

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

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

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Table of Contents	1
	Certificate of Board	3
	Independent Auditor's Report	4
	Management's Discussion and Analysis	7
	Financial Statements:	
	Government - Wide Financial Statements:	
A-1	Statement of Net Position	15
B-1	Statement of Activities	16
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	17
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balances	19
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Position	N/A
D-2	Statement of Revenues, Expenses, and Changes in Fund Assets	N/A
D-3	Statement of Cash Flows	N/A
	Fiduciary Fund Financial Statements:	
E-1	Statement of Fiduciary Net Position	21
E-2	Statement of Changes in Fiduciary Net Position	N/A
	Notes to the Financial Statements	22
	Required Supplementary Information:	
G-1	Budgetary Comparison Schedule - General Fund	54
G-2	Schedule of the District's Proportionate Share of the Net Pension Liability- Teacher Retirement System	55
G-3	Schedule of District Contributions - Teacher Retirement System	56
	Notes to Required Supplementary Information	57

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

TABLE OF CONTENTS, CONTINUED

<u>Exhibit</u>		<u>Page</u>
	Combining Statements:	
	Nonmajor Governmental Funds:	
H-1	Combining Balance Sheet	58
H-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	59
	Required TEA Schedules:	
J-1	Schedule of Delinquent Taxes Receivable	60
J-2		N/A
J-3		N/A
J-4	Budgetary Comparison Schedule - Child Nutrition Fund	61
J-5	Budgetary Comparison Schedule - Debt Service Fund	62
	Compliance, Internal Control and Federal Awards:	
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63
	Schedule of Findings and Questioned Costs	65
	Summary Schedule of Prior Audit Findings	67
	Corrective Action Plan	68
K-1	Schedule of Expenditures of Federal Awards	69
	Notes to the Schedule of Expenditures of Federal Awards	70

CERTIFICATE OF BOARD

Frankston Independent School District
Name of School District

Anderson
County

001-904
Co. - Dist. No.

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


Signature of Board Secretary


Signature of Board President

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

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

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

Independent Auditor's Report

Board of School Trustees
Frankston Independent School District
P. O. Box 428
Frankston, Texas 75763

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the 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* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

December 4, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS



FRANKSTON INDEPENDENT SCHOOL DISTRICT
Preparing for Today and Tomorrow

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

FINANCIAL HIGHLIGHTS

- The District's net position decreased as a result of this year's operations by 321,712.
- During the year, the District had expenses that were 298,665 more than the 9,604,257 million generated in tax and other revenues for governmental programs.
- The General Fund ended the year with a fund balance of 2,944,358.
- The resources available for appropriation were less than the amount budgeted for the General Fund.

USING THIS ANNUAL REPORT

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

PO Box 428—100 Perry Street
Frankston, TX 75763-0428
T: (903) 876-2556/Fax: (903) 876-4558

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside the District.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of the grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District reports only governmental activities, since the District has no business type activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the Every Student Succeeds Act (ESSA), from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes, such as Campus Activities.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets of the District's governmental activities decreased from 5,021,793 to 4,700,081. Unrestricted net assets; the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was 2,626,708 at the end of August 31, 2017.

Decrease in net assets before	321,712
Transfers	0
Special items	0
Net assets at the beginning of 9/01/16	5,021,793
Net assets at the end of 8/31/17	4,700,081

The Governmental Funds Statement of Revenue and Expenditures Reported:

The total cost of all programs and services were 9,925,969.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of 3,205,589 which is less than last year's total of 3,511,783. Included in this year's total change in fund balance is a decrease of 408,946 in the District's General Fund.

Over the course of the year, the Board of Trustees revised the District's budget. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved after the beginning of the year and reflect the actual beginning balances versus the balances estimated in August 2017. The second category involved amendments moving funds from programs that did not need the resources appropriated to them into programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had 28,058,203.59 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

This year's major additions included:

- A. Building improvements
- B. Purchase of a new bus
- C. Purchase of new school vehicles

Debt

At year-end, the District had 15,036,275 in bonds and notes outstanding. In November 2011, the voters approved a \$17.3 bond. These were issued as Series 11 and Series 12. For more detailed information please refer to the Bond Payable charts in the audit report.

ECONOMIC FACTORS: NEXT YEAR'S BUDGET AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget and tax rates. Amounts available for appropriation in the General Fund budget are 7,810,648, a decrease of 1.03% from the final 2017 budget of 8,011,842. Property taxes remained at a total of \$1.17 for M&O and \$0.40 for I&S, for a total tax rate of \$1.57.

If these estimates are realized, the District's budgetary General Fund balance will remain unchanged by the close of 2018. The District will continue to monitor enrollment figures and tax collections and will implement spending cuts if significant decreases occur in either.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Frankston Independent School District, 100 Perry Street, or P.O. Box 428, Frankston, Texas 75763. The phone number is 903-876-2556.

Frankston Independent School District

Net Position

Governmental Activities

	2015-2016	2016-2017
Current and Other Assets	4,228,137	3,905,364
Capital Assets	<u>17,881,180</u>	<u>17,552,958</u>
Total Assets	<u>22,109,317</u>	<u>21,458,322</u>
<i>Deferred Outflow - TRS</i>	<u>714,631</u>	<u>834,393</u>
Long Term Liabilities	17,413,428	17,246,527
Other Liabilities	<u>297,573</u>	<u>259,325</u>
Total Liabilities	<u>\$17,711,001</u>	<u>\$17,505,852</u>
<i>Deferred Inflow - TRS</i>	<u>91,154</u>	<u>86,782</u>
Total Net Position	<u>5,021,793</u>	<u>4,700,081</u>
Invested in Capital Assets		
Net of Related debt	1,692,972	1,812,142
Restricted	158,479	261,231
Unrestricted	<u>3,170,342</u>	<u>2,626,708</u>
Total Net Position	<u>5,021,793</u>	<u>4,700,081</u>

