

NEDERLAND  
INDEPENDENT SCHOOL DISTRICT

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2017*

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

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
 INTRODUCTORY SECTION		
Certificate of Board.....	1	
 FINANCIAL SECTION		
Independent Auditors' Report.....	2	
Management's Discussion and Analysis (Required Supplementary Information).....	5	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	11	A-1
Statement of Activities.....	12	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	13	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	14	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	15	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	16	C-3
Statement of Net Position - Internal Service Funds.....	17	D-1
Statement of Revenues, Expenses, and Changes in		
Fund Net Position - Internal Service Funds.....	18	D-2
Statement of Cash Flows - Proprietary Funds.....	19	D-3
Statement of Fiduciary Net Position - Fiduciary Funds.....	20	E-1
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	21	E-2
Notes to the Financial Statements .....	22	
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	43	G-1
Schedule of the District's Proportionate Share of the		
Net Pension Liability - Teacher Retirement System Of Texas.....	45	G-2
Schedule of District's Contributions - Teacher Retirement System Of Texas.....	47	G-3
Notes to Required Supplementary Information.....	49	
 OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	50	J-1
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	52	J-2
Debt Service Fund.....	53	J-3
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> .....	54	
Report on Compliance for Each Major Program and on Internal Control over		
Compliance Required by Title 2 CFR Part 200 (Uniform Guidance).....	56	
Schedule of Findings and Questioned Costs .....	58	
Schedule of Expenditures of Federal Awards .....	59	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	60	
Schedule of Required Responses to Selected School First Indicators.....	61	K-2

## *Introductory Section*

CERTIFICATE OF BOARD

Nederland Independent School District  
Name of School District

Jefferson  
County

123-905  
Co.-Dist. Number

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

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

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

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

## *Financial Section*

**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

**Independent Auditors' Report**

To the Board of Trustees  
Nederland Independent School District  
Nederland, Texas

**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 the Nederland 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.

**Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, 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 Nederland Independent School District as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Nederland Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

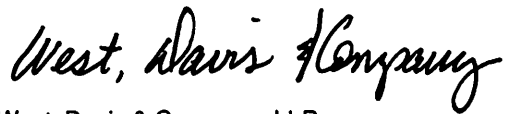
The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2018 on our consideration of Nederland Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal

control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Nederland Independent School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "West, Davis & Company". The script is cursive and fluid, with the company name written in a single line.

West, Davis & Company, LLP  
Austin, Texas  
January 10, 2018



## **Nederland Independent School District**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

#### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, the management of Nederland Independent School District (the District), discusses and analyzes the District's performance for the fiscal year ending August 31, 2017. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 11.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 and 12). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements, beginning on page 13, report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, internal service fund financial statements tell how goods or services of the District were sold to departments within the District and how the revenues covered the expenses of the goods or services. Examples include Cafeteria Plan and Workers Compensation Insurance. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District. Examples include Student Activities and Scholarships.

The notes to the financial statements, beginning on page 22 provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The Required Supplementary Information provides a budgetary comparison schedule of the District's General Fund. This schedule includes financial information and disclosures required by the Governmental Accounting Standards Board but are not considered as part of the basic financial statements.

In addition to the required supplementary information, the Other Supplementary Information Section contains 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 analysis of the District's overall financial condition and operations begins on page 11. Its primary purpose is to show whether the District is improving or not improving as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's net position and changes in the position. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, non-financial factors should be considered 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 one governmental activity:

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

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

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

The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to control and manage money for particular purposes (like campus activities). The District's three kinds of funds—governmental, proprietary, and fiduciary—use different accounting approaches.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules follow each of the fund financial statements.
- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds report activities that provide supplies and services for the District's other programs and activities—such as the District's workers' compensation program.
- Fiduciary funds—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 on pages 20 and 21. These resources are excluded from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

This analysis focuses on net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities increased by \$0.84 million to \$26.8 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$8.3 million at August 31, 2017.

**Table I**  
**Nederland Independent School District**

**NET POSITION**  
in thousands

	Governmental Activities	
	2017	2016
Current and other assets	20,107	21,612
Capital assets	44,128	43,686
Total assets	64,235	65,298
Deferred Outflow Related to Pensions	3,987	4,981
Long-term liabilities outstanding	37,675	39,661
Other liabilities	3,244	4,041
Total liabilities	40,919	43,702
Deferred Inflow Related to Pensions	548	664
Net position:		
Invested in capital assets, net of related debt	16,541	14,865
Restricted	1,940	1,590
Unrestricted	8,274	9,458
Total net position	26,755	25,913

**Table II**  
**Nederland Independent School District**

**CHANGES IN NET POSITION**

in thousands

	Governmental Activities	
	2017	2016
Revenues:		
Program revenues:		
Charges for services	1,356	1,404
Operating grants and contributions	5,623	4,067
General revenues:		
Maintenance and operations taxes	22,582	23,935
Debt service taxes	2,808	2,756
Grants and Contributions not restricted to specific functions	13,790	18,450
Investment Earnings	90	59
Miscellaneous	3,573	660
Total Revenues	<u>49,822</u>	<u>51,331</u>
Expenses:		
Instruction, curriculum and media services	28,079	28,354
Instructional and school leadership	2,990	2,756
Student support services	3,031	3,076
Child nutrition	2,405	2,555
Extracurricular activities	1,877	1,906
General administration	1,123	1,135
Plant maintenance, security and data processing	8,198	7,899
Community services	85	82
Debt services	882	970
Payments to juvenile justice AEP	42	42
Other Intergovernmental charges	267	223
Total Expenses	<u>48,979</u>	<u>48,998</u>
Change in Net Position	<u>843</u>	<u>2,333</u>

The District's total revenues overall decreased \$1.5 million resulting primarily from a decrease in property tax revenue. The total costs remained at \$49 million.

The cost of all governmental activities this year was \$49 million. However, as shown in the Statement of Activities on page 12, the amount that local taxpayers ultimately financed for these activities through District taxes was approximately \$25.4 million.

## **NET PENSION LIABILITY**

The District's net pension liability at year end totaled \$8.99 million, at the same level as last year.

## **THE DISTRICT'S FUNDS**

As the District's governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$15.4 million, which is \$0.7 million less than last year.

