



Financial Statements  
August 31, 2018

De Leon Independent  
School District

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Certificate of Board

De Leon  
Independent School District  
Name of School District

Comanche  
County

047-902  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and approved \_\_\_\_\_ disapproved \_\_\_\_\_ for the year ended August 31, 2018, at a meeting of the Board of Trustees of such school district on the 21st day of January, 2019.

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

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



## Independent Auditor's Report

The Board of School Trustees  
De Leon Independent School District  
De Leon, Texas

### Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of De Leon Independent School District (the District) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2018, 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.

## Change in Accounting Principle

As discussed in Notes 4 and 19 to the financial statements, the District has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of September 1, 2017. Our opinions are not modified with respect to this matter.

## 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, pension plan schedules and OPEB plan schedules as listed in the table of contents on pages 5 through 14 and 54 through 60 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 an opinion on the financial statements that collectively comprise the District's basic financial statements as a whole. The combining nonmajor fund financial statements and the TEA required schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards, the combining nonmajor fund financial statements and the TEA required schedules 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 schedule of expenditures of federal awards, the combining nonmajor fund financial statements and the TEA required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Abilene, Texas  
January 16, 2019

The management of De Leon Independent School District (“the District”) offer readers of the annual financial report this narrative discussion and analysis of the District’s financial performance for the year ended August 31, 2018. Readers are encouraged to consider the information presented here in conjunction with the District’s financial statements, which follow this analysis.

## FINANCIAL HIGHLIGHTS

- The District’s total combined net position was \$5,657,547.
- During the year, the District’s expenses were \$2,386,002 less than the \$10,882,712 generated in property taxes, grants and other revenues for governmental activities.
- As of September 1, 2017, the District was required to adopt GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability. The restatement resulted in a decrease of \$5,649,359 to the District’s net position.
- The governmental funds financial statements reported combined ending fund balance of \$5,677,781 for the year ending August 31, 2018, an increase of \$1,075,423 in comparison with the prior year. This balance consists of \$2,693,559 in the General Fund which is unassigned and available for spending at the District’s discretion. Restricted fund balance totals \$2,681,039 and is included in the Debt Service Fund. Committed fund balance is \$250,000 and consists of amounts held in the General Fund. Non-spendable fund balance is \$53,183 and is held in the Debt Service Fund.
- The General Fund had \$7,455,174 in revenues, which primarily consisted of state aid and property taxes, \$6,594,320 in expenditures, and \$152,752 in net other financing uses, which resulted in an increase in fund balance by \$708,102 for the year ended August 31, 2018.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management’s discussion and analysis (this section), the basic financial statements, and required supplementary information.

The basic financial statements include two kinds of statements that present different views of the District:

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

Major features of the District's [government-wide](#) and [fund financial statements](#) are summarized below:

Type of Statement	Government-Wide	Fund Financials	
		Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District's government (except fiduciary funds)	The activities of the District that are not propriety or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
<i>Required Financial Statements</i>	<ul style="list-style-type: none"> <li>• Statement of net position</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net position</li> <li>• Statement of change in net position</li> </ul>
<i>Accounting Basis and Measurement Focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of Asset/Liability Information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
<i>Type of Inflow/Outflow Information</i>	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	Agency funds do not report revenue and expenditures.

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

### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector company. These statements include:

**The Statement of Net Position.** The Statement of Net Position (Exhibit A-1) focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of what the District owns (assets), what it owes (liabilities), and the net difference (net position). Net position may be further separated into amounts restricted for specific purposes and unrestricted amounts. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial health is improving or deteriorating.

**The Statement of Activities.** The Statement of Activities (Exhibit B-1) presents information showing how the net position of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing for when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

To assess the overall health of the District, additional nonfinancial factors should be considered, such as changes in the District's property tax base, student enrollment, and facility conditions.

The government-wide financial statements of the District are divided into two categories:

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

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, rather than the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required by State law and by bond covenants, while many other funds are established by the District to help manage resources for particular purposes and compliance with various grant provisions. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out of those funds and (2) the balances left at year-end that are available for spending in future periods. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's educational programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement that explain the relationship (or differences) between them.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Debt Service Fund and the SSA Special Education Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation as nonmajor funds.

***Fiduciary Funds.*** The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, may be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds are excluded from the District's government-wide financial statements because these resources are not available to finance District operations.

### **Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information, including schedules required by the Texas Education Agency.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The District's combined net position increased \$2.4 million from the previous year (as restated) as can be seen on the following table.

De Leon Independent School District  
Management's Discussion and Analysis  
Year Ended August 31, 2018

	Governmental Activities	
	2018	2017 (restated)
Assets		
Current and other assets	\$ 6,302,505	\$ 5,256,676
Capital assets	11,802,251	11,512,102
Total assets	<u>18,104,756</u>	<u>16,768,778</u>
Deferred outflows related to pensions	<u>529,916</u>	<u>787,029</u>
Liabilities		
Current liabilities	496,615	486,820
Noncurrent liabilities	10,719,433	13,592,920
Total liabilities	<u>11,216,048</u>	<u>14,079,740</u>
Deferred inflows related to pensions	<u>1,761,077</u>	<u>204,522</u>
Net position		
Net investment in capital assets	5,833,568	5,533,395
Restricted	2,685,487	2,396,791
Unrestricted	<u>(2,861,508)</u>	<u>(4,658,641)</u>
Total net position	<u>\$ 5,657,547</u>	<u>\$ 3,271,545</u>

The District's capital assets, which consist of the District's land, buildings, building improvements, vehicles, and equipment, represent about 65 percent of total assets. The remaining assets consist mainly of investments, cash, grants, property taxes receivable and prepaid assets.

The District's long-term liabilities include general obligation bonds and capital leases (53 percent) and net pension and OPEB liability (42 percent). Other liabilities consist almost entirely of payables on accounts and salaries and benefits (5 percent).

The District's net position includes its investment in capital assets (e.g., land, buildings, and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (generally property taxes), since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the district's ongoing obligations to students, employees, and creditors.

The change in net position is attributed to the following:

- The net effect of including the 2018 capital outlays and charges related to the implementation of GASB 75 as discussed elsewhere increased net position.
- The District purchased land and began construction projects on certain buildings during the fiscal year. Additionally, depreciation was recorded, resulting in a net increase in net capital assets.

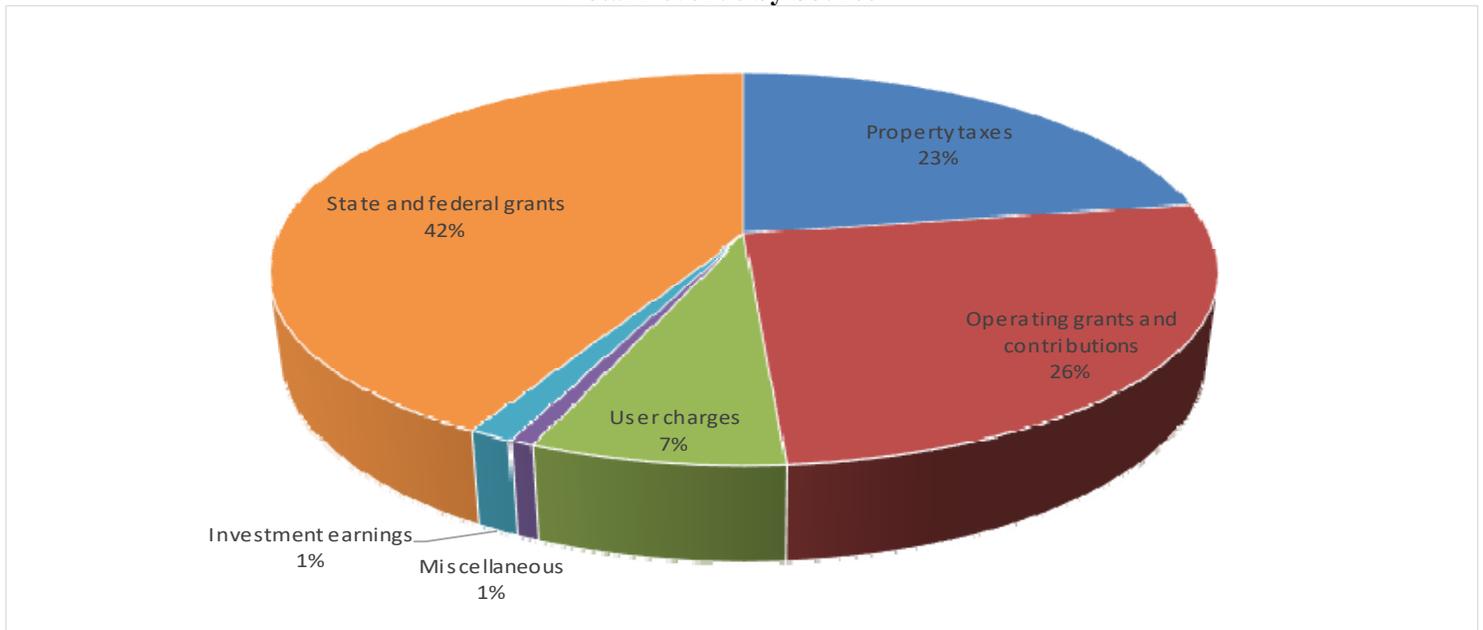
**Governmental Activities**

Funding is by the specific program revenue or through general revenues such as property taxes and investment earnings. Total revenues for the District's governmental activities increased \$1,235,808 while total expenses decreased \$61,735 which resulted in a net increase of net position of \$2,386,002. However, a prior period adjustment decreasing net position as of September 1, 2017 by \$5,649,359 million was posted to adopt the provisions of GASB Statement No. 75.

**Revenues**

The District's total revenues were \$10,882,712, representing an increase of \$1,235,808 from the previous year. The majority of this increase is due to a 56% increase in the District's operating grants and contributions, coming from state revenue associated with other post-employment benefits (OPEB), which was not required in previous years' audits and resulted in a \$1,091,477 increase in revenues from prior year. State aid increased by \$52,590 as a result of an increase in attendance. As seen below, approximately one-quarter of the District's revenue comes from taxes while the remaining one-third comes primarily from program revenue and state and federal sources.