Frankston Independent School District Changes in Net Position for Years Stated

	2015-2016	2016-2017
Revenues:		
<i>Program Revenues</i>		
Charges for Services	217,274	313,864
Operating Grants	<u>1,106,337</u>	<u>901,129</u>
<i>General Revenues</i>		
Taxes	2,734,246	2,628,713
Debt Service Taxes	940,314	900,714
State Aid Formula Grants	4,387,844	4,654,566
Grants and Contributions Not Restricted	1,900	2,548
Investment Earnings	22,350	29,080
Miscellaneous	236,222	173,643
Special Item-Capital Adj	0	0
Total General Revenue	<u>8,322,876</u> 0	<u>8,389,264</u>
Expenses:		
Instruction	4,876,321	4,611,335
Inst Res & Media Services	104,489	105,097
Curr & Staff Development	138,502	136,340
Instructional Leadership	0	0
School Leadership	470,506	486,824
Guidance & Counseling	154,424	170,641
Health Services	94,821	99,576
Student Transportation	166,780	123,905
Food Services	454,226	558,859
Cocurr/Extracurr Activity	666,971	1,052,685
General Administration	391,988	526,103
Plant Maint & Operations	949,726	1,016,872
Data Processing Services	257,479	219,550
Security & Monitoring Serv	45,541	46,978
Debt Service-Int LT Debt	519,525	471,189
Debt Serv-Bond Issue & Fee	85,290	1,450
Facility Acquisition/Construc	17,929	87,000
Payments to Fiscal Agents	161,287	140,379
Other Governmental Charges	71,499	71,186
Total Expenses	<u>9,627,304</u>	<u>9,925,969</u>
<i>Change in Net Position</i>	<u>19,183</u>	<u>(321,712)</u>

FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ (261,617)
1120 Current Investments	2,985,200
1220 Property Taxes Receivable (Delinquent)	484,713
1230 Allowance for Uncollectible Taxes	(24,236)
1240 Due from Other Governments	721,214
1267 Due from Fiduciary Funds	90
Capital Assets:	
1510 Land	81,180
1520 Buildings, Net	16,507,846
1530 Furniture and Equipment, Net	963,932
1000 Total Assets	21,458,322
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	834,393
1700 Total Deferred Outflows of Resources	834,393
LIABILITIES	
2110 Accounts Payable	11,852
2140 Interest Payable	20,027
2160 Accrued Wages Payable	227,446
Noncurrent Liabilities	
2501 Due Within One Year	460,000
2502 Due in More Than One Year	15,280,816
2540 Net Pension Liability (District's Share)	1,505,711
2000 Total Liabilities	17,505,852
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	86,782
2600 Total Deferred Inflows of Resources	86,782
NET POSITION	
3200 Net Investment in Capital Assets	1,812,142
3820 Restricted for Federal and State Programs	3,876
3850 Restricted for Debt Service	219,035
3870 Restricted for Campus Activities	38,320
3900 Unrestricted	2,626,708
3000 Total Net Position	\$ 4,700,081

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 4,611,335	\$ -	\$ 376,265	\$ (4,235,070)
12 Instructional Resources and Media Services	105,097	-	55,024	(50,073)
13 Curriculum and Staff Development	136,340	-	7,837	(128,503)
23 School Leadership	486,824	-	28,082	(458,742)
31 Guidance, Counseling and Evaluation Services	170,641	-	10,458	(160,183)
33 Health Services	99,576	-	6,259	(93,317)
34 Student (Pupil) Transportation	123,905	-	2,165	(121,740)
35 Food Services	558,859	125,373	296,531	(136,955)
36 Extracurricular Activities	1,052,685	188,491	18,530	(845,664)
41 General Administration	526,103	-	16,821	(509,282)
51 Facilities Maintenance and Operations	1,016,872	-	29,779	(987,093)
52 Security and Monitoring Services	46,978	-	-	(46,978)
53 Data Processing Services	219,550	-	53,378	(166,172)
72 Debt Service - Interest on Long Term Debt	471,189	-	-	(471,189)
73 Debt Service - Bond Issuance Cost and Fees	1,450	-	-	(1,450)
81 Capital Outlay	87,000	-	-	(87,000)
93 Payments related to Shared Services Arrangements	140,379	-	-	(140,379)
99 Other Intergovernmental Charges	71,186	-	-	(71,186)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 9,925,969	\$ 313,864	\$ 901,129	(8,710,976)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	2,628,713
DT	Property Taxes, Levied for Debt Service	900,714
SF	State Aid - Formula Grants	4,654,566
GC	Grants and Contributions not Restricted	2,548
IE	Investment Earnings	29,080
MI	Miscellaneous Local and Intermediate Revenue	173,643
TR	Total General Revenues	8,389,264
CN	Change in Net Position	(321,712)
NB	Net Position - Beginning	5,021,793
NE	Net Position--Ending	\$ 4,700,081