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

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At year-end, the District had \$44.1 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents an increase of \$0.4 million over last year.

More detailed information is contained in Note D to the financial statements.

### **Debt**

At year-end, the District had \$28.2 million in bonds.

Other obligations include accrued compensated absences. More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's Board of Trustees and Superintendent considered many factors when setting the 2017-2018 budget tax rate. These included the following:

- Local Property Values
- Chapter 313 Agreement
- Foreign Trade Zone Payments in Lieu of Taxes
- State Aid Revenue
- Projected Fund Balance at year end
- Staffing and Facility Needs

The District elected to maintain the Maintenance and Operations (M&O) tax rate of \$1.04 per \$100/value. The adopted tax rate of \$1.04 and the increase in property values of 8.5% generated an increase of \$1,682,000 in General Fund tax revenue. However, as a result of the Chapter 313 agreement, the supplemental payment to the District decreased \$653,000 in the General Fund.

State aid increased \$2,570,000 as a result of the one-year lag of the previous year's decrease in property values and the increase in student enrollment in 2016-2017.

The General Fund revenue increased \$3,764,000.

Overall, M&O expenditures increased \$2,148,900 as a result of new staff positions to support an increase in student enrollment and services, average general wage increase of 3% for employees, and an increase in operating budgets of \$574,900 to support the district goals, strategic plan and annual projects.

The Interest and Sinking (I&S) tax rate decreased from \$0.12/\$100 value to \$0.11/\$100 value to meet the Debt Service payments in 2017-2018 of \$3,024,515.

The District operates a self-supporting child nutrition program within the guidelines of the United States Department of Agriculture (USDA), Texas Department of Agriculture (TDA), and the Texas Education Agency (TEA). The annual budget supports updates and renovations to the District's child nutrition facilities.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide 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. Questions about this report or additional financial information may be obtained by contacting the District's Business Office, at Nederland Independent School District, 220 N. 17th Street, Nederland, Texas 77627.

## *Basic Financial Statements*

**NEDERLAND INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**AUGUST 31, 2017**

Data Control Codes		1 Governmental Activities
<b>ASSETS:</b>		
1110	Cash and Cash Equivalents	\$ 5,883,307
1120	Current Investments	11,683,118
1225	Property Taxes Receivable (Net)	734,804
1240	Due from Other Governments	1,266,148
1290	Other Receivables (Net)	449,512
1300	Inventories	89,741
Capital Assets:		
1510	Land	3,938,165
1520	Buildings and Improvements, Net	38,887,405
1530	Furniture and Equipment, Net	1,302,696
1000	Total Assets	<u>64,234,896</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
1705	Deferred Outflow Related to Pensions	3,986,769
1700	Total Deferred Outflows of Resources	<u>3,986,769</u>
<b>LIABILITIES:</b>		
2110	Accounts Payable	330,291
2140	Interest Payable	37,035
2165	Accrued Liabilities	2,764,575
2300	Unearned Revenue	111,979
Noncurrent Liabilities:		
2501	Due Within One Year	1,775,000
2502	Due in More Than One Year	26,913,069
2540	Net Pension Liability	8,986,860
2000	Total Liabilities	<u>40,918,809</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
2605	Deferred Inflow Related to Pensions	547,615
2600	Total Deferred Inflows of Resources	<u>547,615</u>
<b>NET POSITION:</b>		
3200	Net Investment in Capital Assets	16,540,721
Restricted For:		
3820	State and Federal Programs	924,758
3850	Debt Service	1,015,901
3900	Unrestricted	8,273,861
3000	Total Net Position	<u>\$ 26,755,241</u>

The accompanying notes are an integral part of this statement.



**NEDERLAND INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
	Governmental Activities:				Governmental Activities
11	Instruction	\$ 26,904,503	\$ 58,080	\$ 3,052,252	\$ (23,794,171)
12	Instructional Resources and Media Services	575,268	--	22,204	(553,064)
13	Curriculum and Staff Development	599,653	--	56,481	(543,172)
21	Instructional Leadership	696,516	--	35,667	(660,849)
23	School Leadership	2,294,030	--	96,455	(2,197,575)
31	Guidance, Counseling, & Evaluation Services	1,785,487	--	256,381	(1,529,106)
33	Health Services	512,849	--	417,076	(95,773)
34	Student Transportation	732,888	--	28,810	(704,078)
35	Food Service	2,405,147	1,055,618	1,423,464	73,935
36	Cocurricular/Extracurricular Activities	1,876,771	242,272	25,145	(1,609,354)
41	General Administration	1,123,204	--	36,351	(1,086,853)
51	Facilities Maintenance and Operations	7,029,521	--	151,950	(6,877,571)
52	Security and Monitoring Services	241,151	--	1,551	(239,600)
53	Data Processing Services	927,094	--	17,715	(909,379)
61	Community Services	85,005	--	1,665	(83,340)
72	Interest on Long-term Debt	876,583	--	--	(876,583)
73	Bond Issuance Costs and Fees	5,000	--	--	(5,000)
95	Payments to Juvenile Justice Alternative Ed. Programs	42,000	--	--	(42,000)
99	Other Intergovernmental Charges	266,629	--	--	(266,629)
TG	Total Governmental Activities	48,979,299	1,355,970	5,623,167	(42,000,162)
TP	Total Primary Government	\$ 48,979,299	\$ 1,355,970	\$ 5,623,167	(42,000,162)
General Revenues:					
MT	Property Taxes, Levied for General Purposes				22,582,162
DT	Property Taxes, Levied for Debt Service				2,808,270
IE	Investment Earnings				90,256
GC	Grants and Contributions Not Restricted to Specific Programs				13,789,985
MI	Miscellaneous				3,572,129
TR	Total General Revenues				42,842,802
CN	Change in Net Position				842,640
NB	Net Position - Beginning				25,912,601
NE	Net Position - Ending				\$ 26,755,241

The accompanying notes are an integral part of this statement.

