

ZEPHYR INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2017

Introductory Section

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

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CERTIFICATE OF BOARD

Zephyr Independent School District
Name of School District

Brown
County

025-906
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2017, at a meeting of the board of trustees of such school district on the 18th day of January, 2018.

Becky Cornelius
Signature of Board Secretary

[Signature]
Signature of Board President

Financial Section

BURL D. LOWERY
CERTIFIED PUBLIC ACCOUNTANT
311 CENTER AVENUE
BROWNWOOD, TEXAS 76801

Independent Auditor's Report

To the Board of Trustees
Zephyr Independent School District
P.O. Box 708
Zephyr, Texas 76890

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

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

Opinions

In my 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 Zephyr Independent School District as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Zephyr Independent School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 12, 2018 on my consideration of Zephyr Independent School District's internal control over financial reporting and on my 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 my 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 Zephyr Independent School District's internal control over financial reporting and compliance.



Burl D. Lowery
Certified Public Accountant

Brownwood, TX
January 12, 2018

ZEPHYR INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

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

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$1,486,078 at August 31, 2017.
- During the year, the District's expenses were \$24,646 more than the \$2,683,982 generated in taxes and other revenues for governmental activities. The District had Special Items In of \$59,203.
- The District's Net Increase in Net Position was \$83,849 for the year ended August 31, 2017.
- The total cost of the District's programs decreased by \$425,551 while its revenues decreased by \$115,076 during the current year.
- The general fund reported a fund balance this year of \$787,617.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts-*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

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

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

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the

government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

Fund Financial Statements

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

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

The District has the following kinds of funds:

- *Governmental funds*-Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*-Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The District has no Proprietary Fund Types.
- We use *internal service funds* to report activities that provided workers compensation insurance for the District's employees in prior years and provided services for computer operations.
- *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We excluded these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. These funds consist of student activity funds that belong to clubs and organizations and scholarship funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net positions were \$1,486,078 at August 31, 2017 and \$1,402,229 at August 31, 2016.

Net position is made up of the following categories:

	8-31-2017	8-31-2016
Net investment in capital assets	\$346,193	\$268,178
Restricted for:		
State and federal programs	396	11,213
Debt Service	184,487	177,687
Unrestricted	955,002	945,151
Total Net Position	\$1,486,078	\$1,402,229

Changes in net position. The District's total revenues were \$2,683,982. Property taxes provided 23% of the District's revenue. State available and foundation grants provide 57% of total revenues; operating grants provide 17% of the total revenues; and charges for services provide 2% of the total revenue.

The total cost of all programs and services was \$2,659,336; 48% of these costs are for instruction and instructional related services. (Expenditure Functions 11, 12, and 13).

Governmental Activities

Property tax rates for maintenance remained at \$1.04 per \$100 valuation, just as in 2015-2016. Property tax rates for debt service remained at \$.2796 per \$100 valuation in 2016-2017. The taxable values were \$48,344,921. Total taxes assessed amounted to \$637,960, which was a small increase from last year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types in the individual funds totaled \$2,683,982, a decrease of 4.11% over the preceding year. State foundation revenue decreased \$106,240 and operating grants decreased \$41,288. Taxes increased slightly by \$36,911 and charges for services increased \$2,840. The State foundation revenue fluctuates with student enrollment. In 2015-2016, the District's average daily attendance was 194, while in 2016-2017 the District's average daily attendance 199, an increase of 5 students.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget. With these adjustments, actual expenditures were \$70,870 less than the final budgeted amounts of the General Fund. In addition, resources available were \$5,713 less than the final budgeted amount. The District had budgeted a deficit of \$396,028, while the actual net change in fund balance was a deficit of \$307,310. The deficit budget and actual were both due to the replacement of the artificial turf on the football field.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had a net investment in capital assets amounting to \$5,742,455 in a broad range of capital assets, including land, equipment, vehicles, buildings, and infrastructure, net of depreciation. This amount represents a net increase (including additions and deductions) of \$105,175, an increase of 2% over last year. Depreciation for 2016-2017 was \$212,756.

More detailed information about the District's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end, the District had \$5,400,274 outstanding bonds and maintenance tax notes and a net pension liability of \$411,906. More detailed information about the District's debt is presented in the notes to the financial statements.

During 2016-2017, Board of Trustees approved the capital lease purchase of 25 computers. The capital lease purchase was for a total of \$22,247 with four annual payments of \$6,023 beginning on the date of issue. More detailed information about the long term debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2017 tax roll for the 2017-2018 budget preparation decreased approximately 1% over the 2016 tax roll appraised value. The District's total tax rate stayed the same rate of \$1.3196 per \$100 valuation. The tax revenue based on these valuations and tax rates will decrease approximately \$3,000. The I&S rate of \$.2796 will result in \$134,531, while the M&O rate at \$1.04 will result in \$500,403 for the District.
- General operating fund budgeted spending is \$2,286,095. The final 2016-2017 budgeted expenditures was \$2,562,370. Net decrease in estimated spending is \$276,275. The decrease in the spending budget is primarily the budget for facilities acquisition and construction. The budget decrease is an 11% decrease from last year.
- General operating fund estimated revenues increased in the 2017-2018 budget approximately \$119,922 from the final estimated revenues in 2016-2017 of \$2,166,342.

These indicators were taken into account when adopting the general fund budget for 2017-2018. State revenue will increase or decrease as the student population changes in size. The District will use any increases in revenues to finance programs we currently offer.

If these estimates are realized, the District's budgetary general fund balance is expected to remain approximately the same at the close of 2017-2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Superintendent's Office.

**ZEPHYR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS - TABLES
FINANCIAL ANALYSIS IF THE DISTRICT AS A WHOLE**

Net Position. The District's combined net positions were \$1,486,078 at August 31, 2017 and \$1,402,229 at August 31, 2016. (See Table 1)

**Table 1
Zephyr Independent School District's Net Position**

	Governmental Activities	
	2017	2016
Current Assets:		
Cash and cash equivalents	\$822,590	\$512,502
Investments	\$518,406	\$813,133
Due from other governments	\$144,347	\$113,864
Property taxes receivable (net)	\$7,168	\$7,895
Other receivables (net)	\$0	\$0
Total Current Assets	\$1,492,511	\$1,447,394
Capital Assets:		
Land	\$269,588	\$269,589
Construction in Progress	\$305,841	\$0
Buildings	\$3,460,335	\$3,551,339
Equipment and vehicles	\$249,438	\$291,225
Infrastructure	\$1,457,253	\$1,525,127
Total Capital Assets	\$5,742,455	\$5,637,280
Total Assets	\$7,234,966	\$7,084,674
Deferred Outflows of Resources:		
Deferred Outflow of Resources	\$281,715	\$295,458
Deferred Outflow Related to Pensions	\$235,928	\$211,582
Total Deferred Outflows of Resources	\$517,643	\$507,040
Current Liabilities:		
Accounts payable and accrued expenses	\$418,681	\$178,028
Due to other governments	\$11,932	\$0
Total Current Liabilities	\$430,613	\$178,028
Long-term Liabilities:		
Bonds Payable - due within one year	\$262,116	\$240,000
Bonds Payable - due in more than one year	\$5,138,158	\$5,403,865
Net Pension Liability	\$411,906	\$342,140
Total Long-term Liabilities	\$5,812,180	\$5,986,005
Total Liabilities	\$6,242,793	\$6,164,033
Deferred Inflows of Resources:		
Deferred Inflow Related to Pensions	\$23,738	\$25,452
Net Position:		
Net investment in capital assets	\$346,193	\$268,178
Restricted for state and federal programs	\$396	\$11,213
Restricted for debt service	\$184,487	\$177,687
Unrestricted	\$955,002	\$945,151
Total Net Position	\$1,486,078	\$1,402,229