**Total Revenue by Source**

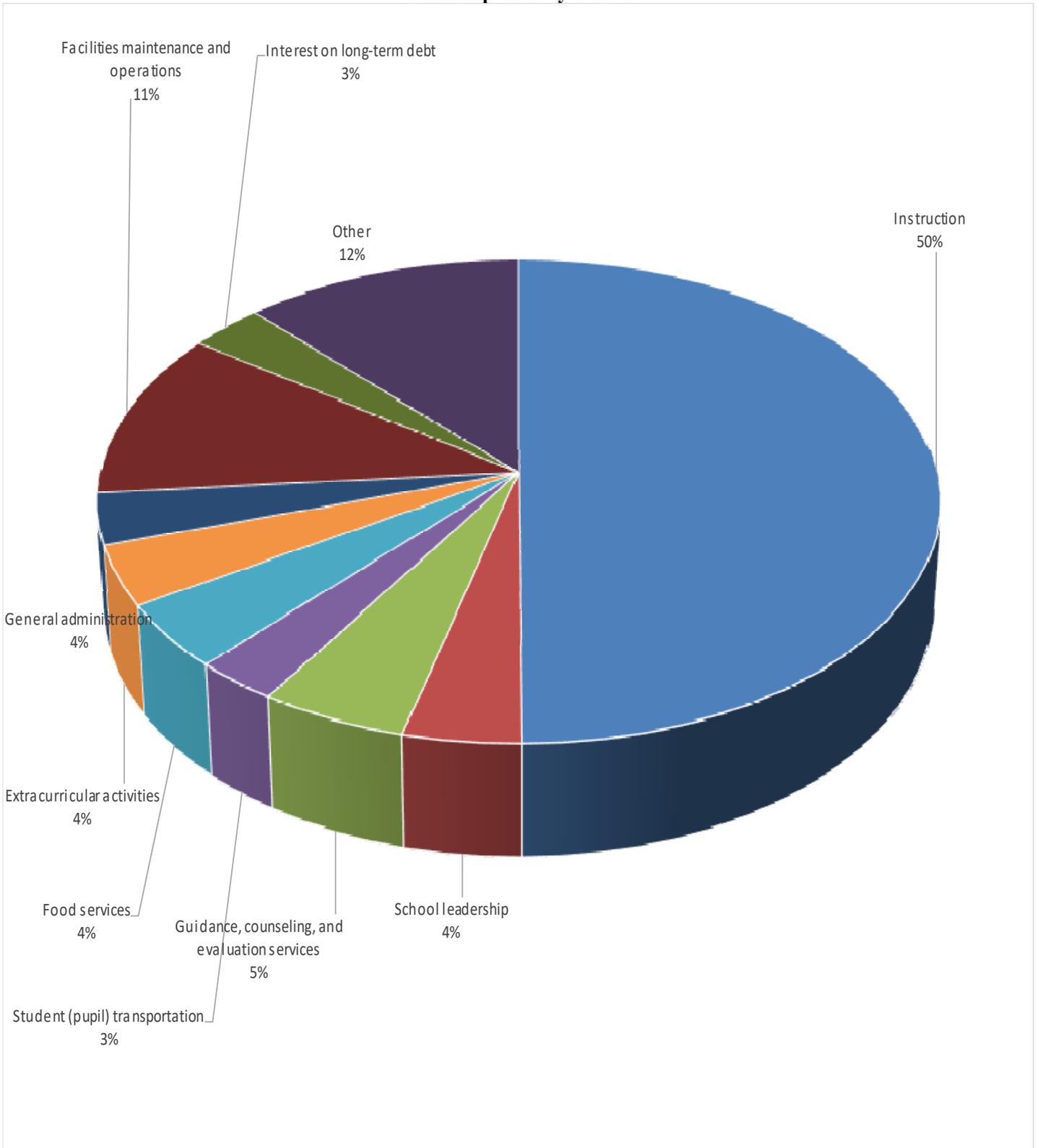


**Expenses**

The District's total expenses were \$8,496,710, representing a decrease of \$61,735 from the previous year. The majority of the decrease was attributed to guidance, counseling and evaluation and general administration offset by increases in other functions. The District's primary functional expenses are:

- Instruction - \$4,239,192, or 50 percent of total expenses
- Facilities maintenance and operations - \$948,114, or 11 percent

**Total Expenses by Source**



De Leon Independent School District  
Management's Discussion and Analysis  
Year Ended August 31, 2018

In total, governmental activities increased the District's net position by \$2,386,002. Key elements of this change are as follows:

	Governmental Activities	
	2018	2017
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 798,702	\$ 719,034
Operating grants/contributions	2,857,942	1,828,726
General revenues		
Property taxes	2,454,245	2,372,587
State aid - formula grants	4,549,634	4,497,044
Grants and contributions not restricted	-	30,503
Investment earnings	143,915	58,909
Miscellaneous	78,274	140,101
Total revenues	<u>10,882,712</u>	<u>9,646,904</u>
<b>Expenses</b>		
Instruction	4,239,192	4,264,263
Instructional resources and media services	105,143	88,214
Curriculum and staff development	10,238	3,067
Instructional leadership	154,821	176,344
School leadership	344,541	311,399
Guidance counseling and evaluation services	432,386	555,255
Social work services	15,711	27,311
Health services	31,513	29,420
Student (pupil) transportation	246,061	192,448
Food services	366,833	373,702
Extracurricular activities	339,831	367,004
General administration	290,002	404,545
Facilities maintenance and operations	948,114	805,030
Security and monitoring services	2,907	453
Data processing services	260,892	281,198
Interest on long-term debt	268,920	244,235
Bond issuance costs and fees	1,214	1,149
Payments related to shared services arrangements	355,715	351,267
Other intergovernmental charges	82,676	82,141
Total expenses	<u>8,496,710</u>	<u>8,558,445</u>
Change in net position	2,386,002	1,088,459
Net position, beginning	8,920,904	7,832,445
Prior period adjustment	(5,649,359)	-
Net position, beginning, as restated	<u>3,271,545</u>	<u>7,832,445</u>
Net position, ending	<u>\$ 5,657,547</u>	<u>\$ 8,920,904</u>

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

### Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balance of \$5,677,781, an increase of \$1,075,423 in comparison with the prior year. Approximately 47 percent of this total amount (\$2,693,559) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of fund balance is nonspendable, restricted, or assigned to indicate that it is not available for new spending because it has already been 1) used to prepay interest expense (\$53,183) or 2) restricted to pay debt service (\$2,681,039). The District's committed fund balance consists of future construction and capital expenditures (\$250,000). Assignments reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds.

**General Fund.** The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$2,693,559, while total fund balance reached \$2,943,559. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 41 percent of total General Fund expenditures, while total fund balance represents 45 percent of that same amount.

The fund balance of the District's General Fund increased by \$708,102 during the current fiscal year. Key factors in this growth are as follows:

- Revenues totaled \$7,455,174 which is a 2 percent increase from previous year. A 4 percent decrease in appraised property values increased property tax revenues by \$54,564.
- Expenditures totaled \$6,594,320 which is an 0.2 percent decrease from previous year.

**Debt Service Fund.** The Debt Service Fund has a total fund balance of \$2,734,222, \$2,681,039 of which is reserved for the payment of debt service; \$53,183 is recorded as nonspendable for prepaid interest expenditures. The net increase in fund balance was \$367,321.

**SSA Special Education Fund.** The SSA Special Education fund has no fund balance. Total revenues were \$617,412 a decrease of \$2,268 from the previous year.

### Budgetary Highlights

The District adopts an annual appropriated budget for the General Fund, the National School Breakfast and Lunch Program, and the Debt Service Fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with statutory requirements.

**General Fund.** The most significant fund for the District is the General Fund, funded primarily through local property tax revenue. The District's budget amendments presented to the Board of Trustees throughout the year are summarized as follows:

- ***Variances of original expenditure budget compared to amended budget.***  
The amended expenditure budget increased in the General Fund \$182,000 from the original budget.
- ***Variances of amended budget to actual expenditures.***  
Expenditures were \$138,067 less than final budgeted amounts.
- ***Variances of original revenue budget compared to actual revenue***  
Local revenues were over budget by \$20,626. Local property tax revenue recognized \$54,564 more than the previous year.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2018, the District had invested \$11.8 million in a broad range of capital assets, including land, buildings, and equipment. This amount represents a net increase of \$290,149 or 2.5 percent over last year. The District added land and began construction projects on various campus buildings. Additional information on the District's capital assets can be found in Note 7 of this report.

	Governmental Activities	
	2018	2017
Land	\$ 647,938	\$ 569,085
Buildings and improvements	15,328,993	15,211,360
Furniture and equipment	1,802,102	1,725,677
Construction in progress	494,526	-
	18,273,559	17,506,122
Total at historical cost		
Less accumulated depreciation	(6,471,308)	(5,994,020)
Net capital assets	\$ 11,802,251	\$ 11,512,102

**Long-Term Debt**

At the end of 2018, the District had \$10,719,433 in long-term liabilities which include general obligation bonds, capital lease payable, net pension liability, and net OPEB liability. The District's long-term liabilities decreased by \$2,883,512.

Additional information on the District's long-term debt can be found in Note 8 of this report.

	Governmental Activities	
	2018	2017
General obligation bonds	\$ 5,950,000	\$ 5,950,000
Capital lease payable	18,683	28,707
Net pension liability	1,528,977	1,936,361
Net OPEB liability	3,221,773	5,687,877
Total debt payable	\$ 10,719,433	\$ 13,602,945

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

The local economy continues to be strong. The 2018-19 appraised property values increased by approximately 9%. The State funding is related to property tax revenue as tax collections increase, state revenue decreases at a lower rate resulting in a net increase for the District's General Fund revenue.

The Maintenance and Operations (M&O) tax rate was reduced to \$1.13 per \$100 valuation for the 2018-19 year, which was a \$.04 decrease from the prior year rate due to the effective tax rate. The Interest and Sinking (I&S) tax rate decreased to \$.105 per \$100 valuation for the 2018-19 year, which was a \$.03 increase over the prior year.

The District's 2018-2019 budget included a decrease in student enrollment. This decrease resulted in the General Fund budgeted revenue decreasing by \$282,317 from the District's 2017-2018 budget. Budgeted expenditures increased by \$158,545. This resulted in the 2018-2019 General Fund budget being adopted with deficit of \$54,129.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Administration Office at 425 South Texas Street, De Leon, TX 76444.