**NEDERLAND INDEPENDENT SCHOOL DISTRICT****BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2017

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
<b>ASSETS:</b>			
1110 <i>Cash and Cash Equivalents</i>	\$ 4,947,663	\$ 862,189	\$ 5,809,852
1120 <i>Current Investments</i>	9,213,572	1,628,380	10,841,952
1225 <i>Taxes Receivable, Net</i>	682,371	52,433	734,804
1240 <i>Due from Other Governments</i>	1,119,306	146,842	1,266,148
1290 <i>Other Receivables</i>	448,648	864	449,512
1300 <i>Inventories</i>	88,122	1,619	89,741
1000 <b>Total Assets</b>	<u>16,499,682</u>	<u>2,692,327</u>	<u>19,192,009</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
2110 <i>Accounts Payable</i>	\$ 243,419	\$ 86,872	\$ 330,291
2150 <i>Payroll Deductions &amp; Withholdings</i>	141,218	--	141,218
2160 <i>Accrued Wages Payable</i>	2,386,340	7,443	2,393,783
2200 <i>Accrued Expenditures</i>	53,029	--	53,029
2300 <i>Unearned Revenue</i>	794,349	52,433	846,782
2000 <b>Total Liabilities</b>	<u>3,618,355</u>	<u>146,748</u>	<u>3,765,103</u>
<b>FUND BALANCES:</b>			
Nonspendable Fund Balances:			
3410 <i>Inventories</i>	88,123	1,619	89,742
Restricted Fund Balances:			
3450 <i>Federal/State Funds Grant Restrictions</i>	--	924,758	924,758
3470 <i>Capital Acquisitions &amp; Contractual Obligations</i>	--	602,455	602,455
3480 <i>Retirement of Long-Term Debt</i>	--	1,016,747	1,016,747
3600 <i>Unassigned</i>	12,793,204	--	12,793,204
3000 <b>Total Fund Balances</b>	<u>12,881,327</u>	<u>2,545,579</u>	<u>15,426,906</u>
4000 <b>Total Liabilities and Fund Balances</b>	<u>\$ 16,499,682</u>	<u>\$ 2,692,327</u>	<u>\$ 19,192,009</u>

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 15,426,906
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	44,128,266
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	734,803
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	738,076
Payables for bond principal which are not due in the current period are not reported in the funds.	(28,190,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(37,035)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(54,824)
The accounting loss on the defeasance of bonded debt is not reported in the funds.	5,790
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(8,986,860)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(547,615)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	3,986,769
Bond premiums are amortized in the SNA but not in the funds.	(449,035)
Net position of governmental activities - Statement of Net Position	\$ <u>26,755,241</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 26,557,823	\$ 3,894,500	\$ 30,452,323
5800 <i>State Program Revenues</i>	14,772,746	291,820	15,064,566
5900 <i>Federal Program Revenues</i>	393,944	3,694,373	4,088,317
5020 <i>Total Revenues</i>	<u>41,724,513</u>	<u>7,880,693</u>	<u>49,605,206</u>
<b>EXPENDITURES:</b>			
Current:			
0011 <i>Instruction</i>	23,410,994	1,990,833	25,401,827
0012 <i>Instructional Resources and Media Services</i>	543,085	--	543,085
0013 <i>Curriculum and Staff Development</i>	529,862	41,450	571,312
0021 <i>Instructional Leadership</i>	640,211	16,276	656,487
0023 <i>School Leadership</i>	2,156,008	--	2,156,008
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	1,490,996	187,799	1,678,795
0033 <i>Health Services</i>	483,588	--	483,588
0034 <i>Student Transportation</i>	694,531	--	694,531
0035 <i>Food Service</i>	--	2,356,323	2,356,323
0036 <i>Cocurricular/Extracurricular Activities</i>	1,792,011	--	1,792,011
0041 <i>General Administration</i>	1,059,668	--	1,059,668
0051 <i>Facilities Maintenance and Operations</i>	6,268,906	--	6,268,906
0052 <i>Security and Monitoring Services</i>	232,959	--	232,959
0053 <i>Data Processing Services</i>	887,146	--	887,146
0061 <i>Community Services</i>	82,332	1,637	83,969
0071 <i>Principal on Long-term Debt</i>	--	2,020,000	2,020,000
0072 <i>Interest on Long-term Debt</i>	--	904,186	904,186
0073 <i>Bond Issuance Costs and Fees</i>	--	5,000	5,000
0081 <i>Capital Outlay</i>	1,404,427	792,436	2,196,863
0095 <i>Payments to Juvenile Justice Alternative</i>			
0095 <i>Education Programs</i>	42,000	--	42,000
0099 <i>Other Intergovernmental Charges</i>	266,629	--	266,629
6030 <i>Total Expenditures</i>	<u>41,985,353</u>	<u>8,315,940</u>	<u>50,301,293</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>(260,840)</u>	<u>(435,247)</u>	<u>(696,087)</u>
Other Financing Sources and (Uses):			
7915 <i>Transfers In</i>	2,330	--	2,330
8911 <i>Transfers Out</i>	--	(2,330)	(2,330)
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>2,330</u>	<u>(2,330)</u>	<u>--</u>
1200 <i>Net Change in Fund Balances</i>	<u>(258,510)</u>	<u>(437,577)</u>	<u>(696,087)</u>
0100 <i>Fund Balances - Beginning</i>	13,139,837	2,983,156	16,122,993
3000 <i>Fund Balances - Ending</i>	<u>\$ 12,881,327</u>	<u>\$ 2,545,579</u>	<u>\$ 15,426,906</u>

The accompanying notes are an integral part of this statement.

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

Net change in fund balances - total governmental funds	\$ (696,087)
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Amounts reported for governmental activities in the Statement of Activities  
 ("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	1,708,167
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,259,173)
The gain or loss on the sale of capital assets is not reported in the funds.	(6,898)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(43,535)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,020,000
(Increase) decrease in accrued interest from beginning of period to end of period.	2,709
The net revenue (expense) of internal service funds is reported with governmental activities.	28,257
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	321
To reverse fund level accruals of Teacher Retirement System on-behalf contributions.	(1,582,870)
Bond premiums are reported in the funds but not in the SOA.	27,788
The accounting loss on the defeasance of bonded debt is not reported in the funds.	(2,894)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource c	755,614
Pension contributions made after the measurement date but in current FY were de-expended and reduced NP	65,685
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(941,350)
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	766,906

Change in net position of governmental activities - Statement of Activities	\$ <u>842,640</u>
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The accompanying notes are an integral part of this statement.