**ZEPHYR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES**

Table 2
Zephyr Independent School District's Changes in Net Position

	Governmental Activities	
	2017	2016
Program Revenues:		
Charges for services	\$51,369	\$48,529
Operating grants and contributions	\$462,094	\$503,382
Capital grants and contributions	\$0	\$0
General Revenues:		
Property taxes	\$625,529	\$588,618
State aid - formula	\$1,530,649	\$1,636,889
Investment earnings	\$7,086	\$13,221
Other revenues	\$7,255	\$8,419
Total Revenues	\$2,683,982	\$2,799,058
Expenditures:		
Instruction	\$1,203,966	\$1,257,429
Instructional resources and media services	\$19,491	\$11,050
Curriculum development and staff development	\$62,851	\$46,638
School leadership	\$120,773	\$117,266
Guidance and counseling services	\$18,833	\$3,313
Health services	\$349	\$248
Student (pupil) transportation	\$74,480	\$59,871
Food services	\$168,433	\$189,970
Curricular/extracurricular activities	\$189,805	\$194,396
General administration	\$216,020	\$206,659
Plant maintenance & operation	\$342,006	\$336,134
Data processing services	\$41,512	\$40,110
Interest on long-term debt	\$132,733	\$480,761
Bond issuance costs and fees	\$2,356	\$76,204
Payments to fiscal agent/member districts SSA	\$65,728	\$64,838
Total Expenditures	\$2,659,336	\$3,084,887
Excess (Deficiency) Before Other Resources, Uses, and Transfers	\$24,646	(\$285,829)
Other Resources (Uses)		
Special Item In (Out)	\$59,203	\$0
Increase (Decrease) in Net Position	\$83,849	(\$285,829)
Net Position - Beginning	\$1,402,229	\$1,699,958
Prior Period Adjustments	\$0	(\$11,900)
Net Position - Ending	\$1,486,078	\$1,402,229

**ZEPHYR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES**

Table 3
Zephyr Independent School District's Capital Assets

	Governmental Activities	
	2017	2016
Land	\$269,588	\$269,589
Construction in Progress	\$305,841	\$0
Buildings and improvements	\$4,550,199	\$4,550,199
Equipment	\$395,144	\$395,144
Vehicles	\$154,149	\$216,805
Infrastructure	\$1,935,161	\$1,935,161
Total Capital Assets	\$7,610,082	\$7,366,898
Total Accumulated Depreciation	\$1,867,627	\$1,729,618
Net Capital Assets	<u>\$5,742,455</u>	<u>\$5,637,280</u>

Table 4
Zephyr Independent School District's Long-term Debt

	Governmental Activities	
	2017	2016
Bonds payable	\$175,000	\$305,000
Premiums on bonds	\$2,450	\$7,256
Refunding bonds payable	\$3,600,000	\$3,640,000
Premiums on refunding bonds	\$467,765	\$490,593
Accreted interest on capital appreciation bonds	\$375,835	\$368,026
Qualified School Construction Bonds:		
Capital Lease Purchase	\$401,224	\$425,000
Maintenance Tax Notes	\$378,000	\$408,000
Total Long-term Debt	<u>\$5,400,274</u>	<u>\$5,643,875</u>
Due within one year	\$262,116	\$240,000
Due in more than one year	\$5,138,158	\$5,403,865
	<u>\$5,400,274</u>	<u>\$5,643,865</u>
Net Pension Liability	<u>\$411,906</u>	<u>\$342,140</u>

Basic Financial Statements

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

Data Control Codes		1		Governmental Activities
ASSETS:				
1110	Cash and Cash Equivalents	\$		822,590
1120	Current Investments			518,406
1225	Property Taxes Receivable (Net)			7,168
1240	Due from Other Governments			144,347
Capital Assets:				
1510	Land			269,588
1520	Buildings and Improvements, Net			3,460,335
1530	Furniture and Equipment, Net			249,438
1580	Construction in Progress			305,841
1590	Infrastructure, Net			1,457,253
1000	Total Assets			<u>7,234,966</u>
DEFERRED OUTFLOWS OF RESOURCES:				
	Deferred Outflow of Resources			281,715
1705	Deferred Outflow Related to Pensions			235,928
1700	Total Deferred Outflows of Resources			<u>517,643</u>
LIABILITIES:				
2110	Accounts Payable			335,315
2140	Interest Payable			10,367
2165	Accrued Liabilities			72,999
2180	Due to Other Governments			11,932
Noncurrent Liabilities:				
2501	Due Within One Year			262,116
2502	Due in More Than One Year			5,138,158
2540	Net Pension Liability			411,906
2000	Total Liabilities			<u>6,242,793</u>
DEFERRED INFLOWS OF RESOURCES:				
2605	Deferred Inflow Related to Pensions			23,738
2600	Total Deferred Inflows of Resources			<u>23,738</u>
NET POSITION:				
3200	Net Investment in Capital Assets			346,193
Restricted For:				
3820	State and Federal Programs			396
3850	Debt Service			184,487
3900	Unrestricted			955,002
3000	Total Net Position	\$		<u>1,486,078</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Program Revenues Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 1,203,966	\$ --	\$ 140,508	\$ (1,063,458)
12	Instructional Resources and Media Services	19,491	--	678	(18,813)
13	Curriculum and Staff Development	62,851	--	3,882	(58,969)
23	School Leadership	120,773	--	6,707	(114,066)
31	Guidance, Counseling, & Evaluation Services	18,833	--	15,726	(3,107)
33	Health Services	349	--	--	(349)
34	Student Transportation	74,480	--	579	(73,901)
35	Food Service	168,433	18,125	90,220	(60,088)
36	Cocurricular/Extracurricular Activities	189,805	30,494	9,232	(150,079)
41	General Administration	216,020	--	7,544	(208,476)
51	Facilities Maintenance and Operations	342,006	2,750	9,568	(329,688)
53	Data Processing Services	41,512	--	196	(41,316)
72	Interest on Long-term Debt	132,733	--	177,254	44,521
73	Bond Issuance Costs and Fees	2,356	--	--	(2,356)
93	Payments Related to Shared Services Arrangements	65,728	--	--	(65,728)
TG	Total Governmental Activities	<u>2,659,336</u>	<u>51,369</u>	<u>462,094</u>	<u>(2,145,873)</u>
TP	Total Primary Government	<u>\$ 2,659,336</u>	<u>\$ 51,369</u>	<u>\$ 462,094</u>	<u>(2,145,873)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				492,892
DT	Property Taxes, Levied for Debt Service				132,637
IE	Investment Earnings				7,086
GC	Grants and Contributions Not Restricted to Specific Programs				1,530,649
MI	Miscellaneous				7,255
	Special and Extraordinary Items:				
S1	Special Item Inflow				59,203
TR	Total General Revenues				<u>2,229,722</u>
CN	Change in Net Position				<u>83,849</u>
NB	Net Position - Beginning				<u>1,402,229</u>
NE	Net Position - Ending				<u>\$ 1,486,078</u>