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ (297,192)	\$ 10,658	\$ 24,917	\$ (261,617)
1120 Investments - Current	2,835,320	149,880	-	2,985,200
1220 Property Taxes - Delinquent	394,634	90,079	-	484,713
1230 Allowance for Uncollectible Taxes (Credit)	(19,732)	(4,504)	-	(24,236)
1240 Receivables from Other Governments	619,647	60,093	41,474	721,214
1260 Due from Other Funds	1,686	-	-	1,686
1000 Total Assets	<u>\$ 3,534,363</u>	<u>\$ 306,206</u>	<u>\$ 66,391</u>	<u>\$ 3,906,960</u>
LIABILITIES				
2110 Accounts Payable	\$ 11,852	\$ -	\$ -	\$ 11,852
2160 Accrued Wages Payable	203,251	-	24,195	227,446
2170 Due to Other Funds	-	1,596	-	1,596
2000 Total Liabilities	<u>215,103</u>	<u>1,596</u>	<u>24,195</u>	<u>240,894</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	374,902	85,575	-	460,477
2600 Total Deferred Inflows of Resources	<u>374,902</u>	<u>85,575</u>	<u>-</u>	<u>460,477</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	3,876	3,876
3480 Retirement of Long-Term Debt	-	219,035	-	219,035
Committed Fund Balance:				
3510 Construction	1,900,000	-	-	1,900,000
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	38,320	38,320
3600 Unassigned Fund Balance	1,044,358	-	-	1,044,358
3000 Total Fund Balances	<u>2,944,358</u>	<u>219,035</u>	<u>42,196</u>	<u>3,205,589</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,534,363</u>	<u>\$ 306,206</u>	<u>\$ 66,391</u>	<u>\$ 3,906,960</u>

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

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

Total Fund Balances - Governmental Funds	\$	3,205,589
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$27,621,913 and the accumulated depreciation was (\$9,740,733). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The long term debt was (\$16,188,208). The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. Note: Beginning Balances related to TRS are NOT included in this amount.		1,692,972
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase (decrease) net position.		891,291
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$834,393, a deferred resource inflow in the amount of \$86,782, and a net pension liability in the amount of \$1,505,711. This resulted in an increae (decrease) in net position.		(758,100)
4 The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(764,513)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		432,842
19 Net Position of Governmental Activities	\$	4,700,081

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 2,825,165	\$ 906,581	\$ 292,882	\$ 4,024,628
5800 State Program Revenues	4,801,192	145,344	51,734	4,998,270
5900 Federal Program Revenues	-	-	502,782	502,782
5020 Total Revenues	<u>7,626,357</u>	<u>1,051,925</u>	<u>847,398</u>	<u>9,525,680</u>
EXPENDITURES:				
Current:				
0011 Instruction	4,058,004	-	157,922	4,215,926
0012 Instructional Resources and Media Services	24,429	-	54,824	79,253
0013 Curriculum and Instructional Staff Development	130,835	-	-	130,835
0023 School Leadership	446,184	-	-	446,184
0031 Guidance, Counseling and Evaluation Services	163,797	-	-	163,797
0033 Health Services	96,449	-	-	96,449
0034 Student (Pupil) Transportation	217,873	-	-	217,873
0035 Food Services	5,665	-	445,366	451,031
0036 Extracurricular Activities	605,028	-	199,167	804,195
0041 General Administration	508,822	-	-	508,822
0051 Facilities Maintenance and Operations	1,005,553	-	-	1,005,553
0052 Security and Monitoring Services	46,978	-	-	46,978
0053 Data Processing Services	166,233	-	42,439	208,672
Debt Service:				
0071 Principal on Long Term Debt	-	455,000	-	455,000
0072 Interest on Long Term Debt	-	463,864	-	463,864
0073 Bond Issuance Cost and Fees	-	1,450	-	1,450
Capital Outlay:				
✓ 0081 Facilities Acquisition and Construction	324,427	-	-	324,427
Intergovernmental:				
✓ 0093 Payments to Fiscal Agent/Member Districts of SSA	140,379	-	-	140,379
✓ 0099 Other Intergovernmental Charges	71,186	-	-	71,186
6030 Total Expenditures	<u>8,011,842</u>	<u>920,314</u>	<u>899,718</u>	<u>9,831,874</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(385,485)</u>	<u>131,611</u>	<u>(52,320)</u>	<u>(306,194)</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	23,461	23,461
8911 Transfers Out (Use)	(23,461)	-	-	(23,461)
7080 Total Other Financing Sources (Uses)	<u>(23,461)</u>	<u>-</u>	<u>23,461</u>	<u>-</u>
1200 Net Change in Fund Balances	<u>(408,946)</u>	<u>131,611</u>	<u>(28,859)</u>	<u>(306,194)</u>
0100 Fund Balance - September 1 (Beginning)	<u>3,353,304</u>	<u>87,424</u>	<u>71,055</u>	<u>3,511,783</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,944,358</u>	<u>\$ 219,035</u>	<u>\$ 42,196</u>	<u>\$ 3,205,589</u>

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	(306,194)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2017 capital outlays and debt principal payments is to increase (decrease) net position.		891,291
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(764,513)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		14,061
GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$122,574. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$124,684. The proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$154,247. The net result is an increase (decrease) in the change in net position.		(156,357)
Change in Net Position of Governmental Activities	\$	<u>(321,712)</u>

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

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

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 89,335
Total Assets	<u>\$ 89,335</u>
LIABILITIES	
Due to Other Funds	\$ 90
Due to Student Groups	89,245
Total Liabilities	<u>\$ 89,335</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Frankston Independent School District (“The District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *GASB Statement No. 56* ; and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

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

A. REPORTING ENTITY

The Board of Trustees (the “Board”) 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, has the authority to make decisions, appoint administrators and managers, significantly influence operations, and has primary accountability for fiscal matters. As such, the District is not included in any other governmental “reporting entity” as defined by *GASB Statement No. 14, The Financial Reporting Entity*. There are no component units included within the reporting entity. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from /to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

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

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

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

The proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The Agency funds apply the accrual basis of accounting but do not have a measurement focus. All assets and all liabilities associated with operation of these funds are included on the Statement of Net Position. The total net position is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The fiduciary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

The Agency funds apply the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

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

D. FUND ACCOUNTING

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

The District reports the following fund types:

Governmental Funds:

1. **General Fund** - The general fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** - The District accounts for resources restricted to, or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
3. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
4. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

5. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are the student activity fund and the clearing fund for workers compensation.

E. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

F. INVENTORIES

The District records purchases of supplies as expenditures. Inventory on the balance sheet, if present, is recorded at cost and represents supplies and materials purchased for the subsequent school year. Food service commodities are recorded at fair market value as supplied by the Texas Department of Human Services.

G. PREPAYMENTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments in both government-wide and fund financial statements.

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

H. CAPITAL ASSETS

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	30
Vehicles	10
Furniture and Equipment	7 - 20

Land and construction in progress are not depreciated.

I. DEFERRED OUTFLOWS / DEFERRED INFLOWS OF RESOURCES

GASB No. 63 and GASB No. 65 provide guidance on financial reporting related to deferred outflows of resources and deferred inflows of resources. The objective of these statements is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

In addition to assets, the Balance Sheet and Statement of Net Position may report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Balance Sheet and Statement of Net Position may 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 a future period(s) and so will not be recognized as an inflow or resource (revenue) until that time.

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

J. LONG TERM DEBT

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. FUND BALANCE

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. Nonspendable fund balance - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.
2. Restricted Fund Balance - includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. Assigned Fund Balance - includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent or his/her designee.
5. Unassigned Fund Balance - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

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

L. USE OF ESTIMATES

The presentation of financial statements, in conformity with Generally Accepted Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

M. DATA CONTROL CODES

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

N. TEACHER RETIREMENT SYSTEM

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/deduction from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments of the system are reported at fair value.

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 81 180	\$	\$ 81 180	
Buildings & Improvements	24 748 311	7 764 340	16 983 971	
Furniture & Equipment	2 144 018	1 976 393	167 625	
Non-Depreciable Assets	<u>648 404</u>	<u></u>	<u>648 404</u>	
Totals	<u>\$ 27 621 913</u>	<u>\$ 9 740 733</u>		
Change in Net Position				\$ 17 881 180
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			\$ 15 491 275	
Accretion Payable			148 695	
Premium on Issuance of Bonds			<u>548 238</u>	
Change in Net Position				<u>(16 188 208)</u>
Net Adjustment to Net Position				<u>\$ 1 692 972</u>

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

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Position
Current Year Capital Outlay:			
Buildings & Improvements	\$ 214 300		
Furniture & Equipment	221 911		
Total Capital Outlay	436 291	436 291	436 291
Debt Payments:			
Bond Principal	455 000		
Total Principal Payments	\$ 455 000	455 000	455 000
Capital Asset Adjustment			
Total Adjustment to Net Position		\$ 891 291	\$ 891 291

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

C. EXPLANATION OF OTHER DIFFERENCES

Another element of the reconciliation on Exhibits C-2 and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
Adjustments to Revenue and Deferred Revenue:			
Taxes Collected from Prior Year Levies	\$ 114 166	\$ (114 166)	\$
Uncollected taxes(assumed collectible) from Current Year Levy	135 552	135 552	135 552
Uncollected Taxes (assumed collectible) from Prior Year Levy	324 925		324 925
Accrued Interest on Debt:			
Prior Year	20 310	20 310	
Current Year	20 027	(20 027)	(20 027)
Accretion on Capital Appreciation Bonds:			
Current Year Accrued	35 844	(35 844)	(35 844)
Current Year Paid	0		
Bond Premium Amortization:			
Current Year	28 236	28 236	28 236
		<u> </u>	<u> </u>
Total		<u>\$ 14 061</u>	<u>\$ 432 842</u>

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the other two reports are in Exhibits J-4 and J-5.

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

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

Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are to be made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended during the year.

Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function /object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

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

	<u>August 31, 2017</u> <u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 0
Nonappropriated Budget Funds	<u>42 196</u>
All Special Revenue Funds	<u>\$ 42 196</u>

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

B. ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrance accounting is utilized to ensure effective budgetary control and accountability. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each fiscal year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments. There were no outstanding encumbrances at the end of the fiscal year that were subsequently provided for in the 2017-2018 budget.

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

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

The Public funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar - weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies. The risks that the District may be subject are:

- a. **Custodial Credit Risk - Deposits:** This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank 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. During 2016-2017 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

The largest combined balances of cash, savings and time deposit accounts amounted to \$2,353,151 and occurred on January 25, 2017. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$2,828,152. The total amount of FDIC coverage at the time of the highest combined balance was \$5 00,000

- b. **Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.

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

- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.
- d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At August 31, 2017, the amount of the District's cash balance in checking accounts was \$165,982. Cash on hand was \$6,300.

INVESTMENTS - CASH EQUIVALENTS

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

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
First Public / Lone Star Investment Pool	\$ 1 722 812	\$ 1 722 810	.06078
Texas CLASS	<u>1 262 388</u>	<u>1 262 388</u>	.153425
Total Investments	<u>\$ 2 985 200</u>	<u>\$ 2 985 198</u>	

INVESTMENTS - OTHER

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

	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
N/A	\$ _____	\$ _____	
Total Investments	<u>\$ _____</u>	<u>\$ _____</u>	

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, if any, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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 located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Delinquent taxes not paid by June 30 are subject to penalty and interest charges plus delinquent collection fees for attorney costs. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible taxes are periodically reviewed and written off by the District as provided by specific statutory authority from the Texas Legislature.

The assessed value of the property tax roll on January 1, 2016 upon which the levy for the 2016-2017 fiscal year was based, was \$226,659,866. The tax rates assessed for the year ended August 31, 2017 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$.40 per \$100 valuation, respectively, for a total of \$1.57 per \$100 valuation. Current tax collections for the year ended August 31, 2017 were 95.9% of the year end adjusted tax levy. As of August 31, 2017, property taxes receivable totaled \$394,634 and \$90,079 for the General and Debt Service Funds respectively.