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

Data Control Codes		Internal Service Funds
<b>ASSETS:</b>		
	Current Assets:	
1110	<i>Cash and Cash Equivalents</i>	\$ 73,455
1120	<i>Investments</i>	841,166
	Total Current Assets	914,621
1000	Total Assets	914,621
<b>LIABILITIES:</b>		
	Current Liabilities:	
2200	<i>Accrued Expenses</i>	\$ 176,545
	Total Current Liabilities	176,545
2000	Total Liabilities	176,545
<b>NET POSITION:</b>		
3900	<i>Unrestricted</i>	738,076
3000	Total Net Position	\$ 738,076

The accompanying notes are an integral part of this statement.

**NEDERLAND INDEPENDENT SCHOOL DISTRICT**

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

Data Control Codes		Internal Service Funds
<b>OPERATING REVENUES:</b>		
5700	<i>Local and Intermediate Sources</i>	\$ 246,651
5020	Total Revenues	<u>246,651</u>
<b>OPERATING EXPENSES:</b>		
6100	<i>Payroll Costs</i>	115,398
6200	<i>Professional and Contracted Services</i>	<u>102,996</u>
6030	Total Expenses	<u>218,394</u>
1300	Change in Net Position	28,257
0100	Total Net Position - Beginning	709,819
3300	Total Net Position - Ending	<u>\$ 738,076</u>

The accompanying notes are an integral part of this statement.

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

	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>	
<i>Cash Received from Other Funds</i>	\$ 246,651
<i>Cash Payments to Employees</i>	(115,398)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(127,569)
Net Cash Provided (Used) by Operating Activities	<u>3,684</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 3,684
Cash and Cash Equivalents at Beginning of Year	910,937
Cash and Cash Equivalents at End of Year	<u>\$ 914,621</u>
 <b>Reconciliation of Operating Income to Net Cash</b>	
<b>Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 28,257
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
<i>Depreciation</i>	--
<i>Provision for Uncollectible Accounts</i>	--
Change in Assets and Liabilities:	
<i>Increase (Decrease) in Accounts Payable</i>	(537)
<i>Increase (Decrease) in Accrued Expenses</i>	(24,036)
Total Adjustments	<u>(24,573)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,684</u>

The accompanying notes are an integral part of this statement.



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

Data Control Codes		Private-purpose Trust Funds	Agency Funds
<b>ASSETS:</b>			
1110	<i>Cash and Cash Equivalents</i>	\$ 19,100	\$ 94,453
1290	<i>Other Receivables</i>	--	379
1800	<i>Restricted Assets</i>	7,000	--
1000	Total Assets	<u>26,100</u>	<u>94,832</u>
<b>LIABILITIES:</b>			
Current Liabilities:			
2110	<i>Accounts Payable</i>	\$ --	\$ 6,874
2150	<i>Payroll Deduction &amp; Withholdings</i>	--	325,818
2160	<i>Accrued Wages Payable</i>	--	(492,879)
2190	<i>Due to Student Groups</i>	--	255,019
2000	Total Liabilities	<u>--</u>	<u>94,832</u>
<b>NET POSITION:</b>			
3800	<i>Held in Trust</i>	26,100	--
3000	Total Net Position	<u>\$ 26,100</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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

	Private- Purpose Trusts
<b>Additions:</b>	
Investment Income	\$ --
Gifts & Bequests	5,578
Total Additions	<u>5,578</u>
<b>Deductions:</b>	
Scholarship Awards	<u>7,000</u>
Total Deductions	<u>7,000</u>
<b>Change in Net Position</b>	(1,422)
Net Position-Beginning of the Year	27,522
Net Position-End of the Year	<u><u>\$ 26,100</u></u>

The accompanying notes are an integral part of this statement.

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

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

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

In addition, the District reports the following fund types:

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

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

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

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

**b. Measurement Focus, Basis of Accounting**

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

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

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

**3. Financial Statement Amounts**

**a. Cash and Cash Equivalents**

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

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

b. Property Taxes

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

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

c. Inventories and Prepaid Items

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

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

d. Capital Assets

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

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

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

e. Deferred Outflows and Inflows of Resources

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

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

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

f. Receivable and Payable Balances

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

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

g. Compensated Absences

On retirement or death of certain employees, the District pays any accrued sick leave in a lump case payment to such employee or his/her estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments.

h. Interfund Activity

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

i. Use of Estimates

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

j. Data Control Codes

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

k. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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

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

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

**l. Net Position Flow Assumption**

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

**m. Fund Balance Flow Assumptions**

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

**4. Pensions**

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

**5. New Accounting Standards Adopted**

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

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

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

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

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

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

**C. Deposits and Investments**

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

**1. Cash Deposits:**

At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,883,307 and the bank balance was \$6,319,691. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

2. Investments:

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

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

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

- \* Not all assets meeting the definition of an investment are required to be reported at fair value. Including among excepted investments are certain investments held by 2a7 like external investment pools. As detailed below, the District has invested funds in specific 2a7 like external investment pools that are valued at amortized cost and not subject to the fair value hierarchy levels.
- \*\* Certificates of deposits ("CD's") at FDIC insured banks are not subject to the fair value hierarchy levels.

<u>Investment Type</u>	<u>Fair Value Using Level</u>	<u>Maturity</u>	<u>Rating</u>	<u>Fair Value</u>	<u>%</u>
Lone Star	*	40 days average	AAA	\$ 8,626,522	73.84%
TexPool	*	30 days average	AAAm	3,056,596	26.16%
Total Investments				<u>\$ 11,683,118</u>	<u>100.00%</u>

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

# NEDERLAND INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

### Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

### TexPool

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

### D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,938,165	\$ --	\$ --	\$ 3,938,165
Total capital assets not being depreciated	<u>3,938,165</u>	<u>--</u>	<u>--</u>	<u>3,938,165</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	71,497,762	1,477,823	--	72,975,585
Equipment	3,563,123	230,344	72,003	3,721,464
Total capital assets being depreciated	<u>75,060,885</u>	<u>1,708,167</u>	<u>72,003</u>	<u>76,697,049</u>
Less accumulated depreciation for:				
Buildings and improvements	(33,010,273)	(1,077,907)	--	(34,088,180)
Equipment	(2,302,607)	(181,266)	(65,105)	(2,418,768)
Total accumulated depreciation	<u>(35,312,880)</u>	<u>(1,259,173)</u>	<u>(65,105)</u>	<u>(36,506,948)</u>
Total capital assets being depreciated, net	<u>39,748,005</u>	<u>448,994</u>	<u>6,898</u>	<u>40,190,101</u>
Governmental activities capital assets, net	<u>\$ 43,686,170</u>	<u>\$ 448,994</u>	<u>\$ 6,898</u>	<u>\$ 44,128,266</u>

## NEDERLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

Depreciation was charged to functions as follows:

Instruction	\$	729,420
Instructional Resources and Media Services		18,501
Curriculum and Staff Development		16,631
Instructional Leadership		20,343
School Leadership		67,529
Guidance, Counseling, & Evaluation Services		47,844
Health Services		15,175
Student Transportation		23,172
Extracurricular Activities		56,651
General Administration		32,547
Plant Maintenance and Operations		195,769
Security and Monitoring Services		7,429
Data Processing Services		27,424
Community Services		738
	\$	<u>1,259,173</u>

#### E. Interfund Balances and Activities

##### 1. Due To and From Other Funds

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

None.

##### 2. Transfers To and From Other Funds

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

Transfers From	Transfers To	Amount	Reason
General fund	Other Governmental Funds	\$ 2,330	Supplement other funds sources
	Total	<u>\$ 2,330</u>	

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

F. Long-Term Obligations

1. Long-Term Obligation Activity

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 30,210,000	\$ --	\$ 2,020,000	\$ 28,190,000	\$ 1,775,000
Premium on bonds issued	476,822	--	27,788	449,034	--
Accounting loss on refunding	(8,684)	--	(2,894)	(5,790)	--
Compensated absences *	55,146	--	321	54,825	--
	<u>30,733,284</u>	<u>--</u>	<u>2,045,215</u>	<u>28,688,069</u>	<u>1,775,000</u>
Net Pension Liability *	8,928,013	814,461	755,614	8,986,860	--
Total governmental activities	<u>\$ 39,661,297</u>	<u>\$ 814,461</u>	<u>\$ 2,800,829</u>	<u>\$ 37,674,929</u>	<u>\$ 1,775,000</u>
Due within one year				\$ 1,775,000	
Due in more than one year				26,913,069	
				<u>\$ 28,688,069</u>	

\* Other long-term liabilities

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

Liability	Activity Type	Fund
Compensated absences	Governmental	General
Net Pension Liability *	Governmental	General

Details of outstanding bonded debt at August 31, 2016, are as follows:

Date of Issue	Description	Interest Rates	Original Issue	Final Maturity Date	Debt Principal
10/1/2007	Series 2007	4.0%	\$ 9,010,000	8/15/2018	\$ 735,000
10/1/2011	Series 2011	2.0 to 2.5	2,670,000	8/15/2019	730,000
11/1/2012	Series 2012	3.8	7,320,000	8/15/2035	7,320,000
5/1/2013	Series 2013	1.0 to 3.0	9,110,000	8/15/2037	8,110,000
5/1/2014	Series 2014	2.0 to 4.0	6,080,000	8/15/2038	5,595,000
5/1/2015	Series 2015	2.0 to 3.25	6,080,000	8/15/2038	5,700,000
					<u>\$ 28,190,000</u>

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

2. Debt Service Requirements

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

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 1,775,000	\$ 842,549	\$ 2,617,549
2019	1,080,000	790,574	1,870,574
2020	730,000	767,099	1,497,099
2021	750,000	752,499	1,502,499
2022	775,000	737,499	1,512,499
2023-2027	4,245,000	3,440,718	7,685,718
2028-2032	4,955,000	2,894,396	7,849,396
2033-2037	13,145,000	1,554,642	14,699,642
2038	735,000	26,775	761,775
Totals	\$ 28,190,000	\$ 11,806,751	\$ 39,996,751

The Series 2012 bonds are callable in whole or in part on any date beginning August 15, 2022. The bonds are subject to special mandatory and extraordinary optional redemption. The District is required to make cumulative sinking fund deposits with the Paying Agent/Registrar as follows:

Year Ending August 31,	Principal
2018	\$ 406,667
2019	406,667
2020	406,667
2021	406,667
2022	406,667
2023	406,667
2024	406,667
2025	406,667
2026	406,667
2027	406,667
2028	406,667
2029	406,667
2030	406,667
2031	406,667
2032	406,667
2033	406,667
2034	406,667
2035	406,661
Totals	\$ 7,320,000

Sinking fund requirements on long-term debt at August 31, 2017, are as follows:

Year Ending August 31,	Sinking Fund Requirements		
	Principal	Interest	Total
2018	\$ 2,181,667	\$ 842,549	\$ 3,024,216
2019	1,486,667	790,574	2,277,241
2020	1,136,667	767,099	1,903,766
2021	1,156,666	752,499	1,909,165
2022	1,181,667	737,499	1,919,166
2023-2027	6,278,333	3,440,718	9,719,051
2028-2032	6,988,333	2,894,396	9,882,729
2033-2037	7,045,000	1,554,642	8,599,642
2038	735,000	26,775	761,775
Totals	\$ 28,190,000	\$ 11,806,751	\$ 39,996,751

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

G. Risk Management

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

H. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

Detail information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Compreher Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [https://www.trs.texas.gov/TRS%20Documents/cafr\\_2016.pdf](https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

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

4. Contributions

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



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

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

	<b><u>Contribution Rates</u></b>	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$ 819,776	
District's 2017 Member Contributions	\$ 3,456,973	
NECE 2016 On-Behalf Contributions to District	\$ 1,496,288	

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

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

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

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

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

## NEDERLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2017

#### 5. Actuarial Assumptions

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

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

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

#### 6. Discount Rate

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

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

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

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:

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

7. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 13,908,632	\$ 8,986,860	\$ 4,812,202

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

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

At August 31, 2017, the District reported a liability of \$8,986,860 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	\$ 8,986,860
State's proportionate share that is associated with District	<u>17,760,713</u>
Total	<u>\$ 26,747,573</u>

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

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.023782%. which was an increase (decrease) of (0.0014750)% from its proportion measured as of August 31, 2015.

