payroll	3.57%	3.43%	3.33%

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

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "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."

MELISSA INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED AUGUST 31, 2017

*Changes of benefit terms.*

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

*Changes of assumptions.*

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

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## COMBINING STATEMENTS

MELISSA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2017

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 7,393	\$ (4,724)
1240	Receivables from Other Governments	3,196	21,279	2,647	4,724
1000	Total Assets	<u>\$ 3,196</u>	<u>\$ 21,279</u>	<u>\$ 10,040</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	2,900	19,308	9,829	-
2200	Accrued Expenditures	296	1,971	211	-
2000	Total Liabilities	<u>3,196</u>	<u>21,279</u>	<u>10,040</u>	<u>-</u>
<b>FUND BALANCES</b>					
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3,196</u>	<u>\$ 21,279</u>	<u>\$ 10,040</u>	<u>\$ -</u>

263 Title III, A English Lang. Acquisition	410 Instructional Materials Allotment	429 State PreK Grants	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	693 Bond Construction Series 2015	Total Nonmajor Governmental Funds
\$ (2,950)	\$ 5,897	\$ 886	\$ 185,672	\$ 192,174	\$ -	\$ 192,174
2,950	-	-	-	34,796	-	34,796
<u>\$ -</u>	<u>\$ 5,897</u>	<u>\$ 886</u>	<u>\$ 185,672</u>	<u>\$ 226,970</u>	<u>\$ -</u>	<u>\$ 226,970</u>
\$ -	\$ 5,897	\$ 886	\$ -	\$ 6,783	\$ -	\$ 6,783
-	-	-	-	32,037	-	32,037
-	-	-	-	2,478	-	2,478
<u>-</u>	<u>5,897</u>	<u>886</u>	<u>-</u>	<u>41,298</u>	<u>-</u>	<u>41,298</u>
-	-	-	185,672	185,672	-	185,672
-	-	-	185,672	185,672	-	185,672
<u>\$ -</u>	<u>\$ 5,897</u>	<u>\$ 886</u>	<u>\$ 185,672</u>	<u>\$ 226,970</u>	<u>\$ -</u>	<u>\$ 226,970</u>

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 403,158	\$ -
5800 State Program Revenues	-	-	20,745	-
5900 Federal Program Revenues	75,875	287,264	193,457	7,348
5020 Total Revenues	75,875	287,264	617,360	7,348
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	75,875	287,264	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	7,348
0035 Food Services	-	-	660,890	-
0036 Extracurricular Activities	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	75,875	287,264	660,890	7,348
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(43,530)	-
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	-	43,530	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

263 Title III, A English Lang. Acquisition	410 Instructional Materials Allotment	429 State PreK Grants	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	693 Bond Construction Series 2015	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 449,785	\$ 852,943	\$ -	\$ 852,943
-	97,967	16,155	-	134,867	-	134,867
2,950	-	-	-	566,894	-	566,894
2,950	97,967	16,155	449,785	1,554,704	-	1,554,704
2,950	97,967	15,275	-	479,331	-	479,331
-	-	880	-	8,228	-	8,228
-	-	-	-	660,890	-	660,890
-	-	-	428,603	428,603	-	428,603
-	-	-	-	-	5,764	5,764
2,950	97,967	16,155	428,603	1,577,052	5,764	1,582,816
-	-	-	21,182	(22,348)	(5,764)	(28,112)
-	-	-	-	43,530	-	43,530
-	-	-	21,182	21,182	(5,764)	15,418
-	-	-	164,490	164,490	5,764	170,254
\$ -	\$ -	\$ -	\$ 185,672	\$ 185,672	\$ -	\$ 185,672

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REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

MELISSA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2017

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2008 and prior years	\$ 1.040000	\$ 0.500000	\$ 386,855,552
2009	1.040000	0.500000	422,807,599
2010	1.040000	0.500000	422,733,905
2011	1.040000	0.500000	417,006,205
2012	1.040000	0.500000	426,933,889
2013	1.040000	0.500000	438,642,628
2014	1.170000	0.370000	481,248,624
2015	1.170000	0.370000	565,700,031
2016	1.170000	0.500000	659,376,119
2017 (School year under audit)	1.170000	0.500000	793,924,065
1000 TOTALS			