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 559,385	\$ 183,720	\$ (16,082)	\$ 727,023
1120 Current Investments	518,406	--	--	518,406
1225 Taxes Receivable, Net	6,401	767	--	7,168
1240 Due from Other Governments	106,440	--	37,907	144,347
1000 Total Assets	<u>1,190,632</u>	<u>184,487</u>	<u>21,825</u>	<u>1,396,944</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 330,270	\$ --	\$ --	\$ 330,270
2160 Accrued Wages Payable	62,069	--	8,815	70,884
2170 Due to Other Funds	2,842	--	--	2,842
2180 Due to Other Governments	--	--	11,932	11,932
2200 Accrued Expenditures	1,433	--	682	2,115
2000 Total Liabilities	<u>396,614</u>	<u>--</u>	<u>21,429</u>	<u>418,043</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred Revenue	6,401	767	--	7,168
2600 Total Deferred Inflows of Resources	<u>6,401</u>	<u>767</u>	<u>--</u>	<u>7,168</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	396	396
3480 Retirement of Long-Term Debt	--	183,720	--	183,720
Committed Fund Balances:				
3510 Construction	450,000	--	--	450,000
3600 Unassigned	337,617	--	--	337,617
3000 Total Fund Balances	<u>787,617</u>	<u>183,720</u>	<u>396</u>	<u>971,733</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 1,190,632</u>	<u>\$ 184,487</u>	<u>\$ 21,825</u>	<u>\$ 1,396,944</u>

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 971,733
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	5,742,456
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	7,168
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	93,364
Payables for bond principal which are not due in the current period are not reported in the funds.	(3,775,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(401,224)
Payables for bond interest which are not due in the current period are not reported in the funds.	(10,368)
Payables for notes which are not due in the current period are not reported in the funds.	(378,000)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	281,715
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(411,906)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(23,738)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	235,928
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(375,835)
Bond premiums are amortized in the SNA but not in the funds.	(470,215)
Net position of governmental activities - Statement of Net Position	\$ <u>1,486,078</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 544,463	\$ 134,225	\$ 18,125	\$ 696,813
5800 <i>State Program Revenues</i>	1,612,493	177,254	13,691	1,803,438
5900 <i>Federal Program Revenues</i>	3,673	--	172,826	176,499
5020 Total Revenues	<u>2,160,629</u>	<u>311,479</u>	<u>204,642</u>	<u>2,676,750</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	1,020,312	--	79,729	1,100,041
0012 <i>Instructional Resources and Media Services</i>	17,597	--	--	17,597
0013 <i>Curriculum and Staff Development</i>	55,043	--	1,400	56,443
0023 <i>School Leadership</i>	107,420	--	--	107,420
0031 <i>Guidance, Counseling, & Evaluation Services</i>	1,432	--	15,725	17,157
0033 <i>Health Services</i>	318	--	--	318
0034 <i>Student Transportation</i>	82,730	--	--	82,730
0035 <i>Food Service</i>	--	--	150,247	150,247
0036 <i>Cocurricular/Extracurricular Activities</i>	171,057	--	--	171,057
0041 <i>General Administration</i>	193,317	--	--	193,317
0051 <i>Facilities Maintenance and Operations</i>	310,295	--	--	310,295
0053 <i>Data Processing Services</i>	36,682	--	--	36,682
0071 <i>Principal on Long-term Debt</i>	76,023	170,000	--	246,023
0072 <i>Interest on Long-term Debt</i>	17,705	131,428	--	149,133
0073 <i>Bond Issuance Costs and Fees</i>	--	2,356	--	2,356
0081 <i>Capital Outlay</i>	305,841	--	--	305,841
0093 <i>Payments to Shared Service Arrangements</i>	65,728	--	--	65,728
6030 Total Expenditures	<u>2,461,500</u>	<u>303,784</u>	<u>247,101</u>	<u>3,012,385</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(300,871)</u>	<u>7,695</u>	<u>(42,459)</u>	<u>(335,635)</u>
Other Financing Sources and (Uses):				
7912 <i>Sale of Real or Personal Property</i>	2,956	--	--	2,956
7913 <i>Issuance of Capital Leases</i>	22,247	--	--	22,247
7915 <i>Transfers In</i>	--	--	31,642	31,642
8911 <i>Transfers Out</i>	(31,642)	--	--	(31,642)
7080 Total Other Financing Sources and (Uses)	<u>(6,439)</u>	<u>--</u>	<u>31,642</u>	<u>25,203</u>
1200 Net Change in Fund Balances	<u>(307,310)</u>	<u>7,695</u>	<u>(10,817)</u>	<u>(310,432)</u>
0100 Fund Balances - Beginning	<u>1,094,927</u>	<u>176,025</u>	<u>11,213</u>	<u>1,282,165</u>
3000 Fund Balances - Ending	<u>\$ 787,617</u>	<u>\$ 183,720</u>	<u>\$ 396</u>	<u>\$ 971,733</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds \$ (310,432)

Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	340,184
The depreciation of capital assets used in governmental activities is not reported in the funds.	(212,756)
Trade-in or disposal of capital assets decrease net position in the SOA but not in the funds.	(22,253)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(729)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	170,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	46,023
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	30,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	13,881
The accretion of interest on capital appreciation bonds is not reported in the funds.	(7,809)
(Increase) decrease in accrued interest from beginning of period to end of period.	10,328
The net revenue (expense) of internal service funds is reported with governmental activities.	93,364
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(22,247)
Pension contributions made after the measurement date but in current FY were de-expended & reduced NPL.	7,961
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(51,667)

Change in net position of governmental activities - Statement of Activities \$ 83,849

The accompanying notes are an integral part of this statement.

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

<u>Data Control Codes</u>		<u>Internal Service Funds</u>
ASSETS:		
Current Assets:		
1110	Cash and Cash Equivalents	\$ 95,567
Receivables:		
1260	Due from Other Funds	2,842
	Total Current Assets	<u>98,409</u>
1530	Furniture and Equipment	59,831
1570	Accumulated Depreciation	<u>(59,831)</u>
1000	Total Assets	<u>98,409</u>
LIABILITIES:		
Current Liabilities:		
2110	Accounts Payable	\$ 5,045
	Total Current Liabilities	<u>5,045</u>
2000	Total Liabilities	<u>5,045</u>
NET POSITION:		
3900	Unrestricted	93,364
3000	Total Net Position	<u>\$ 93,364</u>

The accompanying notes are an integral part of this statement.

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

<u>Data Control Codes</u>		<u>Internal Service Funds</u>
OPERATING REVENUES:		
5700	<i>Local and Intermediate Sources</i>	\$ 148,450
5800	<i>State Program Revenues</i>	4,429
5020	Total Revenues	<u>152,879</u>
OPERATING EXPENSES:		
6100	<i>Payroll Costs</i>	73,711
6200	<i>Professional and Contracted Services</i>	57,841
6300	<i>Supplies and Materials</i>	4,971
6400	<i>Other Operating Costs</i>	1,492
6030	Total Expenses	<u>138,015</u>
	Income (Loss) before Contributions and Transfers	14,864
7918	<i>Special Item - Resource</i>	78,500
1300	Change in Net Position	<u>93,364</u>
1300	Change in Net Position	93,364
0100	Total Net Position - Beginning	--
3300	Total Net Position - Ending	<u>\$ 93,364</u>

The accompanying notes are an integral part of this statement.

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

	Internal Service Funds
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ --
Cash Received from Grants	--
Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds	151,981
Cash Payments to Employees for Services	(74,389)
Cash Payments to Other Suppliers for Goods and Services	(62,848)
Cash Payments for Grants to Other Organizations	--
Other Operating Cash Receipts (Payments)	--
Net Cash Provided (Used) by Operating Activities	<u>14,744</u>
Cash Flows from Non-capital Financing Activities:	
Proceeds (Payments) from (for) Borrowings	--
Operating Grants Received	--
Transfers From (To) Primary Government	--
Transfers From (To) Other Funds	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from Issuance of Long-term Debt	--
Principal and Interest Paid	--
Acquisition or Construction of Capital Assets	--
Proceeds from Sale of Capital Assets	--
Contributed Capital	78,500
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>78,500</u>
Cash Flows from Investing Activities:	
Purchase of Investment Securities	--
Proceeds from Sale and Maturities of Securities	--
Interest and Dividends on Investments	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	93,244
Cash and Cash Equivalents at Beginning of Year	2,323
Cash and Cash Equivalents at End of Year	<u>\$ 95,567</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 14,864
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	--
Provision for Uncollectible Accounts	--
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(898)
Increase (Decrease) in Accounts Payable	778
Increase (Decrease) in Unearned Revenue	--
Total Adjustments	<u>(120)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 14,744</u>

The accompanying notes are an integral part of this statement.