De Leon Independent School District  
Statement of Net Position (Exhibit A-1)  
August 31, 2018

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and cash equivalents	\$ 815,814
1120	Current investments	2,485,111
1220	Property taxes receivable (delinquent)	201,481
1230	Allowance for uncollectible taxes	(70,562)
1240	Due from other governments	304,058
1267	Due from fiduciary fund	1,728
1290	Other receivables	1,014
1410	Prepayments	53,183
	Capital assets	
1510	Land	647,938
1520	Buildings and improvements, net	10,124,451
1530	Furniture and equipment, net	535,336
1580	Construction in progress	494,526
1800	Restricted assets	2,510,678
1000	Total assets	18,104,756
	Deferred outflows of resources	
1705	Deferred outflows - pension	484,350
1706	Deferred outflows - OPEB	45,566
1700	Total deferred outflows of resources	529,916
	Liabilities	
2110	Accounts payable	40,909
2140	Interest payable	25,131
2160	Accrued wages payable	208,704
2180	Due to other governments	7,785
2200	Accrued expenses	18,847
2300	Unearned revenues	195,239
	Noncurrent liabilities	
2501	Due within one year	9,614
2502	Due in more than one year	5,959,069
2540	Net pension liability	1,528,977
2545	Net OPEB liabilities	3,221,773
2000	Total liabilities	11,216,048
	Deferred inflows of resources	
2605	Deferred inflows - pension	413,403
2606	Deferred inflows - OPEB	1,347,674
2600	Total deferred inflows of resources	1,761,077
	Net position	
3200	Net investment in capital assets	5,833,568
3850	Restricted for debt service	2,685,487
3900	Unrestricted	(2,861,508)
3000	Total net position	\$ 5,657,547

Data Control Codes		1	Program Revenues	
			3	4
		Expenses	Charges for Services	Operating Grants and Contributions
	Governmental activities			
11	Instruction	\$ 4,239,192	\$ 467,945	\$ 1,420,648
12	Instructional resources and media services	105,143	-	21,354
13	Curriculum and instructional staff development	10,238	-	-
21	Instructional leadership	154,821	136,827	28,449
23	School leadership	344,541	-	72,094
31	Guidance, counseling, and evaluation services	432,386	63,151	324,923
32	Social work services	15,711	-	27,682
33	Health services	31,513	-	7,499
34	Student (pupil) transportation	246,061	-	14,873
35	Food services	366,833	68,920	276,877
36	Extracurricular activities	339,831	30,284	27,487
41	General administration	290,002	-	35,347
51	Facilities maintenance and operations	948,114	10,525	86,426
52	Security and monitoring services	2,907	-	-
53	Data processing services	260,892	-	148,020
72	Interest on long-term debt	268,920	-	166,263
73	Bond issuance costs and fees	1,214	-	-
81	Facilities acquisition and construction	-	-	-
93	Payments related to shared services arrangements	355,715	21,050	200,000
99	Other intergovernmental charges	82,676	-	-
TG	Total governmental activities	<u>8,496,710</u>	<u>798,702</u>	<u>2,857,942</u>
TP	Total primary government	<u>\$ 8,496,710</u>	<u>\$ 798,702</u>	<u>\$ 2,857,942</u>
	General revenues			
MT	Property taxes, levied for general purposes			
DT	Property taxes, levied for debt service			
SF	State aid - formula grants			
IE	Investment earnings			
MI	Miscellaneous local and intermediate revenue			
TR	Total general revenues			
CN	Change in net position			
NB	Net position, beginning			
PA	Prior period adjustments			
	Beginning net position, as restated			
NE	Net position, ending			

See Notes to Financial Statements

De Leon Independent School District  
Statement of Activities (Exhibit B-1)  
Year Ended August 31, 2018

Net (Expense) Revenue and Changes in Net Position	
6	8
Governmental Activities	Total
\$ (2,350,599)	\$ (2,350,599)
(83,789)	(83,789)
(10,238)	(10,238)
10,455	10,455
(272,447)	(272,447)
(44,312)	(44,312)
11,971	11,971
(24,014)	(24,014)
(231,188)	(231,188)
(21,036)	(21,036)
(282,060)	(282,060)
(254,655)	(254,655)
(851,163)	(851,163)
(2,907)	(2,907)
(112,872)	(112,872)
(102,657)	(102,657)
(1,214)	(1,214)
-	-
(134,665)	(134,665)
(82,676)	(82,676)
(4,840,066)	(4,840,066)
(4,840,066)	(4,840,066)
2,299,725	2,299,725
154,520	154,520
4,549,634	4,549,634
143,915	143,915
78,274	78,274
7,226,068	7,226,068
2,386,002	2,386,002
8,920,904	8,920,904
(5,649,359)	(5,649,359)
3,271,545	3,271,545
\$ 5,657,547	\$ 5,657,547

Data Control Codes		10	50
		General Fund	Debt Service Fund
Assets			
1110	Cash and cash equivalents	\$ 540,299	\$ 107,167
1120	Investments - current	2,371,496	62,049
1220	Property taxes - delinquent	165,305	36,176
1230	Allowance for uncollectible taxes (credit)	(64,528)	(6,034)
1240	Receivables from other governments	246,090	582
1260	Due from other funds	26,477	-
1290	Other receivables	1,014	-
1410	Prepayments	-	53,183
1800	Restricted assets	-	2,510,678
1000	Total assets	<u>3,286,153</u>	<u>2,763,801</u>
1000a	Total assets and deferred outflows	<u>\$ 3,286,153</u>	<u>\$ 2,763,801</u>
Liabilities			
2110	Accounts payable	\$ 36,857	\$ -
2150	Payroll deductions and withholdings payable	4,083	-
2160	Accrued wages payable	181,027	-
2170	Due to other funds	218	-
2180	Due to other governments	7,785	-
2200	Accrued expenditures	17,036	-
2300	Unearned revenue	-	-
2000	Total liabilities	<u>247,006</u>	<u>-</u>
Deferred inflows of resources			
2600	Unavailable revenue - property taxes	95,588	29,579
	Total deferred inflows of resources	<u>95,588</u>	<u>29,579</u>
Fund balance			
3430	Nonspendable - prepaid items	-	53,183
3480	Restricted - debt service	-	2,681,039
3510	Committed - construction	250,000	-
3600	Unassigned	2,693,559	-
3000	Total fund balances	<u>2,943,559</u>	<u>2,734,222</u>
4000	Total liabilities, deferred inflows and fund balances	<u>\$ 3,286,153</u>	<u>\$ 2,763,801</u>

See Notes to Financial Statements

De Leon Independent School District  
Balance Sheet – Governmental Funds (Exhibit C-1)  
August 31, 2018

437 SSA - Special Education	Total Nonmajor Funds	98 Total Governmental Funds
\$ 140,473	\$ 20	\$ 787,959
51,566	-	2,485,111
-	-	201,481
-	-	(70,562)
-	57,386	304,058
3,200	-	29,677
-	-	1,014
-	-	53,183
-	-	2,510,678
<u>195,239</u>	<u>57,406</u>	<u>6,302,599</u>
<u>\$ 195,239</u>	<u>\$ 57,406</u>	<u>\$ 6,302,599</u>
\$ -	\$ 4,052	\$ 40,909
-	-	4,083
-	23,594	204,621
-	27,949	28,167
-	-	7,785
-	1,811	18,847
195,239	-	195,239
<u>195,239</u>	<u>57,406</u>	<u>499,651</u>
-	-	125,167
-	-	125,167
-	-	53,183
-	-	2,681,039
-	-	250,000
-	-	2,693,559
-	-	5,677,781
<u>\$ 195,239</u>	<u>\$ 57,406</u>	<u>\$ 6,302,599</u>

De Leon Independent School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Positions (Exhibit C-1R)

August 31, 2018

Total Fund Balances - Governmental Funds ( Exhibit C-1)		\$ 5,677,781
Capital assets, net of accumulated depreciation, are not financial resources and therefore are not reported as assets in governmental funds.		11,802,251
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The change in net position of internal service funds is reported with governmental activities. The net effect of this consolidation is to increase net position.		28,073
Some liabilities, including bonds payable and capital leases are not due and payable in the current period and therefore are not reported in governmental funds.		
Bonds payable	(5,950,000)	
Capital lease	(18,683)	
	(5,968,683)	(5,968,683)
Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(25,131)
Certain assets are not available for current period expenditures and therefore are deferred in the funds. These are:		
Deferred resource inflow for property taxes		125,167
The government-wide statements include the District's proportionate share of the TRS net pension liabilities and TRS-Care net OPEB liabilities, as well as certain pension and OPEB related transactions accounted for as deferred inflows and outflows of resources:		
Net pension liability	(1,528,977)	
Deferred outflows of resources - TRS pension	484,350	
Deferred inflows of resources - TRS pension	(413,403)	
Net OPEB liability	(3,221,773)	
Deferred outflows of resources - TRS-Care OPEB	45,566	
Deferred inflows of resources - TRS-Care OPEB	(1,347,674)	
	(5,981,911)	(5,981,911)
Net position of governmental activities - Statement of Net Position (Exhibit A-1)		\$ 5,657,547

Data Control Codes		10	50
		General Fund	Debt Service Fund
Revenues			
5700	Local and intermediate sources	\$ 2,531,483	\$ 244,956
5800	State program revenues	4,845,570	66,229
5900	Federal program revenues	78,121	100,034
5020	Total revenues	<u>7,455,174</u>	<u>411,219</u>
Expenditures			
Current			
0011	Instruction	3,025,861	-
0012	Instructional resources and media services	98,352	-
0013	Curriculum and instructional staff development	10,236	-
0021	Instructional leadership	-	-
0023	School leadership	339,556	-
0031	Guidance, counseling and evaluation services	183,623	-
0032	Social work services	-	-
0033	Health services	28,590	-
0034	Student (pupil) transportation	203,649	-
0035	Food services	-	-
0036	Extracurricular activities	372,454	-
0041	General administration	381,898	-
0051	Facilities maintenance and operations	935,595	-
0052	Security and monitoring services	2,905	-
0053	Data processing services	215,790	-
Debt service			
0071	Capital lease principal	10,024	-
0072	Interest on long term debt	1,105	242,684
0073	Bond issuance costs and fees	-	1,214
Capital outlay			
0081	Facilities acquisition and construction	573,379	-
Intergovernmental			
0093	Payments to fiscal agent/member districts of SSA	128,627	-
0099	Other intergovernmental charges	82,676	-
6030	Total expenditures	<u>6,594,320</u>	<u>243,898</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>860,854</u>	<u>167,321</u>
Other financing sources (uses)			
7912	Sale of real or personal property	3,500	-
7915	Transfers in	-	200,000
7949	Proceeds from insurance	74,774	-
8911	Transfers out	(231,026)	-
7080	Total other financing sources (uses)	<u>(152,752)</u>	<u>200,000</u>
1200	Net changes in fund balances	708,102	367,321
0100	Fund balance, beginning	<u>2,235,457</u>	<u>2,366,901</u>
3000	Fund balance, ending	<u>\$ 2,943,559</u>	<u>\$ 2,734,222</u>

See Notes to Financial Statements

De Leon Independent School District  
Statement of Revenues, Expenditures, and Changes in Fund Balance Governmental Funds (Exhibit C-2)  
Year Ended August 31, 2018