C. RECEIVABLES FROM OTHER GOVERNMENTS

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

	General Fund	Debt Service Fund	Other Funds	Totals
State Entitlements	\$ 619 647	\$	\$	\$ 619 647
State Grants			16 462	16 462
Federal Grants			25 012	25 012
Existing Debt Allotment		47 338		47 338
Instructional Facilities Allotment		12 755		12 755
	<u>\$ 619 647</u>	<u>\$ 60 093</u>	<u>\$ 41 474</u>	<u>\$ 721 214</u>
Total				

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

D. INTERFUND BALANCES AND TRANSFERS

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

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General Fund:		
Debt Service Fund	\$ 1 596	\$
Agency Fund	<u>90</u>	<u> </u>
Total	<u>\$ 1 686</u>	<u>\$</u>
Debt Service Fund:		
General Fund	<u>\$</u>	<u>\$ 1 596</u>
Agency Fund:		
General Fund	<u>\$</u>	<u>\$ 90</u>
Totals	<u><u>\$ 1 686</u></u>	<u><u>\$ 1 686</u></u>

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Special Revenue Fund	<u>\$</u>	<u>\$ 23 461</u>
Special Revenue Fund:		
General Fund	<u>\$ 23 461</u>	<u>\$</u>
Totals	<u><u>\$ 23 461</u></u>	<u><u>\$ 23 461</u></u>

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

E. RECEIVABLES AND PAYABLES

Receivables at August 31, 2017, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes (Net)	\$ 374 902	\$ 85 575	\$	\$ 460 477
Other Governments	619 647	60 093	41 474	721 214
Other Funds	<u>1 686</u>			<u>1 686</u>
Totals	<u>\$ 996 235</u>	<u>\$ 145 668</u>	<u>\$ 41 474</u>	<u>\$ 1 183 377</u>

Payables at August 31, 2017, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Accounts Payable	\$ 11 852	\$	\$	\$ 11 852
Accrued Wages	203 251		24 195	227 446
Other Funds		<u>1 596</u>		<u>1 596</u>
Totals	<u>\$ 215 103</u>	<u>\$ 1 596</u>	<u>\$ 24 195</u>	<u>\$ 240 894</u>

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

F. CAPITAL ASSET ACTIVITY

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

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance
Nondepreciable Capital Assets				
Land	\$ 81 180	\$	\$	\$ 81 180
Non Depreciable Assets	648 404			648 404
Construction in Progress				
Subtotal Nondepreciable Assets	<u>729 584</u>			<u>729 584</u>
Depreciable Capital Assets				
Building & Improvements	24 748 311	214 300		24 962 611
Furniture & Equipment	<u>2 144 018</u>	<u>221 991</u>		<u>2 366 009</u>
Subtotal Depreciable Assets	<u>26 892 329</u>	<u>436 291</u>		<u>27 328 620</u>
Total at Historical Cost	<u>27 621 913</u>	<u>436 291</u>		<u>28 058 204</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	7 764 340	690 425		8 454 765
Furniture & Equipment	<u>1 976 393</u>	<u>74 088</u>		<u>2 050 481</u>
Total Accumulated Depreciation	<u>9 740 733</u>	<u>764 513</u>		<u>10 505 246</u>
Governmental Activities Capital Assets, Net	<u>\$ 17 881 180</u>	<u>\$ 328 222</u>	<u>\$ 0</u>	<u>\$ 17 552 958</u>

Depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 297 678
12	Instructional Resources and Media Services	20 188
13	Curriculum Development and Instructional Staff Development	170
23	School Leadership	25 057
31	Guidance, Counseling and Evaluation Services	1 287
34	Student (Pupil) Transportation	49 565
35	Food Services	97 423
36	Cocurricular/Extracurricular Activities	251 073
41	General Administration	4 465
51	Plant Maintenance and Operations	11 166
53	Data Processing Services	<u>6 441</u>
	Total Depreciation Expense	<u>\$ 764 513</u>

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

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

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

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Amounts Outstanding 9/1/16</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 8/31/2017</u>	<u>Interest Current Year</u>
Unlimited Tax School Building Bonds Series 2011	1.45% to 2.45%	\$ 8 300 000	\$ 2 285 000	\$ 0	\$ 365 000	\$ 1 920 000	\$ 43 67
Unlimited Tax School Building Bonds Series 2012	.40% to 4.00%	8 996 275	8 651 275	0	90 000	8 561 275	299 95
Unlimited Tax Refunding Bonds Series 2016	2.0% to 3.0%	4 555 000	4 555 000	0	0	4 555 000	120 23
Totals			<u>\$ 15 491 275</u>	<u>\$ 0</u>	<u>\$ 455 000</u>	<u>\$ 15 036 275</u>	<u>\$ 463 86</u>

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

Debt service requirements are as follows:

<u>Year Ended August 31</u>	<u>General Obligations</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2018	460 000	456 788	916 788
2019	470 000	448 599	918 599
2020	475 000	439 416	914 416
2021	490 000	428 520	918 520
2022	500 000	416 038	916 038
2023 - 2027	2 675 000	1 854 312	4 529 312
2028 - 2032	3 055 000	1 477 706	4 532 706
2033 - 2037	2 611 275	2 122 725	4 734 000
2038 - 2042	4 300 000	444 000	4 744 000
Totals	<u>\$ 15 036 275</u>	<u>\$ 8 088 104</u>	<u>\$ 23 124 379</u>

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

The District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account asset and liabilities for the defeased bond are not included in the District's financial statements. As of August 31, 2017, \$4,740,000 of bond considered defeased are still outstanding.

