

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had invested \$242,442,581 in a broad range of capital assets, including land, construction in progress, furniture and equipment, buildings, and vehicles. (See Table A-4).

Table A-4

Frenship Independent School District's Capital Assets						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total Government</u>	
	2018	2017	2018	2017	2018	2017
Land	\$ 6,731,771	\$ 5,869,317	\$ -	\$ -	\$ 6,731,771	\$ 5,869,317
Construction in Progress	551,881	1,398,298	-	-	551,881	1,398,298
Buildings and Improvements	307,396,428	303,530,509	-	-	307,396,428	303,530,509
Furniture and Equipment	10,888,797	9,934,301	1,337,383	1,337,383	12,226,180	11,271,684
Total at Historical Cost	<u>\$ 325,568,877</u>	<u>\$ 320,732,425</u>	<u>\$ 1,337,383</u>	<u>\$ 1,337,383</u>	<u>\$ 326,906,260</u>	<u>\$ 322,069,808</u>
Less Accumulated Depreciation	(83,649,508)	(76,067,009)	(814,171)	(718,478)	\$ (84,463,679)	\$ (76,785,487)
Net Capital Assets	<u>\$ 241,919,369</u>	<u>\$ 244,665,416</u>	<u>\$ 523,212</u>	<u>\$ 618,905</u>	<u>\$ 242,442,581</u>	<u>\$ 245,284,321</u>

Long-Term Debt

At the end of 2018, the District had \$284,032,883 in debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Table A-5

Frenship Independent School District's Long-Term Debt			
	<u>Governmental Activities</u>		<u>Change</u>
	2018	2017 (restated)	
Bonds payable	\$ 247,600,337	\$ 253,955,241	\$ (6,354,904)
Other debt payable	1,250,395	1,358,755	(108,360.00)
Note payable	268,547	400,558	(132,011.00)
Net pension liability	10,547,891	12,092,288	(1,544,397.00)
Net OPEB liability	<u>24,365,713</u>	<u>43,016,436</u>	<u>(18,650,723.00)</u>
Total debt payable	<u>\$ 284,032,883</u>	<u>\$ 310,823,278</u>	<u>\$ (26,790,395)</u>

ECONOMIC FACTORS AND 2018-2019 BUDGETS & RATES

Continued new housing starts, new commercial and retail construction, increases in higher education & medical jobs, and an economy continuing to perform better than the state have supported a continuing increase in the number of District students. Fiscal year 2014-2015 experienced a growth rate of 5.3% and has continue to decline each year since. A rate of 3.9% was recorded for 2015-16, and 2.7% for fiscal year 2016-17. For fiscal year 2017-18, the budgets were originally based on an enrollment of 9,694 or a 2.9% increase from the previous year.

2018-19 budget is based on a conservative estimate of and enrollment of 9,880 or an addition of 186 students.

The current enrollment continues to be slightly higher than Frenship Independent School District projections and continues to maintain a healthy growth rate of 2%.

Under previous state laws for school funding, the District has received a comparable percent decrease (as to enrollment) in state funds. However, due to increased enrollment and local property value growth, the District's increased efficiency in operations, Frenship ISD continues to be able to expand in other areas of education. In 2017-18 Frenship ISD implemented full day Pre-Kindergarten as one of the expansions of educational programs. In 2018-19 the District was able to further expand the Pre-Kindergarten program. The District was also able to increase academic and athletic programs with the additions of Academic Decathlon and Wrestling. Frenship ISD continues to adopt budgets that are fiscally responsible providing for the various needs of the district both present and future. However, the continued growth of the District demands greater efficiencies as we prepare for the future.

The economic outlook for the District is for continued growth in residential and commercial property values as well as new construction in both areas. The certified property values for the District are growing at an average rate of 7.4% annually the past three years due to housing and retail growth in the west and southwest areas of the city of Lubbock.