437 SSA - Special Education	Other Governmental Funds	98 Total Governmental Funds
\$ 542,309	\$ 68,920	\$ 3,387,668
27,419	26,263	4,965,481
47,684	1,204,419	1,430,258
<u>617,412</u>	<u>1,299,602</u>	<u>9,783,407</u>
351,920	449,991	3,827,772
-	-	98,352
-	-	10,236
153,761	-	153,761
-	-	339,556
76,066	271,995	531,684
-	27,682	27,682
-	-	28,590
-	-	203,649
-	351,722	351,722
-	-	372,454
-	-	381,898
8,577	-	944,172
-	-	2,905
-	29,238	245,028
-	-	10,024
-	-	243,789
-	-	1,214
-	-	573,379
27,088	200,000	355,715
-	-	82,676
<u>617,412</u>	<u>1,330,628</u>	<u>8,786,258</u>
-	(31,026)	997,149
-	-	3,500
-	31,026	231,026
-	-	74,774
-	-	(231,026)
-	31,026	78,274
-	-	1,075,423
-	-	4,602,358
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,677,781</u>

## De Leon Independent School District

### Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities (Exhibit C-2R) Year Ended August 31, 2018

Total Net Change in Fund Balances - Governmental Funds (Exhibit C-2)	\$ 1,075,423
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays of \$767,437, capital lease principal repayments of \$10,024 is to increase net position.	777,461
2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(477,288)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The change in net position of internal service funds is reported with governmental activities. The net effect of this consolidation is to decrease net position.	(562)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred tax revenue of \$125,167 as revenue and removing the prior year's tax collection of \$148,888.	(23,721)
Interest payable on long-term debt is accrued in the governmental-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is an increase of \$25,131. The net effect is to decrease net position.	(25,131)
Changes in the deferred outflows of resources, deferred inflows of resources and net pension liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to decrease in the amount of \$32,201. The District's share of the unrecognized deferred outflows and inflows for TRS as of the measurement date must be amortized and the District's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$33,457. The net effect is a decrease in net position.	(65,658)
Changes in the deferred outflows of resources, deferred inflows of resources and net OPEB liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$6,544. The District's share of the unrecognized deferred outflows and inflows for TRS as of the measurement date must be amortized and the District's proportionate share of the OPEB expense must be recognized. These cause the change in net position to increase in the amount of \$1,118,935. The net effect is a increase in net position.	1,125,478
Change in net position of governmental activities - Statement of Activities (Exhibit B-1)	\$ 2,386,002

De Leon Independent School District  
Statement of Net Position – Proprietary Funds (Exhibit D-1)  
August 31, 2018

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	<u>Governmental Activities Internal Service Fund</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 27,855
Due from other funds	<u>218</u>
Total assets	<u>28,073</u>
Net Position	
Unrestricted net position	<u>28,073</u>
Total net position	<u><u>\$ 28,073</u></u>

De Leon Independent School District  
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds (Exhibit D-2)  
Year Ended August 31, 2018

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	Governmental Activities
	Internal Service Fund
Operating revenues	
Local and intermediate sources	\$ 3,400
Total revenues	3,400
Operating expenses	
Other operating costs	3,962
Total expenses	3,962
Operating loss	(562)
Change in net position	(562)
Total net position, beginning	28,635
Total net position, ending	\$ 28,073

De Leon Independent School District  
Statement of Cash Flows – Proprietary Funds (Exhibit D-3)  
Year Ended August 31, 2018

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	Governmental Activities
	Internal Service Fund
Operating activities	
Charges for services	\$ 3,400
Cash payments for claims and contracted services	(3,962)
Net cash used for operating activities	(562)
Cash flows from non-capital financing activities	
Cash payments from other funds	1,705
Net cash from non-capital financing activities	1,705
Net change in cash and cash equivalents	1,143
Cash and cash equivalents at beginning of the year	26,712
Cash and cash equivalents at end of the year	\$ 27,855
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (562)
Adjustments to reconcile operating loss to net cash used for operating activities	-
Net cash used for operating activities	\$ (562)

De Leon Independent School District  
Statement of Fiduciary Net Position – Fiduciary Funds (Exhibit E-1)  
August 31, 2018

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	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ 12,643
Current investments	<u>69,650</u>
Total assets	<u>82,293</u>
Liabilities	
Due to student groups	80,565
Due to other funds	<u>1,728</u>
Total liabilities	<u><u>\$ 82,293</u></u>

### **Note 1 - Reporting Entity**

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the De Leon Independent School District (the District). The Board of Trustees is elected by the public. The trustees as a body corporate have 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 (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. The financial statements of the District include all activities for which the Board exercises these governance responsibilities.

The District receives funding from local, state and federal government sources and complies with the requirements of these funding source entities.

### **Note 2 - Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental, proprietary and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as well as the proprietary and fiduciary fund financial statements. However, agency funds have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Property taxes and penalties and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund*, a governmental fund type, accounts for financial resources that are restricted, committed or assigned for principal and interest on long-term debt of governmental activities.

*Fund 437, Shared Services Arrangement – Special Education* is to be used by the fiscal agent of a Shared Service Arrangement to account, on a project basis, for funds for special education, other than regional day school for the deaf and State Supplemental Visually Impaired.

The government reports the following proprietary funds:

*Internal Service Funds* account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs (such as workers compensation insurance) to the users of the support services.

Additionally, the government reports the following fund types:

The *Special Revenue Funds*, a governmental fund type, account for the proceeds of specific revenue sources that are restricted, committed or assigned to expenditure for specified purposes other than debt service or capital projects. The District accounts for each federal and state grant in a separate special revenue fund.

*Agency Fund*, a fiduciary fund type, account for resources held for others in a custodial capacity.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund’s principal ongoing operations. The principal operating revenues of the worker’s compensation insurance internal service fund are District contributions. Operating expenses include claims expense and administrative expense for administering the insurance fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District’s policy to use restricted resources first, and then unrestricted resources, as they are needed.

**Note 4 - Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Equity**

**Deposits and Investments**

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments in public funds investment pools are valued at net asset value per share.

**Receivables and Payables**

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

**Capital Assets**

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

In the government wide financial statements, property, plant and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & improvements	10 - 40
Furniture & equipment	7 - 20

**Long-Term Obligations**

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

### **Deferred Outflows/Inflows of Resources**

Deferred outflows/inflows of resources are separate elements of the financial statements. The District has deferred inflows of resources, which arises under the modified accrual basis of accounting, unavailable revenue from property taxes and for its proportionate share of TRS's deferred inflow related to pensions as described in Note 10 and its OPEB liability as described in Note 11. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has deferred outflows of resources for its proportionate share of TRS's deferred outflow related to pensions as described in Note 10 and for its proportionate share of TRS-Care's deferred outflow related to OPEB as described in Note 11.

### **Pensions**

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

### **OPEB**

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan 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 OPEB liability, deferred outflows of resources and deferred inflows of resources relating to other-post employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

### **Use of Estimates**

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

### **Implementation of GASB Statement No. 75**

As of September 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the costs and obligations associated with postemployment benefits other than pensions (OPEB) in their basic financial statements. Employers are required to recognize OPEB amounts for all benefits provided through the plan which include the net OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expenses. The effect of the implementation of this standard on beginning net position is disclosed in Note 19 and the additional disclosures required by this standard is included in Note 11.

## **Note 5 - Stewardship, Compliance and Accountability**

### **Budgetary Information**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's Financial Accounting Resources module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund and the Child Nutrition Special Revenue Fund. The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year.

## **Note 6 - Fair Value Measurements**

GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

**Note 7 - Detailed Notes on All Funds**

**Deposits and Investments**

Under Texas state law, 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.

The District’s investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District’s management believes that it complied with the requirements of the PFIA and the District’s investment policies.

**Custodial credit risk - Deposits**

At August 31, 2018, the District’s deposits were entirely covered by pledged collateral held by the District’s agent bank in the District’s name or by federal deposit insurance.

**Investments**

State statutes and Board policy authorize the District to invest in 1) obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009; 2) certificates of deposit and share certificates as permitted by Government Code 2256.010; 3) fully collateralized repurchase agreements permitted by Government Code 2256.011; 4) a securities lending program as permitted by Government Code 2256.0115; 5) banker’s acceptance as permitted by Government Code 2256.012 6) commercial paper as permitted by Government Code 2256.013; 7) no-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014; 8) a guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and 9) public funds investment pools as permitted by Government Code 2256.016.

The District’s investments at August 31, 2018, are shown below:

<u>Investment Pools</u>	<u>Amortized Cost</u>	<u>Rating</u>	<u>Weighted Average Maturity (Days)*</u>
Lone Star	\$ 2,554,761	AAA	20
Total	<u>\$ 2,554,761</u>		

\*To arrive at weighted average maturity, the maturity of floating rate and variable rate securities was deemed to be the final maturity of such securities.

Lone Star Investment Pool is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. Lone Star is administered by First Public LLC, who also serves as the investment advisor. Lone Star uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the reported value of the pool is the same as the fair value of the pool shares.

**Property Tax**

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions) upon which the levy for the August 31, 2018, fiscal year was based, was \$193,175,181. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended August 31, 2018, were 98.1% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund and Debt Service Fund are based on historical experience in collecting 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. As of August 31, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled \$100,777 and \$30,142 for the General and Debt Service Funds, respectively.

The tax rates assessed for the year ended August 31, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.075 per \$100 valuation, respectively, for a total of \$1.245 per \$100 valuation.

**Due from Other Governments**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018, are summarized below.

Fund	State Grants/ Entitlements	Federal Grants	Total
General fund	\$ 246,090	\$ -	\$ 246,090
Debt service fund	582	-	582
Nonmajor Special Revenue Funds	5,510	51,876	57,386
	<u>\$ 252,182</u>	<u>\$ 51,876</u>	<u>\$ 304,058</u>

**Interfund Receivables/Payables and Transfers**

In the fund financial statements, interfund balances are the results of normal transactions between funds and will be liquidated in the subsequent fiscal year.

Interfund balances at August 31, 2018, resulting from transfers from the General Fund to the Child Nutrition Fund and Debt Service Fund to cover fund deficits in the Child Nutrition Fund and to make required contributions to the Debt Service Fund sinking fund requirements.