H. CHANGES IN LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 15 491 275	\$ _____	\$ 455 000	\$15 036 275	\$ 460 000
Accretion Payable:					
Capital Appreciation Bonds	148 695	35 844	_____	184 539	_____
Premium (Discount) on Issuance of Bonds:					
Premium	548 238	_____	28 236	520 002	_____
Total Governmental Activities Long-term	<u>\$ 16 188 208</u>	<u>\$ 35 844</u>	<u>\$ 483 236</u>	<u>\$15 740 816</u>	<u>\$ 460 000</u>

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

I. UNEARNED REVENUE AND UNAVAILABLE REVENUE

Unearned revenue at the fiscal year-end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
State Foundation	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Unavailable revenue at the fiscal year end consisted of the following:

Net Property Taxes	<u>\$ 374 902</u>	<u>\$ 85 575</u>	<u>\$ 0</u>	<u>\$ 460 477</u>
--------------------	-------------------	------------------	-------------	-------------------

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

J. FUND BALANCE

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

<u>Fund Balance</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Nonspendable:				
Inventory	\$	\$	\$	\$
Prepaid Items				
Restricted:				
Federal Grants				
State Grants			3 876	3 876
Debt Service		219 035		219 035
Capital Projects				
Other				
Committed:				
Construction	1 900 000			1 900 000
Assigned:				
Campus Activity			38 320	38 320
Unassigned	<u>1 044 358</u>			<u>1 044 358</u>
Total Fund Balances	<u>\$ 2 944 358</u>	<u>\$ 219 035</u>	<u>\$ 42 196</u>	<u>\$ 3 205 589</u>

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

K. LOCAL AND INTERMEDIATE SOURCES OF REVENUES

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 2 617 864	\$ 890 176	\$	\$ 3 508 040
Penalties, Interest & Other				
Tax Related Income	97 754	14 736		112 490
Food Sales			125 373	125 373
Investment Income	27 411	1 669		29 080
Co-curricular Student				
Activities	20 982		167 509	188 491
Other	<u>61 154</u>			<u>61 154</u>
Totals	<u>\$ 2 825 165</u>	<u>\$ 906 581</u>	<u>\$ 292 882</u>	<u>\$ 4 024 628</u>

L. JOINT VENTURE SHARED SERVICE ARRANGEMENT

The District participates in a shared services arrangement for special education services with other school districts. Although a portion of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District made payments to the fiscal agent of \$140,379.

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

M. DEFINED BENEFIT PENSION PLAN

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.

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov/TRS%20Documents/cafr2016.pdf>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th 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 (State)	6.8%	6.8%
Employers	6.8%	6.8%
Frankston ISD 2017 Current Year Employer Contributions		\$ <u>122 514</u>
Frankston ISD 2017 Current Year Member Contributions		\$ <u>345 549</u>
Frankston ISD 2016 Measurement Year NECE On-Behalf Contributions		\$ <u>251 214</u>

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

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

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

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

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

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

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

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

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

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

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

Asset Class	Target Allocation	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 and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflations Expectations			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ <u>2 330 334</u>	\$ <u>1 505 711</u>	\$ <u>806 265</u>

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 \$1,505,711 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 1 505 711
State's proportionate share that is associated with the District	2 981 871
Total	<u>\$ 4 487 582</u>

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

At August 31, 2016 the employer's proportion of the collective net pension liability was .0039846%, which was an increase (decrease) of .0005185% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, the District recognized pension expense of \$309,447 and revenue of \$309,447 for support provided by the State.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 23 609	\$ 44 960
Changes in actuarial assumptions	45 891	41 736
Difference between projected and actual investment earnings	127 501	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	514 818	86
Total as of August 31, 2016 measurement date	711 819	86 782
Contributions paid to TRS subsequent to the measurement date	122 574	
Total as of fiscal year end	\$ 834 393	\$ 86 782

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

Year ended August 31:	Pension Expense Amount
2018	\$ 110 389
2019	110 389
2020	191 715
2021	104 140
2022	78 759
Thereafter	29 646

Long-Term Liability Disclosure

	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$ 1 225 220	\$ 407 091	\$ 126 600	\$ 1 505 711

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

N. HEALTH CARE

During the year ended August 31, 2017 employees of the Frankston Independent School District were covered by the state sponsored health insurance plan. The district paid premiums of \$351 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Aetna. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and TRS ActiveCare is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

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

O. SCHOOL DISTRICT RETIREE HEALTH PLAN

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-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 supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Medicare Part D:

Federal Government Retiree Drug Subsidy - 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. On-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. The amount allocated on-behalf for the year ended August 31, 2017 is estimated by TRS at \$20,477.

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

P. COMPENSATED ABSENCES

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general purpose financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying general purpose financial statements.

Upon retirement from the District under the Teacher Retirement System of Texas, an employee who has had at least five years of consecutive employment with the District shall be compensated for unused sick days at a rate of \$20 per day, to a maximum of \$1,000. The accumulated leave benefits at August 31, 2017 were \$5,580 and are accrued as a liability in the General Fund.

Q. SELF-INSURED WORKERS' COMPENSATION

During the year ended August 31, 2017 the Frankston Independent School District was a participant in the East Texas Educational Insurance Association's Workers' Compensation Self-insurance Joint Fund pursuant to Texas Labor Code Annotated Chapter 504 and Texas Government Code Ch. 791 (the Interlocal Cooperation Act).

The Board of Trustees of the plan and the plan supervisor, Claims Administrative Services, Inc., shall establish the proportionate contribution of each participant annually upon the actual loss experience and claims of the District, the experience rating modification of the District, the prorata costs or savings to the plan from the loss experience of all participants, and all reasonable and necessary administrative expenses of the plan. The proportionate contributions of all participants shall be combined into a self-insurance joint fund.