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

AUGUST 31, 2017		Private-purpose Trust Fund	Agency Fund
Data Control Codes		Private-Purpose Trust Fund	Student Activity
ASSETS:			
1110	Cash and Cash Equivalents	\$ 108	\$ 37,645
1290	Other Receivables	--	8,797
1900	Other Assets	46,537	--
1000	Total Assets	46,645	46,442
LIABILITIES:			
Current Liabilities:			
2190	Due to Student Groups	\$ --	\$ 46,442
2000	Total Liabilities	--	46,442
NET POSITION:			
3800	Held in Trust	46,645	--
3000	Total Net Position	\$ 46,645	\$ --

The accompanying notes are an integral part of this statement.

EXHIBIT E-2

ZEPHYR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Private- Purpose Trusts
Additions:	
Investment Income	\$ --
Net (Decrease) in Fair Value of Investments	(1,620)
Employer Contributions	--
Plan Member Contributions	--
Total Additions	<u>(1,620)</u>
Deductions:	
Scholarship Awards	1,376
Benefits	--
Refunds of Contributions	--
Administrative Expenses	--
Total Deductions	<u>1,376</u>
Change in Net Position	(2,996)
Net Position-Beginning of the Year	49,640
Net Position-End of the Year	<u><u>\$ 46,644</u></u>

The accompanying notes are an integral part of this statement.

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

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

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

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of legally restricted resources for, and the payment of, general long-term debt principal, interest, and related costs.

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

In addition, the District reports the following fund types:

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

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

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

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

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

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

b. Property Taxes

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

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

c. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20-30
Buildings	30-50
Building Improvements	20-30
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

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

f. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

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

g. Interfund Activity

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

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

i. Data Control Codes

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

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

ZEPHYR INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

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

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

k. Net Position Flow Assumption

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

l. Fund Balance Flow Assumptions

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

4. Pensions

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

5. New Accounting Standards Adopted

In fiscal year 2017, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- Statement No. 80, *Blending Requirements for Certain Component Units*
- Statement No. 82, *Pension Issues - An Amendment of GASB No. 67, No. 68 and No. 73*

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- a. Statement No. 74 improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement No. 43, and Statement No. 50, Pension Disclosures.

The scope of this Statement includes OPEB plans, defined benefit and defined contribution that are administered through trusts that meet the following criteria:

- 1) Contributions from employers and nonemployer contributing entities to the OPEB plan and earnings on those contributions are irrevocable.
- 2) OPEB plan assets are dedicated to providing OPEB to plan members in accordance with the benefit terms.
- 3) OPEB plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the OPEB plan administrator. If the plan is a defined benefit OPEB plan, plan assets also are legally protected from creditors of the plan members.

This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are not administered through trusts that meet the specified criteria.

The District does not administer their OPEB plan through a trust that meets the criteria noted above. As a result, the adoption of GASB Statement No. 74 did not result in a change to the financial statements or note disclosures.

- b. GASB Statement No. 80 clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, Determining Whether Certain Organizations Are Component Units.

The District did not have any component units which met the definition noted above. As a result, the adoption of GASB Statement No. 80 did not result in a change to the financial statements or note disclosures.

- c. GASB Statement No. 82 addresses certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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Prior to the issuance of this Statement, Statements 67 and 68 required presentation of covered employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, and ratios that use that measure, in schedules of required supplementary information. This Statement amends Statements 67 and 68 to instead require the presentation of covered payroll, defined as the payroll on which contributions to a pension plan are based, and ratios that use that measure.

This Statement clarifies that a deviation, as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures.

This Statement clarifies that payments that are made by an employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements should be classified as plan member contributions for purposes of Statement 67 and as employee contributions for purposes of Statement 68. It also requires that an employer's expense and expenditures for those amounts be recognized in the period for which the contribution is assessed and classified in the same manner as the employer classifies similar compensation other than pensions (for example, as salaries and wages or as fringe benefits).

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 82.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

Violation

Administrative review of food service program:

The District was monitored by the Texas Agriculture Service in February, 2017. There was one critical area finding that the District had to address. The District was required to refund federal revenue for the 2016-2017 school year amounting to \$11,932 due to not being able to provide adequate documentation of certification and benefit issuance relating to several applications for applications for free and reduced-price meals.

Action Taken

The District addressed the critical finding along with the general areas findings prior to the end of the fiscal year end. The Corrective Action Document was received and accepted by the Texas Department of Agriculture in May, 2017. At that time the Administrative Review was closed.

Violation

Unfavorable budget variances in general fund:

The District had unfavorable budget variances in some function levels of the general fund. The variance in each function was less than 10% of the budget for the function.

Action Taken

The District is monitoring the budget as required.

ZEPHYR INDEPENDENT SCHOOL DISTRICT

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FOR THE YEAR ENDED AUGUST 31, 2017

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

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

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

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$859,346 and the bank balance was \$857,160. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

The District's investment at August 31, 2017 is shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 518,406
		--
Total Investments		<u>\$ 518,406</u>

3. Analysis of Specific Deposit and Investment Risks

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

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a. Credit Risk

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

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

TexPool	\$	<u>518,406</u>	Standard & Poor's Rating - AAAm
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b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

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Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 269,589	\$ --	\$ --	\$ 269,589
Construction in progress	--	305,841	--	305,841
Total capital assets not being depreciated	<u>269,589</u>	<u>305,841</u>	<u>--</u>	<u>575,430</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	4,550,199	--	--	4,550,199
Equipment	395,144	--	--	395,144
Vehicles	216,805	34,344	97,000	154,149
Infrastructure	1,935,161	--	--	1,935,161
Total capital assets being depreciated	<u>7,097,309</u>	<u>34,344</u>	<u>97,000</u>	<u>7,034,653</u>
Less accumulated depreciation for:				
Buildings and improvements	(998,860)	(91,004)	--	(1,089,864)
Equipment	(169,789)	(35,870)	--	(205,659)
Vehicles	(150,935)	(18,008)	(74,747)	(94,196)
Infrastructure	(410,034)	(67,874)	--	(477,908)
Total accumulated depreciation	<u>(1,729,618)</u>	<u>(212,756)</u>	<u>(74,747)</u>	<u>(1,867,627)</u>
Total capital assets being depreciated, net	<u>5,367,691</u>	<u>(178,412)</u>	<u>22,253</u>	<u>5,167,026</u>
Governmental activities capital assets, net	<u>\$ 5,637,280</u>	<u>\$ 127,429</u>	<u>\$ 22,253</u>	<u>\$ 5,742,456</u>

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Instruction	\$	103,361
Instructional Resources and Media Services		1,706
Curriculum and Staff Development		5,473
School Leadership		10,416
Guidance, Counseling, & Evaluation Services		1,664
Health Services		31
Student Transportation		6,558
Food Services		14,569
Extracurricular Activities		16,587
General Administration		18,745
Plant Maintenance and Operations		30,089
Data Processing Services		3,557
	\$	<u>212,756</u>

Construction in progress consists of the replacement of the artificial turf on the football field. The project was completed in late September, 2017.

Additions to the vehicles included two buses and an agriculture science pickup. Disposal of assets were the sale of two older buses. Sale proceeds amounted to \$2,956. A loss of \$19,297 for the undepreciated cost of the buses was recognized in the government-wide financial statements.