The property tax rate for Maintenance and Operations (M&O) was increased to a rate of \$1.06 per \$100 of taxable value. This rate was proposed and then ratified by the voters of Frenship ISD in November of 2017. An election was necessary due to the proposed rate exceeding the \$1.04. The Interest and Sinking (I&S) tax rate for paying the District's annual principal and interest payments on its bond debt slightly decreased by two cents to \$0.43 per \$100 value in order to pay the district's outstanding bond indebtedness. This was part of the strategy to move these two pennies to the M&O side of the tax rate to receive an additional half million dollars in M&O State Funding. The District has also completed multiple refunding bond sales in 2014-2015 and one in 2015-16 in order to reduce the interest expense on existing bonds. These refunding bond sales have saved the District millions of dollars as the debt is financed at a lower interest rate, while not extending the life of the debt. As property values continue to grow, the District anticipates lowering this rate in the coming years until another bond election is needed to provide the facilities for the continued student growth.

The District nears the completion of construction on a various renovation projects to addressed with this bond. These projects and various maintenance projects will be completed over the next year thus completing the 2014 Bond Program.

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. If you have any questions about this report or need additional financial information, contact the District's Department of Business Services at Frenship ISD, 501 7th Street, Wolfforth, Texas.

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

Data Control Codes	1 Governmental Activities	2 Business Type Activities	3 Total	
Assets				
1110	Cash and cash equivalents	\$ 19,487,115	\$ 860,842	\$ 20,347,957
1120	Investments - current	17,541,101	-	17,541,101
1220	Property taxes receivable (delinquent)	1,207,766	-	1,207,766
1230	Allowance for uncollectible taxes	(284,664)	-	(284,664)
1240	Due from other governments	743,249	133,461	876,710
1260	Internal balances	3,690	(3,690)	-
1267	Due from fiduciary funds	17,940	-	17,940
1290	Other receivables, net	234,958	22,708	257,666
1300	Inventories at cost	39,674	-	39,674
1410	Prepayments	828,378	-	828,378
1490	Other current assets	16,144	-	16,144
Capital assets				
1510	Land	6,731,771	-	6,731,771
1520	Buildings and improvements, net	230,397,674	-	230,397,674
1530	Furniture and equipment, net	4,238,043	523,212	4,761,255
1580	Construction in progress	551,881	-	551,881
1800	Restricted assets	15,385,243	-	15,385,243
1000	Total assets	297,139,963	1,536,533	298,676,496
Deferred Outflows of Resources				
1701	Deferred outflows - bond refunding	7,236,356	-	7,236,356
1705	Deferred outflows - pension	4,971,127	-	4,971,127
1706	Deferred outflows - OPEB	411,898	-	411,898
1700	Total deferred outflows	12,619,381	-	12,619,381
Liabilities				
2110	Accounts payable	1,228,035	206,409	1,434,444
2140	Interest payable	423,150	-	423,150
2160	Accrued wages payable	3,889,962	-	3,889,962
2180	Due to other governments	1,861,998	-	1,861,998
2200	Accrued expenses	3,706	-	3,706
2300	Unearned revenues	127,599	-	127,599
2400	Payable from restricted assets	940,633	-	940,633
Noncurrent liabilities				
2501	Due within one year	5,565,357	-	5,565,357
2502	Due in more than one year	221,593,160	-	221,593,160
2516	Premium on issuance of bonds	21,960,761	-	21,960,761
2541	Net pension liability	10,547,891	-	10,547,891
2545	Net OPEB liability	24,365,713	-	24,365,713
2000	Total liabilities	292,507,965	206,409	292,714,374
Deferred Inflows of Resources				
2605	Deferred inflows - pension	1,613,143	-	1,613,143
2606	Deferred inflows - OPEB	10,192,224	-	10,192,224
2600	Total deferred inflows of resources	11,805,367	-	11,805,367
Net Position				
3200	Net investment in capital assets	6,302,399	523,212	6,825,611
3820	Restricted for federal and state programs	22	806,912	806,934
3850	Restricted for debt service	9,268,072	-	9,268,072
3900	Unrestricted net position	(10,124,481)	-	(10,124,481)
3000	Total net position	\$ 5,446,012	\$ 1,330,124	\$ 6,776,136