The District paid a fixed cost of \$13,689 to the plan supervisor for administration of claims, loss control, record keeping, and the cost of excess insurance. The loss fund maximum set aside in a separate account for claims not covered by excess insurance was established to be \$42,106 for the fiscal year. The self insurance retention maximum was \$225,000.

During the fiscal year, the District paid net claims of \$25,636 covering twenty-six plan periods ending August 31, 2017, and has accrued \$2,447 as a liability for unpaid claims determined by the claims administrator.

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

R. COMMITMENTS UNDER OPERATING LEASES

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

Year Ended August 31	Total
2018	22 153
2019	20 874
2020	1 740
Total Minimum Rentals	\$ 44 767
Rental Expenditures in Fiscal Year 2017	\$ 36 125

S. OTHER COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2017 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 combined financial statements for such contingencies.

T. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. 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.

REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 2,922,500	\$ 2,922,500	\$ 2,825,165	\$ (97,335)
5800	State Program Revenues	4,503,876	4,503,876	4,801,192	297,316
5020	Total Revenues	7,426,376	7,426,376	7,626,357	199,981
EXPENDITURES:					
Current:					
0011	Instruction	4,119,553	4,119,553	4,058,004	61,549
0012	Instructional Resources and Media Services	25,800	25,800	24,429	1,371
0013	Curriculum and Instructional Staff Development	131,029	131,029	130,835	194
0023	School Leadership	449,232	449,232	446,184	3,048
0031	Guidance, Counseling and Evaluation Services	165,144	165,144	163,797	1,347
0033	Health Services	104,676	104,676	96,449	8,227
0034	Student (Pupil) Transportation	220,610	220,610	217,873	2,737
0035	Food Services	6,000	6,000	5,665	335
0036	Extracurricular Activities	605,028	605,028	605,028	-
0041	General Administration	508,909	508,909	508,822	87
0051	Facilities Maintenance and Operations	1,020,166	1,020,166	1,005,553	14,613
0052	Security and Monitoring Services	47,000	47,000	46,978	22
0053	Data Processing Services	186,422	186,422	166,233	20,189
Capital Outlay:					
0081	Facilities Acquisition and Construction	324,427	324,427	324,427	-
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	140,379	140,379	140,379	-
0099	Other Intergovernmental Charges	72,000	72,000	71,186	814
6030	Total Expenditures	8,126,375	8,126,375	8,011,842	114,533
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(699,999)	(699,999)	(385,485)	314,514
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	-	(23,461)	(23,461)
1200	Net Change in Fund Balances	(699,999)	(699,999)	(408,946)	291,053
0100	Fund Balance - September 1 (Beginning)	3,353,304	3,353,304	3,353,304	-
3000	Fund Balance - August 31 (Ending)	\$ 2,653,305	\$ 2,653,305	\$ 2,944,358	\$ 291,053

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

EXHIBIT G-2

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0039846%	0.0034661%	0.0018533%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,505,711	\$ 1,225,220	\$ 495,042
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	2,981,871	2,907,732	2,512,646
Total	<u>\$ 4,487,582</u>	<u>\$ 4,132,952</u>	<u>\$ 3,007,688</u>
District's Covered-Employee Payroll	\$ 4,410,996	\$ 4,171,570	\$ 4,092,956
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	34.14%	29.37%	12.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.00%	78.43%	83.25%

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

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

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

EXHIBIT G-3

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 122,574	\$ 124,684	\$ 104,547
Contribution in Relation to the Contractually Required Contribution	(122,574)	(124,684)	(104,547)
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>
District's Covered-Employee Payroll	\$ 4,487,649	\$ 4,410,996	\$ 4,171,570
Contributions as a Percentage of Covered-Employee Payroll	2.73%	2.83%	2.51%

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

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

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

Changes of Benefit Terms

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

Changes of Assumptions

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

COMBINING STATEMENTS

270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	429 Other State Grants	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ (16,462)	\$ 3,876	\$ 38,320	\$ 24,917
1,295	16,462	-	-	41,474
<u>\$ 1,295</u>	<u>\$ -</u>	<u>\$ 3,876</u>	<u>\$ 38,320</u>	<u>\$ 66,391</u>
\$ 1,295	\$ -	\$ -	\$ -	\$ 24,195
<u>1,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,195</u>
-	-	3,876	-	3,876
-	-	-	38,320	38,320
-	-	3,876	38,320	42,196
<u>\$ 1,295</u>	<u>\$ -</u>	<u>\$ 3,876</u>	<u>\$ 38,320</u>	<u>\$ 66,391</u>

270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	429 Other State Grants	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 167,508	\$ 292,882
-	44,769	4,900	-	51,734
16,549	-	-	-	502,782
16,549	44,769	4,900	167,508	847,398
16,549	2,330	2,100	-	157,922
-	-	-	-	54,824
-	-	-	-	445,366
-	-	-	199,167	199,167
-	42,439	-	-	42,439
16,549	44,769	2,100	199,167	899,718
-	-	2,800	(31,659)	(52,320)
-	-	-	-	23,461
-	-	2,800	(31,659)	(28,859)
-	-	1,076	69,979	71,055
\$ -	\$ -	\$ 3,876	\$ 38,320	\$ 42,196