E. Interfund Balances and Activities

1. Due To and From Other Funds

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

Due To Fund	Due From Fund	Amount	Purpose
Internal Service Fund	General Fund	\$ 2,842	Self-funded Worker's Comp Fund
	Other Balances	--	
	Total	\$ <u>2,842</u>	

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

2. Transfers To and From Other Funds

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

Transfers From	Transfers To	Amount	Reason
General fund	Special Revenue Fund - Food Service	\$ 31,642	Supplement food service funds
	Total	\$ <u>31,642</u>	

Transfers from General Fund to Food Service Fund included the costs of student meals paid by the District and the overall supplemental funds needed to support the food service fund.

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F. Long-Term Obligations

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

1. Long-Term Obligation Activity

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 305,000	\$ --	\$ 130,000	\$ 175,000	\$ 140,000
Premium on bonds	7,256	--	4,806	2,450	--
Capital lease purchase, QSCB	425,000	--	40,000	385,000	40,000
Capital lease purchase	--	22,247	6,023	16,224	5,116
Maint tax notes, 2011 QSCB	408,000	--	30,000	378,000	32,000
Tax Refunding Bonds, 2015	3,640,000	--	40,000	3,600,000	45,000
Premium/Discount on Bonds	490,583	--	22,818	467,765	--
Accumulated Accretion	368,026	7,809	--	375,835	--
Net Pension Liability *	342,140	106,679	36,913	411,906	--
Total governmental activities	\$ 5,986,005	\$ 136,735	\$ 310,560	\$ 5,812,180	\$ 262,116

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Net Pension Liability *	Governmental	General Fund

Debt Service Requirements

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

Year Ending August 31,	Governmental Activities			Federal Interest Subsidy	Net Interest Cost
	Principal	Interest	Total		
2018	\$ 262,116	\$ 175,911	\$ 438,027	\$ 40,780	\$ 135,131
2019	225,403	163,309	388,712	36,934	126,375
2020	114,055	279,236	393,291	32,928	246,308
2021	101,440	283,570	385,010	28,761	254,809
2022	99,210	289,340	388,550	24,433	264,907
2023-2027	1,252,000	533,355	1,785,355	50,798	482,557
2028-2032	1,035,000	311,738	1,346,738	--	311,738
2033-2037	1,200,000	141,700	1,341,700	--	141,700
2038	265,000	4,306	269,306	--	4,306
Totals	\$ 4,554,224	\$ 2,182,465	\$ 6,736,689	\$ 214,634	\$ 1,967,831

The District's oldest bond issue is dated May 1, 1998. This issue will mature on May 1, 2018. The interest rate on the remaining bonds in this issue is 5.1%. Interest on the bonds is paid semi-annually on each August 15 and February 15. Principal is paid each February 15. The final payment will be paid in 2017-2018.

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On October 7, 2008 the District sold Unlimited Tax School Building Bonds, Series 2008 (dated September 15, 2008) in the original issue amount of \$2,870,000. Current Interest Bonds totaling \$125,000 have coupon rates of 3.80%. The issue has an unamortized premium of \$460 at August 31, 2017. Maturity dates on the bonds are through February 15, 2018. Interest is payable on the Series 2008 bonds each August 15 and February 15 Bonds totaling \$2,440,000 that were scheduled to mature from February 15, 2019 through February 15, 2038 were refunded with the new refunding bonds issued December 15, 2015. The final payment on the un-refunded bonds will be paid in 2017-2018.

On August 5, 2009 the District sold Unlimited Tax School Building Bonds, Series 2009 (dated August 1, 2009) in the original issue amount of \$1,480,000. Current Interest Bonds totaling \$95,000 have coupon rates of 4.30%. The issue has an unamortized premium of \$937 at August 31, 2017. Interest is payable on the Series 2009 bonds each August 15 and February 15. Maturity dates on the bonds are through February 15, 2019. Bonds totaling \$1,285,000 that were scheduled to mature from February 15, 2019 through February 15, 2038 were refunded with the new refunding bonds issued December 15, 2015. The final payment on the un-refunded bonds will be paid in 2017-2018.

On April 26, 2011, the District issued Maintenance Tax Notes, Taxable Series 2011, which are treated as qualified school construction bonds, in the amount of \$408,000. Interest rate on the bonds is 6.72%. The Board of Trustees made the irrevocable election to treat the maintenance tax notes as "specified tax credit bonds". As such, the District will receive a Federal Subsidy equaling 5.38% throughout the term of the debt. Net interest costs for the maintenance tax notes amounts to 1.34%. The maintenance tax notes will mature over a 15-year period with no principal on the debt being paid on during the first 5 years. Annual payments are due each February 15, beginning in 2012 and ending in 2026.

On June 17, 2011, the District issued a Public Property Finance Act Contract, which is treated as qualified school construction bonds, in the amount of \$425,000. Interest rate on the bonds is 6.75%. The Board of Trustees made the irrevocable election to treat the lease purchase agreement as "specified tax credit bonds" and received the Federal Subsidy on interest amounting to 5.31%. Net interest costs on the lease purchase agreement is 1.44%. The lease purchase agreement will be paid over a 15-year period ending June 15, 2026. For the first 5 years of the payments, there is no principal paid on the debt. Annual payments are due each June 15, beginning in 2012 and ending in 2026.

Current year amortization of premiums on 2008 and 2009 bonds was \$4,805.

On December 1, 2015, the District issued Unlimited Tax Refunding Bonds, Series 2015. The bonds were issued in part as current interest bonds (CIB's) and in part as premium capital appreciation bonds (CAB's). Interest on the CIBs will accrue from December 1, 2015 and will be payable on February 15 and August 15 of each year until maturity, commencing on February 15, 2016. Interest rates on the CIBs range from 3.00% to 4.750%. Interest on the CABs will accrete from December 15, 2015, compounded semiannually on February 15 and August 15, commencing on February 15, 2016, and will be payable upon maturity. The yield to maturity on the CABs range from 1.60% to 2.00%. Use of the proceeds from the sale of the bonds were used to refund Series 2008 bonds totaling \$2,440,000 and Series 2009 bonds totaling \$1,285,000. The proceeds were also used pay the costs of issuing the refunding bonds. The District has designated the bonds as qualified tax-exempt obligations. Outstanding tax supported debt service at the time of issuing the refunding debt was \$6,643,581. After issuing the refunding bonds, the outstanding tax supported debt service was \$6,304,215. After considering the net carrying amount of the old debt and issue costs for the new debt, the school district should have an economic gain of approximately \$260,000 over the life of the refunding bonds. Average annual debt service requirements decreased \$27,498 per year.

In September, 2016, the District entered into a Capital Lease Purchase Agreement to buy 25 new computers. The interest rate is 5.452% per annum with 4 annual payments of \$6,023 beginning on the date of purchase.

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Advance Refunding of Debt

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

<u>Bond Issue</u>	<u>Amount</u>
Series 2008	2,440,000
Series 2009	1,285,000
Total	<u>3,725,000</u>

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of August 31, 2017, as follows:

<u>Year Ending August 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u>	<u>Federal Subsidy</u>	<u>Net Interest Cost</u>
2018	\$ 45,116	\$ 26,894	\$ 72,010	\$ 20,444	\$ 6,450
2019	46,403	23,908	70,311	18,320	5,588
2020	47,705	20,839	68,544	16,142	4,697
2021	42,000	17,685	59,685	13,912	3,773
2022	43,000	14,850	57,850	11,682	3,168
2023-2026	177,000	30,105	207,105	23,682	6,423
Total Minimum Rentals	<u>\$ 401,224</u>	<u>\$ 134,281</u>	<u>\$ 535,505</u>	<u>\$ 104,182</u>	<u>\$ 30,099</u>

The effective interest rate on capital leases is 1.440% and 5.452%.