	Interfund Receivables	Interfund Payables
General fund	\$ 26,477	\$ 218
SSA - special education	3,200	-
Nonmajor special revenue funds	-	27,949
Internal service funds	218	-
Agency fund	-	1,728
	<u>\$ 29,895</u>	<u>\$ 29,895</u>
Totals	<u>\$ 29,895</u>	<u>\$ 29,895</u>
	Transfer in	Transfer out
Nonmajor special revenue funds	\$ 31,026	\$ -
General fund	-	231,026
Debt service fund	200,000	-
	<u>\$ 231,026</u>	<u>\$ 231,026</u>
	<u>\$ 231,026</u>	<u>\$ 231,026</u>

**Capital Assets**

Capital asset activity for the year ended August 31, 2018 as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land	\$ 569,085	\$ 78,853	\$ -	\$ 647,938
Construction in progress	-	494,526	-	494,526
Total capital assets, not being depreciated	<u>569,085</u>	<u>573,379</u>	<u>-</u>	<u>1,142,464</u>
Capital assets, being depreciated				
Buildings and improvements	15,211,360	117,633	-	15,328,993
Furniture and equipment	908,813	13,991	-	922,804
Vehicles	816,864	62,434	-	879,298
Total capital assets being depreciated	<u>16,937,037</u>	<u>194,058</u>	<u>-</u>	<u>17,131,095</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,820,246)	(384,296)	-	(5,204,542)
Furniture and equipment	(585,089)	(48,728)	-	(633,817)
Vehicles	(588,685)	(44,264)	-	(632,949)
Total accumulated depreciation	<u>(5,994,020)</u>	<u>(477,288)</u>	<u>-</u>	<u>(6,471,308)</u>
Total capital assets being depreciated, net	<u>10,943,017</u>	<u>(283,230)</u>	<u>-</u>	<u>10,659,787</u>
Governmental activities capital assets, net	<u>\$ 11,512,102</u>	<u>\$ 290,149</u>	<u>\$ -</u>	<u>\$ 11,802,251</u>

Depreciation expense was charged to the District's functions as follows:

Instruction	\$ 258,135
Student (pupil) transportation	41,391
Food service	29,072
Extracurricular activities	25,459
Facilities maintenance and operations	103,892
Data processing services	19,339
Total depreciation expense - governmental activities	<u>\$ 477,288</u>

**Note 8 - Long-Term Obligations**

The long-term indebtedness of the District pertains to the Governmental Activities of the District. Expenditures for the debt service requirements of the long-term debt are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2018 is as follows:

	Interest Rate Payable	Amounts Originally Issued	Balance 9/1/2017	Debt Issued	Principal Retired	Balance 8/31/2018	Current Portion 8/31/2018
Unlimited Tax Qualified School Construction Bonds, Series 2009	2.10%	\$ 5,115,000	\$ 5,065,000	\$ -	\$ -	\$ 5,065,000	\$ -
Unlimited Tax School Building Bonds, Series 2010	4.10%	885,000	885,000	-	-	885,000	-
Total bonds payable			<u>\$ 5,950,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,950,000</u>	<u>\$ -</u>

Debt service requirements for the District's long-term debt are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2019	\$ -	\$ 142,650	\$ 142,650
2020	-	142,650	142,650
2021	-	142,650	142,650
2022	-	142,650	142,650
2023	-	142,650	142,650
2024-2027	5,950,000	178,218	6,128,218
	<u>\$ 5,950,000</u>	<u>\$ 891,468</u>	<u>\$ 6,841,468</u>

Presented below is a summary of the sinking fund requirements for the 2009 bonds:

<u>Fiscal Year</u>	<u>Annual Requirements</u>
2019	\$ 280,948
2020	280,948
2021	280,948
2022	280,948
2023	280,948
2024	280,948
	<u>\$ 1,685,688</u>

A summary in changes of total bonds payable and other long-term debt follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities				
Bonds payable				
General obligation bonds	\$ 5,950,000	\$ -	\$ -	\$ 5,950,000
Capital lease payable	28,707	-	(10,024)	18,683
Net pension liability	1,936,361	37,811	(445,195)	1,528,977
Net OPEB liability	5,687,877	545	(2,466,649)	3,221,773
	<u>\$ 13,602,945</u>	<u>\$ 38,356</u>	<u>\$ (2,921,868)</u>	<u>\$ 10,719,433</u>
Total long-term debt				

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of August 31, 2018.

Pension and OPEB liabilities are typically liquidated through contributions to TRS made by the following funds: General Fund, SSA Special Education, Head Start, ESEA Title I Improving Basic Programs; IDEA Part B Formula; ESEA Title II Training and Recruiting; Title IV Part A; SSA IDEA Part B Formula; and Other State Funds.

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

The District leases equipment under capital lease. The following is an analysis of the leased assets included in capital assets at August 31, 2018:

Equipment	\$ 40,660
Less accumulated depreciation	<u>(20,330)</u>
Net value	<u><u>\$ 20,330</u></u>

The following is a schedule of future minimum payments required under the lease with its present value as of August 31, 2018:

Year ending	
2019	\$ 11,129
2020	<u>11,129</u>
Total minimum lease payments	22,258
Less amount representing interest	<u>(3,575)</u>
Present value of minimum lease payments	<u><u>\$ 18,683</u></u>

### Note 9 - Contingencies

The District is not a party to any legal actions that are believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

The District participates in numerous state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2018, 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 financial statements for such contingencies.

### Note 10 - Defined Benefit Pension Plan

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

All employees of public state-supported education institutions in Texas who are employed for one-half or more of the standard work load and who are not exempt from membership under Texas Government Code, Title 8, Section 822.02 are covered by the system.

### **Pension Plan Fiduciary Net Position**

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [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.

### **Benefits Provided**

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

### **Contributions**

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

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

	Contribution Rates	
	2018	2017
Member	7.70%	7.70%
Non-employer contributing entity (State)	6.80%	6.80%
Employers	6.80%	6.80%

The contribution amounts for the District are as follows:

	2018	2017
Member contributions	\$ 329,216	\$ 305,772
NECE on-behalf contributions	285,168	263,232
Employer contributions	116,670	148,871

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

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the state 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 and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old Age, Survivor and Disability Insurance Program (OASDI) for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

**Actuarial Assumptions**

The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Municipal Bond Rate *	N/A *
Last year ending August 31 in the 2016 to 2115 projection period (100 years)	2116
Inflation	2.50%
Salary Increases, including inflation	3.5% to 9.5%
Ad hoc post-employment benefit changes	None

\* If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e., the rate closest to but not later than the measurement date). The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index.”

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

**Discount Rate**

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Teacher Retirement System of Texas  
Asset Allocation and Long-Term Expected Real Rate of Return  
As of August 31, 2017

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return *
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation	0.0%	0.0%	2.2%
Alpha	0.0%	0.0%	1.0%
Total	<u>100.0%</u>		<u>8.7%</u>

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

**Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Total TRS net pension liability	\$ 53,902,879,534	\$ 31,974,612,699	\$ 13,715,771,590
District's proportionate share of the net pension liability	\$ 2,577,528	\$ 1,528,977	\$ 655,861

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

At August 31, 2018, the District reported a liability of \$1,528,977 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 1,528,977
State's proportionate share that is associated with the District	2,327,281
Total	\$ 3,856,258

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net pension liability was .0047818% which was a decrease of .00034236% from its proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation**

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

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

For the fiscal year ended August 31, 2018, the District recognized pension expense of \$177,516 and revenue of \$238,047 for support provided by the State.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 22,370	\$ 82,456
Changes in actuarial assumptions	69,647	39,871
Difference between projected and actual investment earnings	-	111,428
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	275,663	179,648
Contributions paid to TRS subsequent to the measurement date	116,670	-
Total	\$ 484,350	\$ 413,403

\$116,670 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2019. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2018	\$ (13,329)
2019	84,270
2020	(20,824)
2021	(50,856)
2022	(30,161)
Thereafter	(14,823)
Total	\$ (45,723)

## Note 11 - Postemployment Health Benefits

### Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

**OPEB Plan Fiduciary Net Position**

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

**Benefits Provided**

TRS-Care provides a basic health insurance program (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-retirement benefit changes, including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates  
Effective September 1, 2016 - December 31, 2017

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree *	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree * and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82
<i>*or surviving spouse</i>			

**Contributions**

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you go basis and is subject to changed based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employee contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor:

Contribution Rates		
	2018	2017
Active employee	0.65%	0.65%
Non-Employer contributing entity (State)	1.00%	1.25%
Employers	0.55%	0.55%
Federal/private funding remitted by employers	1.00%	1.25%
2018 Employer contributions	\$ 45,062	
2018 Member contributions	31,469	
2018 NECE On-behalf contributions	31,527	

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether or not they participate in the TRS Care OPEB program). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

**Actuarial Assumptions**

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension plan actuarial valuation:

Rates of mortality	General inflation
Rates of retirement	Wage inflation
Rates of termination	Expected Payroll growth
Rates of disability incidence	

**Additional Actuarial Methods and Assumptions**

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate*	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll growth rate	2.50%
Projected salary increases **	3.5% to 9.5%
Healthcare trend rates ***	4.50% to 12.00%
Election rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

\* Source: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index’s “20-Year Municipal GO AA Index” as of August 31, 2017.

\*\* Includes inflation at 2.50%

\*\*\* Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescriptions on all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of ten years.

**Other Information**

There was a significant plan change adopted in the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered, and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

**Discount Rate**

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active 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 OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Teacher Retirement System of Texas  
Asset Allocation and Long-Term Expected Real Rate of Return  
As of August 31, 2017

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return *
<b>Global Equity</b>			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation	0.0%	0.0%	2.2%
Alpha	0.0%	0.0%	1.0%
	<u>100.0%</u>		<u>8.7%</u>

\* The Expected Contributions to Returns incorporate the volatility drag resulting from the conversion between Arithmetic and Geometric means returns.

**Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the Net OPEB liability if the discount rate was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Decrease in Discount Rate (4.42%)
Total TRS net OPEB liability	\$ 51,324,568,976	\$ 43,486,248,635	\$ 37,186,006,400
District's proportionate share of the net OPEB liability	\$ 3,802,483	\$ 3,221,773	\$ 2,755,000

#### Healthcare Cost Trend Rate Sensitivity Analysis

The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed health-care cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Total TRS net OPEB liability	\$ 36,206,646,484	\$ 43,486,248,635	\$ 53,038,004,180
District's proportionate share of the net OPEB liability	\$ 2,682,442	\$ 3,221,773	\$ 3,929,427

#### OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2018, the District reported a liability of \$3,221,773 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 3,221,773
State's proportionate share that is associated with the District	3,555,992
Total	<u><u>\$ 6,777,765</u></u>

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The District's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the District's proportion of the collective Net OPEB Liability was 0.0074087% which was the same proportion measured as of August 31, 2016.

### Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB Liability since the prior measurement period:

1. Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the OPEB liability.

In this valuation, the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

1. 2018 thresholds of \$805/\$2,292 were indexed annually by 2.50%.
2. Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
3. There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25-basis point addition to the long-term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

There were no changes of benefit terms that affected measurement of the Total OPEB Liability during the measurement period.

For the year ended August 31, 2018, the District recognized OPEB benefit of \$(1,123,004) and revenue of \$40,123 for support provided by the State.

At August 31, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 67,257
Changes in actuarial assumptions	-	1,280,417
Difference between projected and actual investment earnings	489	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	15	-
Contributions paid to TRS subsequent to the measurement date	45,062	-
Total	\$ 45,566	\$ 1,347,674

\$45,062 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2019. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended August 31	OPEB Expense Amount
2018	\$ (177,760)
2019	(177,760)
2020	(177,760)
2021	(177,760)
2022	(177,882)
Thereafter	(458,248)
Total	\$ (1,347,170)

### Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2018; August 31, 2017 and August 31, 2016, the subsidy payments received by TRS-Care on behalf of the District were \$14,623, \$14,017, and \$17,736, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements.