REQUIRED TEA SCHEDULES

(10) Beginning Balance 9/1/2016	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2017
\$ 49,516	\$ -	\$ 2,069	\$ -	\$ (4,929)	\$ 42,518
15,773	-	1,497	-	(22)	14,254
20,273	-	1,938	-	(369)	17,966
23,649	-	2,031	-	(355)	21,263
31,985	-	3,126	-	(1,140)	27,719
43,058	-	3,112	1,287	(113)	38,546
57,070	-	9,338	2,394	(26)	45,312
78,473	-	17,530	5,394	(1,575)	53,974
142,404	-	44,211	15,115	(2,603)	80,475
-	3,558,560	2,533,012	865,987	(16,875)	142,686
<u>\$ 462,201</u>	<u>\$ 3,558,560</u>	<u>\$ 2,617,864</u>	<u>\$ 890,177</u>	<u>\$ (28,007)</u>	<u>\$ 484,713</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 123,500	\$ 123,500	\$ 125,374	\$ 1,874
5800	State Program Revenues	2,300	2,300	2,065	(235)
5900	Federal Program Revenues	292,000	292,000	294,466	2,466
5020	Total Revenues	417,800	417,800	421,905	4,105
EXPENDITURES:					
0035	Food Services	479,260	479,260	445,366	33,894
6030	Total Expenditures	479,260	479,260	445,366	33,894
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(61,460)	(61,460)	(23,461)	37,999
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	23,461	23,461
1200	Net Change in Fund Balances	(61,460)	(61,460)	-	61,460
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ (61,460)	\$ (61,460)	\$ -	\$ 61,460

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 870,000	\$ 870,000	\$ 906,581	\$ 36,581
5800	State Program Revenues	50,000	50,000	145,344	95,344
5020	Total Revenues	920,000	920,000	1,051,925	131,925
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	455,000	455,000	455,000	-
0072	Interest on Long Term Debt	463,560	463,560	463,864	(304)
0073	Bond Issuance Cost and Fees	1,200	1,200	1,450	(250)
6030	Total Expenditures	919,760	919,760	920,314	(554)
1200	Net Change in Fund Balances	240	240	131,611	131,371
0100	Fund Balance - September 1 (Beginning)	87,424	87,424	87,424	-
3000	Fund Balance - August 31 (Ending)	\$ 87,664	\$ 87,664	\$ 219,035	\$ 131,371

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 912
505 E. Tyler
Atkins, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

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

Independent Auditor's Report

Board of School Trustees
Frankston Independent School District
P. O. Box 428
Frankston, Texas 75763

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended August 31, 2017 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 4, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

December 4, 2017

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

I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes <u> X </u> none reported
Noncompliance material to financial statements noted?	_____ yes <u> X </u> no

Federal Awards:

Internal control over major programs:	N/A
• Material weakness(es) identified?	_____ yes _____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes _____ none reported
Type of auditor's report issued on compliance for major programs:	N/A
Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a)	_____ yes _____ no
Identification of major programs:	N/A
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low risk auditee?	<u> X </u> yes _____ no

District Contact Person	John Allen Superintendent
-------------------------	------------------------------

FRANKSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2017

II. Financial Statement Findings

The audit disclosed no finding required to be reported.

III. Federal Awards Findings and Questioned Costs

The audit disclosed no finding required to be reported.

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

N/A

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

N/A

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17-610101001904	\$ 97,466
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18-610101001904	7,017
Total CFDA Number 84.010A			104,483
*IDEA - Part B, Formula	84.027	17-660001001902	52,573
*IDEA - Part B, Formula	84.027	18-660001001902	4,798
Total CFDA Number 84.027			57,371
Total Special Education Cluster (IDEA)			57,371
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	17-696001001904	15,254
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	18-696001001904	1,295
Total CFDA Number 84.358B			16,549
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17-694501001904	29,305
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	18-694501001904	608
Total CFDA Number 84.367A			29,913
Total Passed Through State Department of Education			\$ 208,316
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 208,316
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
**School Breakfast Program	10.553		\$ 76,117
**National School Lunch Program-Cash Assistance	10.555		190,763
**National School Lunch Prog.-Non-Cash Assistance	10.555		27,586
Total CFDA Number 10.555			218,349
Total Child Nutrition Cluster			294,466
Total Passed Through the State Department of Agriculture			\$ 294,466
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 294,466
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 502,782
*Clustered Programs			
**Clustered Programs			

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

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

- For all Federal programs, the District uses the fund types specified in Texas Education Agency’s *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in the General Fund or in a Special Revenue Fund which are Governmental Fund types.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of the Period of Availability of Federal Funds.
- The National School Breakfast and Lunch Programs and the USDA donated commodities are accounted for in the nonmajor governmental funds. The Impact Aid, if any, is accounted for in the General Fund. Expenditures are not specifically attributable to these revenue sources and are shown on this schedule in an amount equal to revenue for balancing purposes only. The revenue for indirect costs is recognized in the General Fund.
- The expenditures shown on the Schedule of Expenditures of Federal Awards (SEFA) may not equal to total federal revenues shown on Exhibit C-3 by the amount of federal revenue recorded in various funds as shown below. These amounts are not subject to the Single Audit Act and are not required to be included in the SEFA.

Amount reported on the Schedule of Expenditures of Federal Awards \$	502 782
Federal Program Revenue Reported on Exhibit C-3	\$ 502 782

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of School Trustees
Frankston Independent School District
PO Box 428
Frankston, Texas 75751

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District for the year ended August 31, 2017. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, when applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 6, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

Managements estimate of the uncollectible accounts and accumulated depreciation. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Audit Differences and Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information

We applied certain limited procedures to required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance of the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statement themselves.

General Audit Comments, Findings or Issues

In connection with the annual audit of the records of the Frankston Independent School District as of August 31, 2017, we offer the following additional comments:

Accounting Records:

The accounting records are very good and are in compliance with the requirements of the TEA Resource Guide. Normal adjusting entries were made during the audit process for reclassifications and corrections. The accounting records and supporting documentation adequately support the representations made in the financial statements.

This information is intended solely for the use of those charged with governance, including the audit committee, Board of Trustees and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

December 4, 2017