These debt service requirements are included in the total debt service requirements in section 2. above.

G. Commitments Under Noncapitalized Leases

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

<u>Year Ending August 31,</u>	
2018	\$ 3,850
Total Minimum Rentals	<u>\$ 3,850</u>
 Rental Expenditures in 2017	 <u>\$ 6,892</u>

H. Risk Management

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

Unemployment Compensation Pool

During the year ended August 31, 2017, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter

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172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreement that define the responsibilities of the parties.

The Fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for Unemployment Compensation pool members.

TASB Risk Management Fund

The TASB Risk Management Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

I. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan description in (1.) above.

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

4. Contributions

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

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

	Contribution Rates	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$ 36,487	
District's 2017 Member Contributions	\$ 98,531	
NECE 2016 On-Behalf Contributions to District	\$ 66,802	

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

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

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

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution the state contribution as an employment after retirement surcharge.

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

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

5. Actuarial Assumptions

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

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

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by 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:

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

Teacher Retirement System of Texas Asset Allocation and Long-Term Expected Real Rate of Return As of August 31, 2016			
Asset Class	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns *
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

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

7. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 639,491	\$ 411,906	\$ 220,563

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

At August 31, 2017, the District reported a liability of \$411,906 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

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

District's proportionate share of the collective net pension liability	\$ 411,906
State's proportionate share that is associated with District	<u>792,931</u>
Total	\$ <u>1,204,837</u>

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.00109%, which was an increase (decrease) of 0.0001221 from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, the District recognized pension expense of \$82,287 and revenue of \$82,287 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,459	\$ 12,299
Changes in actuarial assumptions	12,554	11,417
Difference between projected and actual investment earnings	34,880	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	145,548	22
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>36,487</u>	<u>--</u>
Total	\$ <u>235,928</u>	\$ <u>23,738</u>

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

Year Ended August 31	Pension Expense Amount
2018	\$ 31,282
2019	\$ 31,282
2020	\$ 53,530
2021	\$ 29,574
2022	\$ 22,458
Thereafter	\$ 7,577

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

J. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2015 and 2014, and 0.5% for fiscal year 2013. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016 and 2015. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$12,796, \$11,636, and \$11,118, respectively, the active member contributions were \$8,318, \$7,564, and \$7,227, respectively, and the District's contributions were \$10,263, \$10,345, and \$7,114, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$3,711, \$4,444, and \$4,404, respectively.

K. Employee Health Care Coverage

During the year ended August 31, 2017, employees of the District were covered by TRS Active Care (Plan). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to TRS Active Care. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

L. Commitments and Contingencies

1. Contingencies

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

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

2. Litigation

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

M. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for a special education cooperative, Heartland Special Education Cooperative, with the following school districts:

Member Districts

Early ISD, fiscal agent	Brooksmith ISD
Bangs ISD	Santa Anna ISD
Blanket ISD	Zephyr ISD

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, Early ISD - Heartland Special Education Cooperative, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

N. Subsequent Events

In November, 2017, the District agreed to a settlement and release of all claims against the defendant and third-party defendants named in a lawsuit where the District was the plaintiff. The lawsuit involved the construction project of the artificial turf system on the District's football field.

The Defendants and Third-Party Defendants agreed to collectively pay the District \$208,750. Attorney fees and costs to the District amounted to \$108,750.

O. Workers Compensation Insurance

The District is a participant in the North Texas Education Insurance Association Workers' Compensation Self-Insurance Fund (The Fund). The purpose of the Fund is to provide statutory benefits for the fund members employees through self-insurance of workers compensation prescribed by Article 8309h, Reserved Civil Statutes of Texas, as amended.

The interlocal agreement between the Zephyr Independent School District and the Fund is for a term beginning September 1, 2016 and terminating on September 1, 2017. Either party may terminate the agreement upon 60 days notice with the termination becoming effective at the end of the plan currently in force.

The required contributions for each plan sponsor are based on the State Board of Insurance workers' compensation rates for the various payroll classifications included in the fund members annual payroll. The interlocal agreement states that the Zephyr Independent School District's fixed cost for 2016-2017 is \$3,611 and a maximum loss of \$1,388. for the 2016-2017 funding year. The District had esitimated unpaid claims of \$5,045 at August 31, 2017. The District has recognized an interfund payable of \$2,842 in its General Fund to pay any claims.

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

The Fund is governed by a six member board. Any excess of cumulative contributions and investment earnings of all fund members are available for reduction of annual contributions. The Fund retains \$225,000 for any one occurrence and purchases stop loss coverage for all claims above \$225,000. The reinsurance carrier is Safety National Corporation. The Board reserved the right in the interlocal agreement to adjust this stop loss provision in the event that the fiscal soundness of the Fund would justify such an adjustment and/or result in savings to fund members. All claims are processed and paid by the pool through the servicing contractor employed by the Fund.

P. Special Item Inflow

In the Government-Wide Statement of Activities, the District recognizes a Special Item Inflow of resources. The one-time equity contribution amounting to \$78,500 to the internal service fund for the Computer Operations Fund was received from another school district that had participated in the joint internal service fund. The District also recognized a loss from the sale of two buses amounting to \$19,297. One of the buses was not fully depreciated when it was sold.

Required Supplementary Information

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

ZEPHYR INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT G-1
Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 550,336	\$ 550,336	\$ 544,463	\$ (5,873)
5800	State Program Revenues	1,613,006	1,613,006	1,612,493	(513)
5900	Federal Program Revenues	3,000	3,000	3,673	673
5020	Total Revenues	2,166,342	2,166,342	2,160,629	(5,713)
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	1,119,231	1,019,231	1,020,312	(1,081)
0012	Instructional Resources and Media Services	17,771	17,771	17,597	174
0013	Curriculum and Staff Development	42,718	55,218	55,043	175
	Total Instruction & Instr. Related Services	1,179,720	1,092,220	1,092,952	(732)
Instructional and School Leadership:					
0023	School Leadership	102,897	114,897	107,420	7,477
	Total Instructional & School Leadership	102,897	114,897	107,420	7,477
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	9,255	9,255	1,432	7,823
0033	Health Services	500	500	318	182
0034	Student (Pupil) Transportation	59,913	85,013	82,730	2,283
0036	Cocurricular/Extracurricular Activities	152,841	170,841	171,057	(216)
	Total Support Services - Student (Pupil)	222,509	265,609	255,537	10,072
Administrative Support Services:					
0041	General Administration	161,364	193,964	193,317	647
	Total Administrative Support Services	161,364	193,964	193,317	647
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	261,746	306,746	310,295	(3,549)
0053	Data Processing Services	37,000	37,000	36,682	318
	Total Support Services - Nonstudent Based	298,746	343,746	346,977	(3,231)
Debt Service:					
0071	Principal on Long-Term Debt	70,000	70,000	76,023	(6,023)
0072	Interest on Long-Term Debt	16,500	17,705	17,705	--
0073	Bond Issuance Costs and Fees	634	634	--	634
	Total Debt Service	87,134	88,339	93,728	(5,389)
Capital Outlay:					
0081	Capital Outlay	400,000	367,795	305,841	61,954
	Total Capital Outlay	400,000	367,795	305,841	61,954
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	60,000	65,800	65,728	72
	Total Intergovernmental Charges	60,000	65,800	65,728	72
6030	Total Expenditures	2,512,370	2,532,370	2,461,500	70,870
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(346,028)	(366,028)	(300,871)	65,157