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

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

For the year ended August 31, 2017, the District recognized pension expense of \$1,843,138 and revenue of \$1,843,138 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 140,912	\$ 268,342
Changes in actuarial assumptions	273,903	249,104
Difference between projected and actual investment earnings	760,989	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,991,189	30,169
Total as of August 31, 2016 measurement date	<u>3,166,993</u>	<u>547,615</u>
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>819,776</u>	<u>--</u>
Total	<u>\$ 3,986,769</u>	<u>\$ 547,615</u>

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

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

Year Ended August 31	Pension Expense Amount
2018	\$ 471,419
2019	\$ 471,419
2020	\$ 956,814
2021	\$ 434,124
2022	\$ 279,412
Thereafter	\$ 6,191

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2017, 2016 and 2015, and 0.5% for fiscal year 2013. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016 and 2015. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$293,770, \$270,909, and \$270,651, respectively, the active member contributions were \$190,954, \$176,091, and \$175,923, respectively, and the District's contributions were \$161,574, \$149,000, and \$148,858, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016, and 2015, the subsidy payments received by TRS-Care on behalf of the District were \$86,215, \$107,022, and \$108,784, respectively.

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

J. Employee Health Care Coverage

During the year employees of the District were covered by a statewide health insurance plan, TRS Active Care. The District paid premiums of \$350 per month per participating employee to the Plan.

Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Teacher Retirement System (TRS) manages TRS Active Care. Administration of the Plan is provided by two companies. Aetna administers the medical plan while Caremark was assigned the prescription drug plan.

The latest financial information on TRS Active Care is available from TRS (see note H1).

K. Commitments and Contingencies

1. Contingencies

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

2. Litigation

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

L. Tax Abatements

On September 16, 2013, the District's Board of Trustees approved an Agreement with Sunoco Partners NGL Facilities LLC for a Limitation On Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Sunoco Partners NGL Facilities LLC qualified for a tax limitation agreement under Texas Tax Code 313.024(b)(5), as a manufacturing project.

Value limitation agreements are a part of a state program, originally created in 2001, which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The project(s) under the Chapter 313 agreement must be consistent with the state's goal to "encourage large scale capital investments in this state." Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each applicant, including Sunoco Partners NGL Facilities LLC has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application's approval, the agreement was found to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the project. The application, the agreements, and state reporting requirement documentation can be viewed online at the website for the Texas Comptroller: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 279.

After approval, the applicant company must maintain a viable presence in the District for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

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

In the event that Sunoco Partners NGL Facilities LLC terminates this Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of this Agreement or to meet any material obligation under this Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of this Agreement together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code 33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code 33.01(c), or its successor statute. The Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

As of December 22, 2017, the applicant company is in full compliance with all of its obligations under law and the Agreement itself.

Following is the information is required by GASB 77 for M&O purposes. It includes the net benefit to the District but does not include any Interest & Sinking (I&S) impact.

Project: First Year Value Limitation: Sunoco Partners NGL Facilities LLC (Application # 279)  
2016

Fiscal Year: 2017

(A) Project Value 2017	(B) Project's Value Limitation Amount 2017	(C) Amount of Applicant's M&O Taxes Paid 2017	(D) Amount of Applicant's M&O Taxes Reduced 2017	(E) Company Revenue Loss Paymt to School District 2017	(F) Company Supplemental Payment To School District 2017	(G) Net Benefit (Loss) to the School District 2017 (C+E+F)
\$223,328,800	\$30,000,000	\$312,000	\$2,009,684	\$229,766	\$755,392	\$1,297,158

### *Required Supplementary Information*

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



# NEDERLAND INDEPENDENT SCHOOL DISTRICT

GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget
		Budgeted Amounts		Actual	Positive
		Original	Final		(Negative)
	<b>REVENUES:</b>				
5700	Local and Intermediate Sources	\$ 25,151,000	\$ 27,065,772	\$ 26,557,823	\$ (507,949)
5800	State Program Revenues	14,337,000	14,337,000	14,772,746	435,746
5900	Federal Program Revenues	310,000	390,000	393,944	3,944
5020	Total Revenues	39,798,000	41,792,772	41,724,513	(68,259)
	<b>EXPENDITURES:</b>				
	Current:				
	Instruction & Instructional Related Services:				
0011	Instruction	23,985,704	24,050,904	23,410,994	639,910
0012	Instructional Resources and Media Services	614,827	610,027	543,085	66,942
0013	Curriculum and Staff Development	503,579	548,379	529,862	18,517
	Total Instruction & Instr. Related Services	25,104,110	25,209,310	24,483,941	725,369
	Instructional and School Leadership:				
0021	Instructional Leadership	635,766	670,766	640,211	30,555
0023	School Leadership	2,213,604	2,226,604	2,156,008	70,596
	Total Instructional & School Leadership	2,849,370	2,897,370	2,796,219	101,151
	Support Services - Student (Pupil):				
0031	Guidance, Counseling and Evaluation Services	1,577,531	1,577,531	1,490,996	86,535
0033	Health Services	490,364	500,364	483,588	16,776
0034	Student (Pupil) Transportation	764,057	764,057	694,531	69,526
0036	Cocurricular/Extracurricular Activities	1,768,617	1,867,917	1,792,011	75,906
	Total Support Services - Student (Pupil)	4,600,569	4,709,869	4,461,126	248,743
	Administrative Support Services:				
0041	General Administration	1,063,171	1,073,171	1,059,668	13,503
	Total Administrative Support Services	1,063,171	1,073,171	1,059,668	13,503
	Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	6,347,656	6,455,016	6,268,906	186,110
0052	Security and Monitoring Services	189,953	244,953	232,959	11,994
0053	Data Processing Services	898,230	904,230	887,146	17,084
	Total Support Services - Nonstudent Based	7,435,839	7,604,199	7,389,011	215,188
	Ancillary Services:				
0061	Community Services	68,341	87,341	82,332	5,009
	Total Ancillary Services	68,341	87,341	82,332	5,009
	Capital Outlay:				
0081	Capital Outlay	--	1,651,830	1,404,427	247,403
	Total Capital Outlay	--	1,651,830	1,404,427	247,403
	Intergovernmental Charges:				
0095	Payments to Juvenile Justice Alternative				
0095	Education Programs	42,000	42,000	42,000	--
0099	Other Intergovernmental Charges	230,000	290,000	266,629	23,371
	Total Intergovernmental Charges	272,000	332,000	308,629	23,371
6030	Total Expenditures	41,393,400	43,565,090	41,985,353	1,579,737