**Note 12 - Revenues from Local and Intermediate Sources**

For the year ended August 31, 2018, revenues from local and intermediate sources for governmental fund types consisted of the following:

	General Fund	Debt Service Fund	SSA Special Education	Nonmajor Governmental Funds	Total
Property taxes	\$ 2,288,394	\$ 150,776	\$ -	\$ -	\$ 2,439,170
Food service sales	-	-	-	68,920	68,920
Investment income	50,816	90,125	2,974	-	143,915
Penalties, interest, and other tax related income	34,741	4,055	-	-	38,796
Co-curricular student activities	33,884	-	-	-	33,884
Revenue from member districts	-	-	397,629	-	397,629
Gifts and bequests	30,758	-	-	-	30,758
Other	92,890	-	141,706	-	234,596
<b>Total</b>	<b>\$ 2,531,483</b>	<b>\$ 244,956</b>	<b>\$ 542,309</b>	<b>\$ 68,920</b>	<b>\$ 3,387,668</b>

**Note 13 - Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**Unemployment Compensation – Self Funded**

During the year ended August 31, 2018, the District met its statutory unemployment compensation obligations by participating as a self-funded member of the TASB Risk Management Fund (the Fund.) The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

As a self-funded member of the TASB Risk Management Fund, the District is solely responsible for all claim costs, both reported and unreported.

The Fund provides administrative services to its self-funded members including claims administration and customer service.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2017, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

#### **Note 14 - Fund Balance**

The District classifies governmental fund balance in accordance with Government Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions:

*Nonspendable* fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The District had nonspendable fund balance of \$53,183 for prepayments at August 31, 2018.

*Restricted* fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The District had restricted fund balance of \$2,681,039 for future debt service requirements.

*Committed* fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority and can be used only for the specific purposes determined the Board's resolution. At August 31, 2018, the District had \$250,000 committed for future capital projects.

*Assigned* fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent. The District had no assigned fund balance at August 31, 2018.

Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then unrestricted fund balance. The District would use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District's financial goal is to have a sufficient balance in the operating fund with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The District shall strive to maintain a yearly fund balance in which the total fund balance is 20% of the total operating expenditures and the unassigned fund balance is 20% of the total operating expenditures.

**Note 15 - Workers' Compensation Coverage**

The District participates in a modified self-funded workers' compensation insurance pool with other districts which are located in the state of Texas. The District's contributions to the pool are based on the loss experience of the District and other districts in the pool. Claims Administrative Services, Inc. (CAS) is the third-party administrator of the pool. The District's fixed cost is \$5,959 and maximum aggregate loss is \$15,868. The District has accrued \$13,197 at August 31, 2018 for workers' compensation claims payable. The following is a reconciliation of workers' compensation claims during the previous two years:

	2018	2017
Claims payable beginning of year	\$ 11,492	\$ 10,021
Claims incurred	3,962	5,488
Claims paid	(2,257)	(4,017)
Claims payable end of year	\$ 13,197	\$ 11,492

**Note 16 - Shared Services Arrangement**

The District is the fiscal agent for a Shared Services Arrangement (SSA) which provides services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Member Districts	Expenditures
De Leon ISD	\$ 135,300
Comanche ISD	248,994
Cross Plains ISD	71,779
Gustine ISD	52,084
Rising Star ISD	23,504
Sidney ISD	32,395
May ISD	53,356
Total	\$ 617,412

**Note 17 - Expenditures Exceeding Budget**

The following expenditures exceeded budgeted amount:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
0034    Student (pupil) transportation	\$ 203,220	\$ 203,649	\$ (429)
0081    Facilities acquisition & construction	505,000	573,379	(68,379)

**Note 18 - General Fund Federal Source Revenues**

	<u>CFDA</u>	<u>Amount</u>
School of Health and Related Services	N/A	<u>\$ 78,121</u>
		<u><u>\$ 78,121</u></u>

**Note 19 - Prior Period Adjustments**

As of September 1, 2017, the District was required to adopt GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to adopt the provisions of GASB Statement No. 75 to report the beginning net OPEB liability, and deferred outflows of resources related to contributions made after the measurement date as follows on the next page:

	<u>Governmental Activities</u>
Net position - August 31, 2017, as previously reported	\$ 8,920,904
GASB 75 Implementation	
Net OPEB liability	(5,687,877)
Deferred outflows of resources related to contributions made during the year ended August 31, 2017	<u>38,518</u>
Net position - September 1, 2017, as restated	<u><u>\$ 3,271,545</u></u>



Required Supplementary Information  
August 31, 2018

**De Leon Independent School District**

De Leon Independent School District  
 Budgetary Comparison Schedule – General Fund (Exhibit G-1)  
 Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP) Basis	Variance With Final Budget Positive or (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate sources	\$ 2,395,857	\$ 2,510,857	\$2,531,483	\$ 20,626
5800	State program revenues	4,433,232	4,793,970	4,845,570	51,600
5900	Federal program revenues	20,000	70,000	78,121	8,121
5020	Total revenues	6,849,089	7,374,827	7,455,174	80,347
	Expenditures				
	Current				
0011	Instruction	3,120,582	3,122,582	3,025,861	96,721
0012	Instructional resources and media services	120,125	120,125	98,352	21,773
0013	Curriculum and instructional staff development	5,750	10,750	10,236	514
0023	School leadership	339,609	342,609	339,556	3,053
0031	Guidance, counseling and evaluation services	188,567	188,567	183,623	4,944
0033	Health services	29,201	29,201	28,590	611
0034	Student (pupil) transportation	198,220	203,220	203,649	(429)
0036	Extracurricular activities	349,593	373,593	372,454	1,139
0041	General administration	417,770	402,770	381,898	20,872
0051	Facilities maintenance and operations	1,337,272	982,272	935,595	46,677
0052	Security and monitoring services	1,000	4,000	2,905	1,095
0053	Data processing services	217,871	222,871	215,790	7,081
	Debt service				
0071	Capital lease principal	11,200	11,200	10,024	1,176
0072	Interest on long term debt	-	-	1,105	(1,105)
0081	Facilities acquisition & construction	-	505,000	573,379	(68,379)
	Intergovernmental				
0093	Payments to fiscal agent/member districts of SSA	128,627	128,627	128,627	-
0099	Other intergovernmental charges	85,000	85,000	82,676	2,324
6030	Total expenditures	6,550,387	6,732,387	6,594,320	138,067
1100	Excess (deficiency) of revenues over (under) expenditures	298,702	642,440	860,854	218,414
	Other financing sources (uses)				
7949	Proceeds from insurance	-	25,000	78,274	53,274
8911	Transfers out	(285,707)	(255,707)	(231,026)	24,681
	Total other financing sources (uses)	(285,707)	(230,707)	(152,752)	77,955
1200	Net change in fund balances	12,995	411,733	708,102	296,369
0100	Fund balances, beginning	2,235,457	2,235,457	2,235,457	-
3000	Fund balances, ending	\$ 2,248,452	\$ 2,647,190	\$2,943,559	\$ 296,369

De Leon Independent School District  
Schedule of District's Proportionate Share of the Net Pension Liability (Exhibit G-2)  
August 31, 2018

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	2018	2017	2016	2015
District's proportion of the net pension liability	0.0047818458%	0.0051242061%	0.005687800%	0.003861900%
District's proportionate share of net pension liability	\$ 1,528,977	\$ 1,936,361	\$ 2,010,562	\$ 1,031,567
State's proportionate share of the net pension liability associated with the District	<u>2,327,281</u>	<u>2,575,676</u>	<u>2,532,928</u>	<u>2,122,871</u>
	<u>\$ 3,856,258</u>	<u>\$ 4,512,037</u>	<u>\$ 4,543,490</u>	<u>\$ 3,154,438</u>
District's covered payroll-plan fiscal year	\$ 4,496,648	\$ 4,456,773	\$ 4,497,836	\$ 4,172,042
District's proportionate share of net pension liability as a percentage of its covered payroll	34.00%	43.45%	44.70%	24.73%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceding fiscal year.

Note: Plan information was unavailable prior to 2014.

De Leon Independent School District  
Schedule of District's Contributions to the Pension Plan (Exhibit G-3)  
August 31, 2018

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	<u>8/31/2018</u>	<u>8/31/2017</u>	<u>8/31/2016</u>	<u>8/31/2015</u>
Contractually required contribution	\$ 116,670	\$ 148,871	\$ 162,809	\$ 155,969
Contribution in relation to the contractually required contribution	<u>(116,670)</u>	<u>(148,871)</u>	<u>(162,809)</u>	<u>(155,969)</u>
Contribution deficiency	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll-current fiscal year	\$ 4,841,414	\$ 4,496,648	\$ 4,456,773	\$ 4,497,836
Contributions as a percentage of covered payroll	2.41%	3.31%	3.65%	3.47%

Note: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

Note: Plan information was unavailable prior to 2014.

De Leon Independent School District  
Schedule of District's Proportionate Share of the Net OPEB Liability (Exhibit G-4)  
August 31, 2018

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	2018
District's proportion of the net OPEB liability	0.0074087165%
District's proportionate share of net OPEB liability	\$ 3,221,773
State's proportionate share of the net OPEB liability associated with the District	3,555,992
	\$ 6,777,765
District's covered-employee payroll	\$ 4,496,648
District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	71.65%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceding fiscal year.

Note 2: Plan information was unavailable prior to 2018.

De Leon Independent School District  
 Schedule of District's Contributions to the OPEB Plan (Exhibit G-5)  
 August 31, 2018

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	2018
Contractually required contribution	\$ 45,062
Contribution in relation to the contractually required contribution	(45,062)
Contribution deficiency	\$ -
District's covered-employee payroll	\$ 4,841,414
Contributions as a percentage of covered-employee payroll	0.93%

Note: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

Note 2: Plan information was unavailable prior to 2018.

## **Note 1 - Budget**

### **Budgetary Information**

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

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

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year-end.

## **Note 2 - Pension**

### **Changes of Benefit Terms**

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

### **Changes in the Size or Composition of the Population Covered by the Benefit Terms**

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

### **Changes of Assumptions**

There were no changes of assumptions during the measurement period.

**Note 3 - OPEB**

**Changes of Benefit Terms**

There was a significant plan change adopted in the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered, and all retirees will be required to contribute monthly premiums for coverage.

**Changes in the Size or Composition of the Population Covered by the Benefit Terms**

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

**Changes of Assumptions**

Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.