ZEPHYR INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT G-1
Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	--	--	2,956	2,956
7913	Issuance of Capital Leases	--	--	22,247	22,247
8911	Transfers Out	(50,000)	(30,000)	(31,642)	(1,642)
7080	Total Other Financing Sources and (Uses)	(50,000)	(30,000)	(6,439)	23,561
1200	Net Change in Fund Balance	(396,028)	(396,028)	(307,310)	88,718
0100	Fund Balance - Beginning	1,094,927	1,094,927	1,094,927	--
3000	Fund Balance - Ending	\$ 698,899	\$ 698,899	\$ 787,617	\$ 88,718

ZEPHYR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
Teacher Retirement System of Texas
LAST TEN FISCAL YEARS *

	Fiscal Year		
	2017	2016	2015
District's proportion of the net pension liability (asset)	0.0010900%	0.0009679%	0.0004810%
District's proportionate share of the net pension liability (asset)	\$ 411,906	\$ 342,140	\$ 128,481
State's proportionate share of the net pension liability (asset) associated with the District	792,931	742,726	684,354
Total	<u>\$ 1,204,837</u>	<u>\$ 1,084,866</u>	<u>\$ 812,835</u>
District's covered-employee payroll	\$ 1,163,655	\$ 1,111,801	\$ 1,122,699
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	35.40%	30.77%	11.44%
Plan fiduciary net position as a percentage of the total pension liability	76.43%	78.43%	83.25%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
Teacher Retirement System of Texas
LAST TEN FISCAL YEARS *

	Fiscal Years		
	2017	2016	2015
Contractually required contribution	\$ 36,487	\$ 36,913	\$ 31,499
Contributions in relation to the contractually required contribution	(36,487)	(36,913)	(31,499)
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 1,279,627	\$ 1,163,654	\$ 1,111,801
Contributions as a percentage of covered-employee payroll	2.85%	3.17%	2.83%

* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

ZEPHYR INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED AUGUST 31, 2017

Budget

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

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

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

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

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

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

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

*Combining Statements and Budget Comparisons
as Supplementary Information*

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

ZEPHYR INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2017

Data Control Codes		211 ESEA Title I Improving Basic Programs	240 National School Breakfast/Lunch Program	255 ESEA Title II Training & Recruiting
ASSETS:				
1110	Cash and Cash Equivalents	\$ (22,738)	\$ 14,501	\$ (1,935)
1240	Due from Other Governments	26,163	1,992	1,935
1000	Total Assets	<u>3,425</u>	<u>16,493</u>	<u>--</u>
LIABILITIES:				
Current Liabilities:				
2160	Accrued Wages Payable	\$ 3,080	\$ 4,021	\$ --
2180	Due to Other Governments	--	11,932	--
2200	Accrued Expenditures	345	144	--
2000	Total Liabilities	<u>3,425</u>	<u>16,097</u>	<u>--</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	396	--
3000	Total Fund Balances	<u>--</u>	<u>396</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3,425</u>	<u>\$ 16,493</u>	<u>\$ --</u>

EXHIBIT H-1

270 ESEA, Title VI Part B, Subpart 2 Rural School	410 State Textbook Fund	428 High School Allotment	429 State Funded Special Revenue Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ (5,979)	\$ --	\$ --	\$ 69	\$ (16,082)
7,572	--	--	245	37,907
<u>1,593</u>	<u>--</u>	<u>--</u>	<u>314</u>	<u>21,825</u>
\$ 1,431	\$ --	\$ --	\$ 283	\$ 8,815
--	--	--	--	11,932
162	--	--	31	682
<u>1,593</u>	<u>--</u>	<u>--</u>	<u>314</u>	<u>21,429</u>
--	--	--	--	396
--	--	--	--	396
<u>\$ 1,593</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 314</u>	<u>\$ 21,825</u>

ZEPHYR INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	211 ESEA Title I Improving Basic Programs	240 National School Breakfast/Lunch Program	255 ESEA Title II Training & Recruiting
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ 18,125	\$ --
5800 <i>State Program Revenues</i>	--	3,331	--
5900 <i>Federal Program Revenues</i>	59,580	86,332	3,515
5020 <i>Total Revenues</i>	59,580	107,788	3,515
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	43,855	--	3,515
0013 <i>Curriculum and Staff Development</i>	--	--	--
0031 <i>Guidance, Counseling, & Evaluation Services</i>	15,725	--	--
0035 <i>Food Service</i>	--	150,247	--
6030 <i>Total Expenditures</i>	59,580	150,247	3,515
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	--	(42,459)	--
Other Financing Sources and (Uses):			
7915 <i>Transfers In</i>	--	31,642	--
7080 <i>Total Other Financing Sources and (Uses)</i>	--	31,642	--
1200 <i>Net Change in Fund Balances</i>	--	(10,817)	--
0100 <i>Fund Balances - Beginning</i>	--	11,213	--
3000 <i>Fund Balances - Ending</i>	\$ --	\$ 396	\$ --

EXHIBIT H-2

270 ESEA, Title VI Part B, Subpart 2 Rural School	410 State Textbook Fund	428 High School Allotment	429 State Funded Special Revenue Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ --	\$ --	\$ 18,125
--	5,417	1,400	3,543	13,691
23,399	--	--	--	172,826
<u>23,399</u>	<u>5,417</u>	<u>1,400</u>	<u>3,543</u>	<u>204,642</u>
23,399	5,417	--	3,543	79,729
--	--	1,400	--	1,400
--	--	--	--	15,725
--	--	--	--	150,247
<u>23,399</u>	<u>5,417</u>	<u>1,400</u>	<u>3,543</u>	<u>247,101</u>
--	--	--	--	(42,459)
--	--	--	--	31,642
--	--	--	--	31,642
--	--	--	--	(10,817)
--	--	--	--	11,213
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 896</u>

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

Data Control Codes	754 Computer Operations Fund	755 Public Entity Risk Pool	Total Internal Service Funds (See Exhibit D-1)
ASSETS:			
Current Assets:			
1110 <i>Cash and Cash Equivalents</i>	\$ 93,364	\$ 2,203	\$ 95,567
<i>Receivables:</i>			
1260 <i>Due from Other Funds</i>	--	2,842	2,842
Total Current Assets	93,364	5,045	98,409
1530 <i>Furniture and Equipment</i>	59,831	--	59,831
1570 <i>Accumulated Depreciation</i>	(59,831)	--	(59,831)
1000 Total Assets	93,364	5,045	98,409
LIABILITIES:			
Current Liabilities:			
2110 <i>Accounts Payable</i>	\$ --	\$ 5,045	\$ 5,045
Total Current Liabilities	--	5,045	5,045
2000 Total Liabilities	--	5,045	5,045
NET POSITION:			
3900 <i>Unrestricted</i>	93,364	--	93,364
3000 Total Net Position	\$ 93,364	\$ --	\$ 93,364

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

Data Control Codes	754 Computer Operations Fund	755 Public Entity Risk Pool	Total Internal Service Funds (See Exhibit D-2)
OPERATING REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 146,994	\$ 1,456	\$ 148,450
5800 <i>State Program Revenues</i>	4,429	--	4,429
5020 Total Revenues	<u>151,423</u>	<u>1,456</u>	<u>152,879</u>
OPERATING EXPENSES:			
6100 <i>Payroll Costs</i>	73,711	--	73,711
6200 <i>Professional and Contracted Services</i>	56,385	1,456	57,841
6300 <i>Supplies and Materials</i>	4,971	--	4,971
6400 <i>Other Operating Costs</i>	1,492	--	1,492
6030 Total Expenses	<u>136,559</u>	<u>1,456</u>	<u>138,015</u>
Income (Loss) before Contributions and Transfe	14,864	--	14,864
7918 <i>Special Item - Resource</i>	78,500	--	78,500
1300 Change in Net Position	<u>93,364</u>	<u>--</u>	<u>93,364</u>
1300 Change in Net Position	<u>93,364</u>	<u>--</u>	<u>93,364</u>
0100 Total Net Position - Beginning	--	--	--
3300 Total Net Position - Ending	<u>\$ 93,364</u>	<u>\$ --</u>	<u>\$ 93,364</u>