# NEDERLAND INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(1,595,400)	(1,772,318)	(260,840)	1,511,478
	Other Financing Sources (Uses):				
7915	Transfers In	--	--	2,330	2,330
7080	Total Other Financing Sources and (Uses)	--	--	2,330	2,330
1200	Net Change in Fund Balance	(1,595,400)	(1,772,318)	(258,510)	1,513,808
0100	Fund Balance - Beginning	13,139,837	13,139,837	13,139,837	--
3000	Fund Balance - Ending	\$ 11,544,437	\$ 11,367,519	\$ 12,881,327	\$ 1,513,808

# NEDERLAND INDEPENDENT SCHOOL DISTRICT

## SCHEDULE OF THE DISTRICT'S PROPORTIONATE

### SHARE OF THE NET PENSION LIABILITY

#### TEACHER RETIREMENT SYSTEM OF TEXAS

#### LAST TEN FISCAL YEARS \*

	Fiscal Year				
	2017	2016	2015	2014	2013
District's proportion of the net pension liability (asset)	0.0237820%	0.0252570%	0.0147589%	--	--
District's proportionate share of the net pension liability (asset)	\$ 8,986,860	\$ 8,928,013	\$ 3,942,307	\$ --	\$ --
State's proportionate share of the net pension liability (asset) associated with the District	17,760,713	17,766,674	15,320,529	--	--
Total	<u>\$ 26,747,573</u>	<u>\$ 26,694,687</u>	<u>\$ 19,262,836</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 27,090,853	\$ 27,065,668	\$ 26,022,284	\$ --	\$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	33.17%	32.99%	15.15%	--	--
Plan fiduciary net position as a percentage of the total pension liability	78.00%	78.43%	83.25%	--	--

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

EXHIBIT G-2

Fiscal Year									
2012		2011		2010		2009		2008	
	--		--		--		--		--
\$	--	\$	--	\$	--	\$	--	\$	--
	--		--		--		--		--
\$	--	\$	--	\$	--	\$	--	\$	--
\$	--	\$	--	\$	--	\$	--	\$	--
	--		--		--		--		--
	--		--		--		--		--

# NEDERLAND INDEPENDENT SCHOOL DISTRICT

## SCHEDULE OF DISTRICT CONTRIBUTIONS TEACHER RETIREMENT SYSTEM OF TEXAS LAST TEN FISCAL YEARS \*

	Fiscal Year				
	2017	2016	2015	2014	2013
Contractually required contribution	\$ 819,776	\$ 1,025,594	\$ 752,202	\$ --	\$ --
Contributions in relation to the contractually required contribution	(819,776)	(1,025,594)	(752,202)	--	--
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 29,377,046	\$ 27,090,853	\$ 27,065,668	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	2.79%	3.79%	2.78%	--	--

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

EXHIBIT G-3

Fiscal Year				
2012	2011	2010	2009	2008
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--

## **NEDERLAND INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED AUGUST 31, 2017**

#### **Budget**

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

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

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

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

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

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

#### **Defined Benefit Pension Plan**

##### *Changes of benefit terms*

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

##### *Changes of assumptions*

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

### *Other Supplementary Information*

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



# NEDERLAND INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FOR THE YEAR ENDED AUGUST 31, 2017

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2008 and Prior Years	\$	Various	\$	Various	\$	Various
2009		1.04		.08		1,747,738,036
2010		1.14		.075		1,810,380,823
2011		1.04		.073		1,898,194,340
2012		1.04		.0695		2,022,506,534
2013		1.04		.065		2,078,774,299
2014		1.04		.08		2,242,455,089
2015		1.04		.105		2,125,549,345
2016		1.04		.12		2,296,853,707
2017 (School Year Under Audit)		1.04		.12		2,183,491,379

1000 Totals

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

EXHIBIT J-1

10 Beginning Balance 9/1/16	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/17
\$ 214,389	\$ --	\$ 5,516	\$ 345	\$ (32,847)	\$ 175,681
35,031	--	2,038	157	(123)	32,713
41,865	--	2,696	177	(127)	38,865
53,553	--	3,700	260	(123)	49,470
71,148	--	11,748	785	(589)	58,026
77,564	--	15,741	984	(1,995)	58,844
123,081	--	29,958	2,305	(5,103)	85,715
171,100	--	47,201	4,766	(4,323)	114,810
356,883	--	127,976	14,767	(60,498)	153,642
--	25,328,500	22,173,752	2,763,822	(78,099)	312,827
<u>\$ 1,144,614</u>	<u>\$ 25,328,500</u>	<u>\$ 22,420,326</u>	<u>\$ 2,788,368</u>	<u>\$ (183,827)</u>	<u>\$ 1,080,593</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

# NEDERLAND INDEPENDENT SCHOOL DISTRICT

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT J-2

Data Control Codes	1  Budget	2  Actual	3 Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 1,132,000	\$ 1,063,670	\$ (68,330)
5800 <i>State Program Revenues</i>	12,500	12,453	(47)
5900 <i>Federal Program Revenues</i>	1,408,000	1,411,011	3,011
5020 <i>Total Revenues</i>	<u>2,552,500</u>	<u>2,487,134</u>	<u>(65,366)</u>
<b>EXPENDITURES:</b>			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	<u>2,661,510</u>	<u>2,356,323</u>	<u>305,187</u>
Total Support Services - Student (Pupil)	<u>2,661,510</u>	<u>2,356,323</u>	<u>305,187</u>
6030 <i>Total Expenditures</i>	<u>2,661,510</u>	<u>2,356,323</u>	<u>305,187</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>(109,010)</u>	<u>130,811</u>	<u>239,821</u>
1200 <i>Net Change in Fund Balance</i>	<u>(109,010)</u>	<u>130,811</u>	<u>239,821</u>
0100 <i>Fund Balance - Beginning</i>	795,566	795,566	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 686,556</u>	<u>\$ 926,377</u>	<u>\$ 239,821</u>