Supplementary Information  
August 31, 2018

**De Leon Independent School District**

Data Control Codes	205  Head Start	211  ESEA Title I Part A	212  ESEA Title I Part C
Assets			
1110	\$ -	\$ -	\$ -
1240	22,040	8,175	-
1000	<u>\$ 22,040</u>	<u>\$ 8,175</u>	<u>\$ -</u>
Liabilities			
2110	\$ 110	\$ -	\$ -
2160	4,499	7,424	-
2170	16,975	-	-
2200	456	751	-
2000	22,040	8,175	-
Fund balances			
3000	-	-	-
4000	<u>\$ 22,040</u>	<u>\$ 8,175</u>	<u>\$ -</u>

De Leon Independent School District  
 Combining Balance Sheet – Nonmajor Government Funds (Exhibit H-1)  
 August 31, 2018

224 IDEA Part B Formula	226 IDEA IEP Analysis	240 National School Lunch & Breakfast	255 Title II, Part A Teacher and Principal Training	270 ESEA VI Pt B Rural & Low Income
\$ -	\$ 20	\$ -	\$ -	\$ -
3,460	3,666	9,433	1,245	-
<u>\$ 3,460</u>	<u>\$ 3,686</u>	<u>\$ 9,433</u>	<u>\$ 1,245</u>	<u>\$ -</u>
\$ -	\$ 3,686	\$ 256	\$ -	\$ -
3,145	-	6,785	1,131	-
-	-	2,264	-	-
315	-	128	114	-
<u>3,460</u>	<u>3,686</u>	<u>9,433</u>	<u>1,245</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 3,460</u>	<u>\$ 3,686</u>	<u>\$ 9,433</u>	<u>\$ 1,245</u>	<u>\$ -</u>

Data Control Codes		289  Title IV Part A	313 SSA IDEA Part B Formula	314 SSA IDEA Part B Preschool
	Assets			
1110	Cash and cash equivalents	\$ -	\$ -	\$ -
1240	Receivables from other governments	657	3,200	-
1000	Total assets	\$ 657	\$ 3,200	\$ -
	Liabilities			
2110	Accounts payable	\$ -	\$ -	\$ -
2160	Accrued wages payable	610	-	-
2170	Due to other funds	-	3,200	-
2200	Accrued expenditures	47	-	-
2000	Total liabilities	657	3,200	-
	Fund balances			
3000	Total fund balances	-	-	-
4000	Total liabilities and and fund balances	\$ 657	\$ 3,200	\$ -

De Leon Independent School District  
 Combining Balance Sheet – Nonmajor Government Funds (Exhibit H-1)  
 August 31, 2018

410	429	Total
State Textbook Fund	Other State Funds	Nonmajor Governmental Funds
\$ -	\$ -	\$ 20
5,510	-	57,386
<u>\$ 5,510</u>	<u>\$ -</u>	<u>\$ 57,406</u>
\$ -	\$ -	\$ 4,052
-	-	23,594
5,510	-	27,949
-	-	1,811
<u>5,510</u>	<u>-</u>	<u>57,406</u>
<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 5,510</u>	<u>\$ -</u>	<u>\$ 57,406</u>

Data Control Codes		205  Head Start	211  ESEA Title I Part A	212  ESEA Title I Part C
	Revenues			
5700	Local and intermediate sources	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-
5900	Federal program revenues	80,898	152,882	192
5020	Total revenues	80,898	152,882	192
	Expenditures			
	Current			
0011	Instruction	53,216	152,882	192
0031	Guidance, counseling, and evaluation services	-	-	-
0032	Social work services	27,682	-	-
0035	Food services	-	-	-
0053	Data processing services	-	-	-
0093	Payments to member districts of SSA	-	-	-
6030	Total expenditures	80,898	152,882	192
1100	Excess (deficiency) of revenues over (under) expenditures	-	-	-
	Other financing sources (uses)			
7915	Transfers in	-	-	-
7080	Total other financing sources (uses)	-	-	-
1200	Net change in fund balances	-	-	-
0100	Fund balances, beginning	-	-	-
3000	Fund balances, ending	\$ -	\$ -	\$ -

De Leon Independent School District  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
 Funds (Exhibit H-2)  
 Year Ended August 31, 2018

224 IDEA Part B Formula	226 IDEA IEP Analysis	240 National School Lunch & Breakfast	255 Title II, Part A Teacher and Principal Training	270 ESEA VI Pt B Rural & Low Income
\$ -	\$ -	\$ 68,920	\$ -	\$ -
-	-	9,628	-	-
42,668	9,054	242,148	15,672	11,494
42,668	9,054	320,696	15,672	11,494
42,668	9,054	-	15,672	11,494
-	-	-	-	-
-	-	-	-	-
-	-	351,722	-	-
-	-	-	-	-
-	-	-	-	-
42,668	9,054	351,722	15,672	11,494
-	-	(31,026)	-	-
-	-	31,026	-	-
-	-	31,026	-	-
-	-	-	-	-
-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -

Data Control Codes		289  Title IV Part A	313 SSA IDEA Part B Formula	314 SSA IDEA Part B Preschool
	Revenues			
5700	Local and intermediate sources	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-
5900	Federal program revenues	7,414	621,721	20,276
5020	Total revenues	7,414	621,721	20,276
	Expenditures			
	Current			
0011	Instruction	7,414	120,488	20,276
0031	Guidance, counseling, and evaluation services	-	271,995	-
0032	Social work services	-	-	-
0035	Food services	-	-	-
0053	Data processing services	-	29,238	-
0093	Payments to member districts of SSA	-	200,000	-
6030	Total expenditures	7,414	621,721	20,276
1100	Excess (deficiency) of revenues over (under) expenditures	-	-	-
	Other financing sources (uses)			
7915	Transfers in	-	-	-
7080	Total other financing sources (uses)	-	-	-
1200	Net change in fund balances	-	-	-
0100	Fund balances, beginning	-	-	-
3000	Fund balances, ending	\$ -	\$ -	\$ -

De Leon Independent School District  
 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental  
 Funds (Exhibit H-2) continued  
 Year Ended August 31, 2018

410	429	Total
State Textbook Fund	Other State Funds	Nonmajor Governmental Funds
\$ -	\$ -	\$ 68,920
6,635	10,000	26,263
-	-	1,204,419
<u>6,635</u>	<u>10,000</u>	<u>1,299,602</u>
6,635	10,000	449,991
-	-	271,995
-	-	27,682
-	-	351,722
-	-	29,238
-	-	200,000
<u>6,635</u>	<u>10,000</u>	<u>1,330,628</u>
-	-	(31,026)
-	-	31,026
-	-	31,026
-	-	-
-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



Other Supplementary Information  
August 31, 2018

**De Leon Independent School District**

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<u>Year Ended August 31,</u>	<u>Tax Rates</u>		<u>Assessed/Appraised Value for School Tax Purposes</u>
	<u>Maintenance</u>	<u>Debt Service</u>	
2009 and prior years	\$ Various	\$ Various	\$ Various
2010	0.963000	0.197000	163,454,823
2011	0.998000	0.197000	165,379,418
2012	1.040000	0.202000	164,878,057
2013	1.040000	0.205000	171,920,654
2014	1.040000	0.205000	178,107,675
2015	1.040000	0.205000	184,645,226
2016	1.040000	0.205000	178,417,486
2017	1.170000	0.075000	200,828,899
2018 (school year under audit)	1.170000	0.075000	193,175,181
1000 TOTALS			

De Leon Independent School District  
Schedule of Delinquent Taxes Receivable (Exhibit J-1)  
Year Ended August 31, 2018

10	20	31	32	40	50
Beginning Balance 9/1/2017	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/2018
\$ 37,477	\$ -	\$ 320	\$ 76	\$ (1,482)	\$ 35,599
10,888	-	230	13	(389)	10,256
9,965	-	839	83	(357)	8,686
14,180	-	2,159	47	(474)	11,500
15,790	-	3,580	112	97	12,195
16,545	-	5,620	200	1,076	11,801
25,310	-	7,302	572	1,061	18,497
34,175	-	13,138	627	1,278	21,688
58,211	-	26,707	1,813	(4,243)	25,448
-	2,405,031	2,212,869	146,354	2	45,810
<u>\$ 222,541</u>	<u>\$ 2,405,031</u>	<u>\$ 2,272,763</u>	<u>\$ 149,897</u>	<u>\$ (3,431)</u>	<u>\$ 201,481</u>

De Leon Independent School District  
Schedule of Revenues, Expenditure, and Changes in Fund Balance – Budget and Actual – National School  
Breakfast and Lunch Program (Exhibit J-2)  
Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate sources	\$ 56,000	\$ 66,000	\$ 68,920	\$ 2,920
5800	State program revenues	10,080	10,080	9,628	(452)
5900	Federal program revenues	218,000	233,000	242,148	9,148
5020	Total revenues	284,080	309,080	320,696	11,616
	Expenditures				
	Current				
0035	Food services	318,196	358,196	351,722	6,474
6030	Total expenditures	318,196	358,196	351,722	6,474
1100	Excess (deficiency) of revenues over (under) expenditures	(34,116)	(49,116)	(31,026)	18,090
	Other financing sources (uses)				
7915	Transfers in	34,116	49,116	31,026	(18,090)
7080	Total other financing sources (uses)	34,116	49,116	31,026	(18,090)
1200	Net change in fund balances	-	-	-	-
0100	Fund balances, beginning	-	-	-	-
3000	Fund balances, ending	\$ -	\$ -	\$ -	\$ -

De Leon Independent School District  
Schedule of Revenues, Expenditure, and Changes in Fund Balance – Budget and Actual – Debt Service Fund  
(Exhibit J-3)  
Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate sources	\$ 148,918	\$ 153,918	\$ 244,956	\$ 91,038
5800	State program revenues	20,289	65,289	66,229	940
5900	Federal program revenues	100,034	100,034	100,034	-
5020	Total revenues	269,241	319,241	411,219	91,978
	Expenditures				
	Debt service				
0072	Interest on long term debt	520,832	525,832	242,684	283,148
0073	Bond issuance costs and fees	-	-	1,214	(1,214)
6030	Total expenditures	520,832	525,832	243,898	281,934
1100	Excess (deficiency) of revenues over (under) expenditures	(251,591)	(206,591)	167,321	373,912
	Other financing sources (uses)				
7915	Transfers in	251,591	206,591	200,000	(6,591)
7080	Total other financing sources (uses)	251,591	206,591	200,000	(6,591)
1200	Net change in fund balances	-	-	367,321	367,321
0100	Fund balances, beginning	2,366,901	2,366,901	2,366,901	-
3000	Fund balances, ending	\$ 2,366,901	\$ 2,366,901	\$ 2,734,222	\$ 367,321



Federal Awards Section  
August 31, 2018

**De Leon Independent School District**



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

To the Board of School Trustees  
De Leon Independent School District  
De Leon, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the De Leon Independent School District (the District), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated January 16, 2019.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Abilene, Texas  
January 16, 2019



## **Independent Auditor's Report on Compliance for the Major Program; Report on Internal Control over Compliance Required by the Uniform Guidance**

To the Board of School Trustees  
De Leon Independent School District  
De Leon, Texas

### **Report on Compliance for the Major Federal Program**

We have audited De Leon Independent School District's (the District) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on the District's major federal program for the year ended August 31, 2018. The 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 the District's major federal program 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 (CFR) 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 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 the major federal program. However, our audit does not provide a legal determination of the District's compliance.