ZEPHYR INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
ALL INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	754 Computer Operations Fund	755 Public Entity Risk Pool	Total Internal Service Funds (See Exhibit D-3)
Cash Flows from Operating Activities:			
Cash Received from Customers	\$ --	\$ --	\$ --
Cash Received from Grants	--	--	--
Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds	151,423	558	151,981
Cash Payments to Employees	(73,711)	(678)	(74,389)
Cash Payments to Suppliers for Goods and Services	(62,848)	--	(62,848)
Cash Payments for Grants to Other Organizations	--	--	--
Other Operating Cash Receipts (Payments)	--	--	--
Net Cash Provided (Used) by Operating Activities	<u>14,864</u>	<u>(120)</u>	<u>14,744</u>
Cash Flows from Non-capital Financing Activities:			
Proceeds (Payments) from (for) Borrowings	--	--	--
Operating Grants Received	--	--	--
Transfers From (To) Primary Government	--	--	--
Transfers From (To) Other Funds	--	--	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>	<u>--</u>	<u>--</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from Issuance of Long-term Debt	--	--	--
Principal and Interest Paid	--	--	--
Acquisition or Construction of Capital Assets	--	--	--
Proceeds from Sale of Capital Assets	--	--	--
Contributed Capital	78,500	--	78,500
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>78,500</u>	<u>--</u>	<u>78,500</u>
Cash Flows from Investing Activities:			
Purchase of Investment Securities	--	--	--
Proceeds from Sale and Maturities of Securities	--	--	--
Interest and Dividends on Investments	--	--	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>	<u>--</u>	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	93,364	(120)	93,244
Cash and Cash Equivalents at Beginning of Year	--	2,323	2,323
Cash and Cash Equivalents at End of Year	<u>\$ 93,364</u>	<u>\$ 2,203</u>	<u>\$ 95,567</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 14,864	\$ --	\$ 14,864
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities			
Depreciation	--	--	--
Provision for Uncollectible Accounts	--	--	--
Change in Assets and Liabilities:			
Decrease (Increase) in Receivables	--	(898)	(898)
Increase (Decrease) in Accounts Payable	--	778	778
Increase (Decrease) in Unearned Revenue	--	--	--
Total Adjustments	<u>--</u>	<u>(120)</u>	<u>(120)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 14,864</u>	<u>\$ (120)</u>	<u>\$ 14,744</u>

Other Supplementary Information

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

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

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
	\$	Various	\$	Various	\$	Various
2008 and Prior Years						
2009		1.04		.42		35,248,578
2010		1.04		.3581		35,163,091
2011		1.04		.3581		36,771,984
2012		1.04		.3581		37,204,597
2013		1.04		.3144		38,325,387
2014		1.04		.2567		40,545,078
2015		1.04		.2796		45,169,922
2016		1.04		.2796		43,947,364
2017 (School Year Under Audit)		1.04		.2796		48,344,921
1000 Totals						

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

EXHIBIT J-1

10 Beginning Balance 9/1/16	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/17
\$ 560	\$ --	\$ 19	\$ --	\$ (81)	\$ 460
687	--	--	--	--	687
341	--	--	--	--	341
58	--	--	--	--	58
366	--	33	11	--	341
578	--	31	9	--	538
1,435	--	302	75	--	1,058
2,840	--	1,042	280	--	1,518
8,906	--	5,256	1,413	(984)	1,252
--	637,960	480,132	129,082	(20,665)	8,081
<u>\$ 15,792</u>	<u>\$ 637,960</u>	<u>\$ 486,816</u>	<u>\$ 130,870</u>	<u>\$ (21,731)</u>	<u>\$ 14,336</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

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

EXHIBIT J-2

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 24,000	\$ 18,125	\$ (5,875)
5800 <i>State Program Revenues</i>	3,294	3,331	37
5900 <i>Federal Program Revenues</i>	108,097	88,332	(21,765)
5020 Total Revenues	<u>135,391</u>	<u>107,786</u>	<u>(27,603)</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	187,248	150,247	37,001
Total Support Services - Student (Pupil)	<u>187,248</u>	<u>150,247</u>	<u>37,001</u>
6030 Total Expenditures	<u>187,248</u>	<u>150,247</u>	<u>37,001</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(51,857)</u>	<u>(42,459)</u>	<u>9,398</u>
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	52,500	31,642	(20,858)
7080 Total Other Financing Sources and (Uses)	<u>52,500</u>	<u>31,642</u>	<u>(20,858)</u>
1200 Net Change in Fund Balance	<u>643</u>	<u>(10,817)</u>	<u>(11,460)</u>
0100 Fund Balance - Beginning	<u>11,213</u>	<u>11,213</u>	<u>--</u>
3000 Fund Balance - Ending	<u>\$ 11,856</u>	<u>\$ 396</u>	<u>\$ (11,460)</u>

ZEPHYR INDEPENDENT SCHOOL DISTRICT

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT J-3

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	REVENUES:			
5700	Local and Intermediate Sources	\$ 137,100	\$ 134,225	\$ (2,875)
5800	State Program Revenues	193,608	177,254	(16,354)
5020	Total Revenues	330,708	311,479	(19,229)
	EXPENDITURES:			
	Debt Service:			
0071	Principal on Long-Term Debt	230,000	170,000	60,000
0072	Interest on Long-Term Debt	93,378	131,428	(38,050)
0073	Bond Issuance Costs and Fees	6,000	2,956	3,644
	Total Debt Service	329,378	303,784	25,594
6030	Total Expenditures	329,378	303,784	25,594
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	1,330	7,695	6,365
1200	Net Change in Fund Balance	1,330	7,695	6,365
0100	Fund Balance - Beginning	176,025	176,025	-
3000	Fund Balance - Ending	\$ 177,355	\$ 183,720	\$ 6,365

BURL D. LOWERY
CERTIFIED PUBLIC ACCOUNTANT
311 CENTER AVENUE
BROWNWOOD, TEXAS 76801

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

Board of Trustees
Zephyr Independent School District
P.O. Box 708
Zephyr, Texas 76890

Members of the Board of Trustees:

I 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 Zephyr Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Zephyr Independent School District's basic financial statements, and have issued my report thereon dated January 12, 2018.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Zephyr 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Zephyr Independent School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the Zephyr 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Zephyr Independent School District's financial statements are free from material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Burl D. Lowery

Brownwood, TX
January 12, 2018

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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

 Yes X No

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

 Yes X None Reported

Noncompliance material to financial
statements noted?

 Yes X No

B. Financial Statement Findings

NONE

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

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>2016-001: Teacher Retirement reporting errors Condition: The payments to the Teacher Retirement System do not always match the amounts calculated on the monthly payroll reports.</p> <p>Recommendation: The District should compare its calculated amounts of retirement and TRS Care payments due to the amounts being reported before completing the electronic filing.</p>	Implemented	
<p>2016-002: Student Activity Funds required documentation Condition: The expenditures in the Student Activity Funds are not always properly documented.</p> <p>Recommendation: The District should review all invoices and documentation prior to paying the bill.</p>	Implemented	

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

There were no current year findings.

ZEPHYR INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2017**

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ 375,835
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 411,906
SF13	Pension Expense (object 6147) at fiscal year-end.	\$