# NEDERLAND INDEPENDENT SCHOOL DISTRICT

## DEBT SERVICE FUND

### BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT J-3

Data Control Codes	1  Budget	2  Actual	3 Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 2,831,000	\$ 2,824,693	\$ (6,307)
5800 <i>State Program Revenues</i>	76,000	63,437	(12,563)
5900 <i>Federal Program Revenues</i>	260,000	258,967	(1,033)
5020 <i>Total Revenues</i>	<u>3,167,000</u>	<u>3,147,097</u>	<u>(19,903)</u>
<b>EXPENDITURES:</b>			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	2,020,000	2,020,000	--
0072 <i>Interest on Long-Term Debt</i>	904,187	904,186	1
0073 <i>Bond Issuance Costs and Fees</i>	6,000	5,000	1,000
<i>Total Debt Service</i>	<u>2,930,187</u>	<u>2,929,186</u>	<u>1,001</u>
6030 <i>Total Expenditures</i>	<u>2,930,187</u>	<u>2,929,186</u>	<u>1,001</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	236,813	217,911	(18,902)
1200 <i>Net Change in Fund Balance</i>	<u>236,813</u>	<u>217,911</u>	<u>(18,902)</u>
0100 <i>Fund Balance - Beginning</i>	798,836	798,836	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 1,035,649</u>	<u>\$ 1,016,747</u>	<u>\$ (18,902)</u>

**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

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

Board of Trustees  
Nederland Independent School District  
Nederland, Texas

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nederland Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Nederland Independent School District's basic financial statements, and have issued our report thereon dated January 10, 2018.

**Internal Control Over Financial Reporting**

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

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

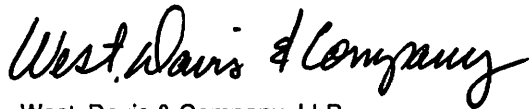
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

A handwritten signature in cursive script that reads "West, Davis & Company".

West, Davis & Company, LLP  
Austin, Texas  
January 10, 2018

**WEST, DAVIS & COMPANY, LLP**  
11824 Jollyville Road, Suite 100  
Austin, Texas 78759

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

Board of Trustees  
Nederland Independent School District  
Nederland, Texas

Members of the Board of Trustees:

**Report on Compliance for Each Major Federal Program**

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

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Nederland Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Nederland Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the Nederland Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended August 31, 2017.

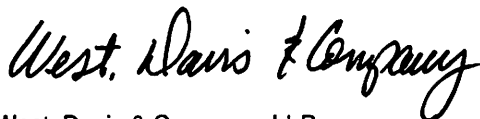
## Report on Internal Control Over Compliance

Management of the Nederland Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Nederland Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Nederland Independent School District's internal control over compliance.

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

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

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



West, Davis & Company, LLP  
Austin, Texas  
January 10, 2018



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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?        Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None Reported

Noncompliance material to financial statements noted?        Yes   X   No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?        Yes   X   No

One or more significant deficiencies identified that are not considered to be material weaknesses?        Yes   X   None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?        Yes   X   No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
SPECIAL EDUCATION (IDEA) CLUSTER:	
84.027A	IDEA-B Formula
84.027A	IDEA-B Discretionary
84.176A	IDEA-B Preschool

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?   X   Yes        No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

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

**EXHIBIT K-1**

(1)	(2)	(2A)		(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>CHILD NUTRITION CLUSTER:</b>				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	71401701	\$ --	\$ 260,036
National School Lunch Program (Non-cash)	10.555	123-905	--	160,258
National School Lunch Program	10.555	71301701	--	990,717
Total CFDA Number 10.555			--	1,150,975
Total Passed Through State Department of Education			--	1,411,011
Total U. S. Department of Agriculture			--	1,411,011
Total Child Nutrition Cluster			--	1,411,011
<b>SPECIAL EDUCATION (IDEA) CLUSTER:</b>				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
<i>IDEA-B Discretionary</i>	84.027A	176600121239056000	--	162,551
<i>IDEA-B Formula</i>	84.027A	176600011239056000	--	1,040,676
Total CFDA Number 84.027			--	1,203,227
<i>IDEA-B Preschool</i>	84.173A	176610011239056000	--	48,060
Total CFDA Number 84.173			--	48,060
Total Passed Through State Department of Education			--	1,251,287
Total U. S. Department of Education			--	1,251,287
Total Special Education (IDEA) Cluster			--	1,251,287
<b>OTHER PROGRAMS:</b>				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010A	17610101123905	--	574,063
<i>Career and Technical - Basic Grant</i>	84.048A	17420006123905	--	44,579
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	17671001123905	--	24,274
<i>ESEA Title II Part A - Teacher &amp; Principal Training &amp; Recruiting</i>	84.367A	17694501123905	--	127,862
<i>Summer School LEP</i>	84.369A	69551402	--	2,330
Total Passed Through State Department of Education			--	773,108
Total U. S. Department of Education			--	3,435,406
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$</b>	<b>\$ 3,435,406</b>
<b>RECONCILIATION TO FINANCIAL STATEMENTS</b>				
Reported in Special Revenue Funds:				
Federal Grant Expenditures				\$ 3,435,406
Federal Grant Reimbursement Transfers-Disaster Recovery Grants				
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				
Reported in General Fund:				
SHARS				383,867
Medicare Adm. Claims				10,077
Reported in Debt Service Fund:				
QCAB Subsidies				258,967
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>				<b>\$ 4,088,317</b>
The accompanying notes are an integral part of this schedule.				

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

Basis of Presentation

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award grant activity of the District under programs of the federal government for the year. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

B. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

C. Subrecipients

The District has no subrecipients.

D. Child Nutrition Cluster

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

E. Food Donation Program

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program(s) [National School Lunch Program (Non-Cash)] that benefitted from the use of those donated food commodities.

F. Matching Requirements

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

**NEDERLAND INDEPENDENT SCHOOL DISTRICT**

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

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 8,986,860
SF13	Pension Expense (object 6147) at fiscal year-end.	\$

In correspondence to all school administrators dated November 1, 2017, the TEA's Director of Financial Compliance stated "For 2017, and until further notice, no data should be entered in the field for data feed Schedule L-1 question SF13. If the AFR and data feed has been submitted no additional steps need to be taken."