### **Basis for Qualified Opinion on the Major Federal Program**

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding CFDA 84.027, CFDA 84.027A and 84.173 Special Education (IDEA) Cluster as described in Finding 2018-001 for procurement. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

### **Qualified Opinion**

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2018.

## **Other Matters**

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2018-002. Our opinion on the federal program is not modified with respect to these matters.

The District's response to the noncompliance finding identified in our audit is described in the accompanying corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Report on Internal Control Over Compliance**

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

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 and therefore, material weaknesses and significant deficiencies may exist that have not been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-001 to be a material weakness.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Finding 2018-002 to be a significant deficiency.

The District's responses to the internal control over compliance findings identified in our audit is described in the accompanying corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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.

*Eide Bailly LLP*

Abilene, Texas  
January 16, 2019

**Section I - Summary of Auditor's Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs:	
Material weakness(es) identified?	Yes
Significant deficiencies identified that are not considered to be material weaknesses?	Yes
Type of auditor's report issued on compliance for the major program	Modified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	Yes
Identification of major programs:	
Special Education (IDEA) Cluster (84.027, 84.027A and 84.173A)	
Dollar threshold used to distinguish between type A and type B federal programs	\$750,000
Auditee qualified as a low-risk auditee?	Yes

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**Section II – Financial Statement Findings**

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The audit disclosed no findings required to be reported.

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**Section III – Federal Award Findings and Questioned Costs**

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Finding 2018-001:	U.S. Department of Education Passed Through Texas Education Agency Special Education (IDEA) Cluster: IDEA-B Formula, CFDA 84.027 IDEA-B Preschool, CFDA 84.173A IDEA-B IEP Analysis Project Grant CFDA 84.027A
	Procurement Material Noncompliance and Material Weakness in Internal Control Over Compliance
Grant Award Number:	Affects all grant awards included under CFDA 84.027, CFDA 84.027A and CFDA 84.173A.
Criteria:	The District implemented 2 CFR Part 200 (Uniform Guidance). Those guidelines required quotes for purchases exceeding the micro-purchase limit of \$3,000. The guidelines also required that new vendors are monitored for suspension and debarment.
Condition:	Disbursements from the awards included two payments to the same vendor that totaled approximately \$7,694. The District did not obtain quotes for the purchase. The District also failed to verify if vendors were suspended or debarred on all transactions.
Cause:	The District did not have adequate internal controls to monitor bid requirements or procurement guidelines for vendors for the grant award.
Effect:	Procurement did not follow federal standards and the best price for purchases may not have been obtained, or a suspended or debarred vendor utilized..
Questioned Costs:	Unknown – The competitive proposal process was not followed.
Context/Sampling:	The District’s procurement procedures were examined in their entirety.  Special Education Cluster: A non-statistical sample of 25 procurement transactions out of approximately 122, representing \$18,298 of \$61,712 procurement transactions, was selected for testing. The transactions from the Special Education Cluster were to various vendors and the District did not follow applicable suspension / debarment procurement policies on all 25 transactions. Additionally, 2 transactions that totaled \$7,694 to the same vendor exceeded the micro-purchase limit, yet the District failed to obtain quotes from multiple vendors.

Repeat Finding from Prior Year(s):	No
Recommendation:	We recommend the District monitor changes in federal legislation and implement controls, when necessary, to ensure its procurement procedures are updated to conform with federal requirements.
Views of Responsible Officials:	Management agrees with the finding. Refer to Corrective Action Plan.
Finding 2018-002:	U.S. Department of Education Passed Through Texas Education Agency Special Education (IDEA) Cluster: IDEA-B Formula, CFDA 84.027 IDEA-B Preschool, CFDA 84.173A IDEA-B IEP Analysis Project Grant CFDA 84.027A  Maintenance of Effort Instance of Noncompliance and Significant Deficiency in Internal Control over Compliance
Grant Award Number:	Affects all grant awards included under CFDA 84.027, CFDA 84.027A and CFDA 84.173A.
Criteria:	The District receives federal funds under the grant and must maintain specified levels of effort annually. Four tests are required to be calculated for Maintenance of Effort, and the District must pass one of the four tests. For the current year calculation, the District failed all four tests.
Condition:	In 2018, as required, the District calculated the Maintenance of Effort for the 2016-2017 year and found it did not meet the MOE requirements.
Cause:	The District received an unexpected refund from the SSA for IDEA-B.
Effect:	Due to the lack of appropriate procedures in place to verify the MOE requirements were met, the District failed the tests and must refund a portion of its federal funds.
Questioned Costs:	The District will be required to refund \$7,786.51 in federal funds based upon its calculation.
Context/Sampling:	The District's procedures surrounding the calculation of the MOE were reviewed.  Special Education Cluster: The MOE is not sampled as it occurs annually.

Repeat Finding from  
Prior Year(s):

No

Recommendation:

We recommend the District implement procedures to verify MOE requirements are met annually.

Views of Responsible  
Officials:

Management agrees with the finding. Refer to Corrective Action Plan.

De Leon Independent School District  
Schedule of Expenditures of Federal Awards (Exhibit K-1)  
Year Ended August 31, 2018

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Passed - through Texas Education Agency			
ESEA, Title VI, Part B - Rural and Low Income Program	84.358	18696001047902	\$ 11,494
ESEA Title I, Part A - Improving Basic Programs Title IV, Part A Student Support and Academic Enrichment	84.010	18610101047902	152,882
SSA - IDEA - Part B, Formula	84.424A	18680101221950	7,414
SSA - IDEA B Preschool	84.027	186600010479026000	664,389
IDEA-B IEP Analysis Project	84.173	186610010479026000	20,276
Total Special Education (IDEA) Cluster	84.027A	18660077047902	<u>9,054</u>
Total Passed Through Texas Education Agency			<u>865,509</u>
Passed through ESC Region 14:			
ESEA Title II, Part A - Teacher and Principal Training	84.367	18694501047902	15,672
ESEA Title I, Part C - Education of Migratory Children	84.011	18615001047902	192
Total Passed Through ESC Region 14			<u>15,864</u>
Total Department of Education			<u>881,373</u>
U.S. Department of Health & Human Services			
Passed through ESC Region 14:			
Head Start	93.600	06CH7152/01	80,898
Total Passed Through ESC Region 14			<u>80,898</u>
Total Department of Health & Human Services			<u>80,898</u>
U.S. Department of Agriculture			
Passed through Texas Education Agency			
School Breakfast Program	10.553	71401601	50,626
National School Lunch Program	10.555	71301601	171,260
Total Passed Through Texas Education Agency			<u>221,886</u>
Passed through the Texas Health and Human Services Commission			
National School Lunch Program - non cash assistance	10.555	N/A	20,262
Total Passed Through the Texas Health and Human Services Commission			<u>20,262</u>
Total Child Nutrition Cluster			<u>242,148</u>
Total Department of Agriculture			<u>242,148</u>
Total Expenditures of Federal Awards			<u>\$ 1,204,419</u>

**Note 1- Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended August 31, 2018. The information in the Schedule is presented in accordance with the 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). 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 position, or cash flows of the District.

**Note 2 - Summary of Significant Accounting Policies**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal expenditures were accounted for in the General Fund and Special Revenue Funds, components of the Governmental Fund type. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

Federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant.

School health and related services revenues are considered earned income at the local government level and thus are not included in the Schedule of Expenditures of Federal Awards. The following is a reconciliation of Federal Revenues on Exhibit C-2 to the Schedule of Expenditures of Federal Awards:

Federal Awards per Schedule of Expenditures of Federal Awards	\$ 1,204,419
Medical reimbursements (SHARS)	125,805
Qualified School Construction Bond interest subsidy	<u>100,034</u>
Total Federal Program Revenues - Exhibit C-2	<u><u>\$ 1,430,258</u></u>

**Note 3 - Indirect Cost Rate**

The District is not eligible to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance because the District has previously received a negotiated indirect cost rate for its federal awards.

De Leon Independent School District  
Schedule of Required Responses to Selected School First Indicators (Exhibit L-1)  
As Of August 31, 2018

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<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 on the financial statements as a whole?	Yes
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	Yes
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?	Yes
SF7 Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8 Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10 Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ -
SF11 Net Pension Assets (1920) at fiscal year-end.	\$ -
SF12 Net Pension Liabilities (2540) at fiscal year-end.	\$ 1,528,977
SF13 Pension Expense (6147) at fiscal year-end.	\$ -



# *De Leon Independent School District*

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Dana Marable ♦ Superintendent

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#### **Board of Trustees**

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## Management's Response to Auditor's Findings: Summary Schedule of Prior Audit Findings and Corrective Action Plan August 31, 2018

Prepared by Management of  
**De Leon Independent School District**

De Leon Independent School District - Summary Schedule of Prior Audit Findings

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No findings were noted in the prior audit.

## **Procurement Material Noncompliance and Material Weakness in Internal Control Over Compliance**

*Finding 2018-001*

*Federal Agency Name: U.S. Department of Education*

*Program Name: Special Education Cluster*

*CFDA #84.027; #84.027A; and #84.173A*

*Finding Summary:* Eide Bailly LLP noted that the District did not have adequate internal controls to monitor procurement requirements and did not obtain quotes for vendors services that totaled approximately \$7,786. Additionally, the District did not verify if vendors were suspended or debarred.

*Responsible Individuals:* Dr. Dana Marable, Superintendent

*Corrective Action Plan:* Existing internal controls were evaluated and updated. Additionally, a review and approval process was implemented to properly follow policies and procedures in place. These updated controls have been implemented in December 2018. In addition, the proper procurement process related to federal funds (CFDA # 84.027, CFDA # 84.027A and CFDA # 84.173A) was followed by management in fiscal year ending August 31, 2019.

*Anticipated Completion Date:* December 2018

## **Instance of Noncompliance and Significant Deficiency in Internal Control Over Compliance**

*Finding 2018-002*

*Federal Agency Name: U.S. Department of Education*

*Program Name: Special Education Cluster*

*CFDA #84.027; #84.027A; and #84.173A*

*Finding Summary:* Eide Bailly LLP noted that the District did not have adequate internal controls to monitor the Maintenance of Effort requirements and had to reimburse approximately \$7,786 in federal funds.

*Responsible Individuals:* Dr. Dana Marable, Superintendent

*Corrective Action Plan:* The District has reimbursed the fund for the program on which Maintenance of Effort was not met and will monitor the requirement more closely in the future.

*Anticipated Completion Date:* December 2018