(10) Beginning Balance 9/1/2016	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2017
\$ 35,692	\$ -	\$ 2,766	\$ 1,316	\$ (3,086)	\$ 28,524
16,188	-	460	221	-	15,507
13,928	-	464	223	(1)	13,240
27,699	-	11,303	5,434	661	11,623
30,856	-	25,194	12,113	19,634	13,183
37,680	-	33,695	16,200	50,466	38,251
40,050	-	44,404	14,042	51,089	32,693
53,310	-	54,092	17,106	56,468	38,580
59,904	-	53,722	22,958	62,079	45,303
-	13,258,532	9,232,159	3,945,367	-	81,006
<u>\$ 315,307</u>	<u>\$ 13,258,532</u>	<u>\$ 9,458,259</u>	<u>\$ 4,034,980</u>	<u>\$ 237,310</u>	<u>\$ 317,910</u>

MELISSA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 440,000	\$ 406,000	\$ 403,158	\$ (2,842)
5800 State Program Revenues	20,776	20,776	20,745	(31)
5900 Federal Program Revenues	185,000	192,770	193,457	687
5020 Total Revenues	<u>645,776</u>	<u>619,546</u>	<u>617,360</u>	<u>(2,186)</u>
<b>EXPENDITURES:</b>				
0035 Food Services	<u>642,717</u>	<u>663,546</u>	<u>660,890</u>	<u>2,656</u>
6030 Total Expenditures	<u>642,717</u>	<u>663,546</u>	<u>660,890</u>	<u>2,656</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	3,059	(44,000)	(43,530)	470
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	<u>-</u>	<u>44,000</u>	<u>43,530</u>	<u>(470)</u>
1200 Net Change in Fund Balances	3,059	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 3,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MELISSA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 3,888,207	\$ 3,888,207	\$ 4,074,720	\$ 186,513
5800	State Program Revenues	695,669	695,669	688,312	(7,357)
5020	Total Revenues	4,583,876	4,583,876	4,763,032	179,156
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on Long Term Debt	1,197,883	1,197,883	1,197,882	1
0072	Interest on Long Term Debt	3,890,094	4,549,577	4,549,577	-
0073	Bond Issuance Cost and Fees	13,500	393,615	384,915	8,700
6030	Total Expenditures	5,101,477	6,141,075	6,132,374	8,701
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(517,601)	(1,557,199)	(1,369,342)	187,857
<b>OTHER FINANCING SOURCES (USES):</b>					
7901	Refunding Bonds Issued	-	4,790,000	4,804,875	14,875
7916	Premium or Discount on Issuance of Bonds	-	1,392,278	1,392,279	1
8940	Payment to Bond Refunding Escrow Agent (Use)	-	(5,142,680)	(5,142,680)	-
7080	Total Other Financing Sources (Uses)	-	1,039,598	1,054,474	14,876
1200	Net Change in Fund Balances	(517,601)	(517,601)	(314,868)	202,733
0100	Fund Balance - September 1 (Beginning)	592,650	592,650	592,650	-
3000	Fund Balance - August 31 (Ending)	\$ 75,049	\$ 75,049	\$ 277,782	\$ 202,733

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COMPLIANCE & INTERNAL CONTROL SECTION

**Morgan, Davis, & Company, P.C.**  
Post Office Box 8158  
Greenville, Texas 75404

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an  
Audit of Financial Statements Performed in Accordance With *Government Auditing Standards***

**Independent Auditor's Report**

Melissa Independent School District  
1904 Cooper Street  
Melissa, Texas 75454

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 Melissa Independent School 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 31, 2017.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*/s/ Morgan, Davis, & Company, P.C.*

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Morgan, Davis, & Company, P.C.  
Greenville, Texas

December 31, 2017

MELISSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2017

**Summary of Auditor's Results:**

The type of report we issued on whether the financial statements of Melissa Independent School District were prepared in accordance with GAAP as an unmodified opinion.

With respect to internal control over financial reporting, we identified no material weaknesses and we reported no significant deficiencies.

We noted no noncompliance material to the financial statements,

**Financial Statements Findings:**

There are no findings related to financial statements which are required to be reported in accordance with *Generally Accepted Auditing Standards*.

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

(Prepared by the District's Administration)

There were no prior audit findings which required corrective action.

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

(Prepared by the District's Administration)

There were no corrective actions necessary for the year ended August 31, 2017.

SCHOOLS FIRST QUESTIONNAIRE

Melissa Independent School District

Fiscal Year 2017

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	212,527
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	4,377,552
SF13	Pension Expense (6147) at fiscal year-end.	