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues	
			3 Charges for Services	4 Operating Grants and Contributions
	Governmental activities			
11	Instruction	\$ 51,113,045	\$ 1,912,578	\$ 12,180,452
12	Instructional resources and media services	1,279,939	-	236,202
13	Curriculum and instructional staff development	1,126,166	-	443,686
21	Instructional leadership	1,906,941	-	430,851
23	School leadership	4,880,730	-	982,607
31	Guidance, counseling, and evaluation services	2,604,367	-	1,065,681
33	Health services	967,751	-	212,881
34	Student transportation	2,261,132	-	4,442
35	Food services	393,301	-	-
36	Extracurricular activities	5,684,756	805,302	471,513
41	General administration	3,331,188	-	516,459
51	Facilities maintenance and operations	10,554,875	174,950	1,381,579
52	Security and monitoring services	787,035	-	152,253
53	Data processing services	3,767,886	-	274,765
61	Community services	113,919	-	27,335
72	Debt service - interest on long term debt	9,168,204	-	377,470
73	Debt service - bond issuance costs and fees	24,850	-	-
81	Facilities acquisition and construction	1,415,533	-	22,651
99	Other intergovernmental charges	494,168	-	-
TG	Total governmental activities	<u>101,875,786</u>	<u>2,892,830</u>	<u>18,780,827</u>
	Business-type activities			
05	Enterprise fund - National School Breakfast and Lunch	<u>4,074,823</u>	<u>1,516,789</u>	<u>2,472,223</u>
TB	Total business-type activities	<u>4,074,823</u>	<u>1,516,789</u>	<u>2,472,223</u>
TP	Total primary government	<u>105,950,609</u>	<u>4,409,619</u>	<u>21,253,050</u>
	General revenues			
	Taxes			
MT	Property taxes and penalties, levied for general purposes			
DT	Property taxes and penalties, levied for debt service			
SF	State aid - formula grants			
GC	Grants and contributions not restricted			
IE	Investment earnings			
MI	Miscellaneous earnings			
TR	Total general revenues			
CN	Change in net position			
NB	Net position - beginning			
PA	Prior period adjustment			
	Beginning net position, as restated			
NE	Net position - ending			

See Notes to Financial Statements

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

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Governmental Activities	Primary Government Business-Type Activities	Total
\$ (37,020,015)	\$ -	\$ (37,020,015)
(1,043,737)	-	(1,043,737)
(682,480)	-	(682,480)
(1,476,090)	-	(1,476,090)
(3,898,123)	-	(3,898,123)
(1,538,686)	-	(1,538,686)
(754,870)	-	(754,870)
(2,256,690)	-	(2,256,690)
(393,301)	-	(393,301)
(4,407,941)	-	(4,407,941)
(2,814,729)	-	(2,814,729)
(8,998,346)	-	(8,998,346)
(634,782)	-	(634,782)
(3,493,121)	-	(3,493,121)
(86,584)	-	(86,584)
(8,790,734)	-	(8,790,734)
(24,850)	-	(24,850)
(1,392,882)	-	(1,392,882)
(494,168)	-	(494,168)
<u>(80,202,129)</u>	<u>-</u>	<u>(80,202,129)</u>
-	(85,811)	(85,811)
<u>-</u>	<u>(85,811)</u>	<u>(85,811)</u>
<u>(80,202,129)</u>	<u>(85,811)</u>	<u>(80,287,940)</u>
40,200,547	-	40,200,547
16,289,548	-	16,289,548
31,350,904	-	31,350,904
445,887	-	445,887
1,017,619	12,683	1,030,302
731,466	-	731,466
<u>90,035,971</u>	<u>12,683</u>	<u>90,048,654</u>
9,833,842	(73,128)	9,760,714
38,337,301	1,403,252	39,740,553
(42,725,131)	-	(42,725,131)
<u>(4,387,830)</u>	<u>-</u>	<u>(4,387,830)</u>
<u>\$ 5,446,012</u>	<u>\$ 1,330,124</u>	<u>\$ 6,776,136</u>

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects
	Assets			
1110	Cash and cash equivalents	\$ 18,465,757	\$ -	\$ -
1120	Investments - current	17,541,101	-	-
1220	Property taxes - delinquent	859,216	348,550	-
1230	Allowance for uncollectible taxes (credit)	(202,513)	(82,151)	-
1240	Receivables from other governments	53,742	-	-
1260	Due from other funds	798,691	-	-
1290	Other receivables	218,330	-	-
1300	Inventory	39,674	-	-
1410	Prepayments	827,977	-	-
1490	Other current assets	16,144	-	-
1800	Restricted assets	-	9,425,360	5,959,883
1000	Total assets	38,618,119	9,691,759	5,959,883
	Deferred outflows of resources			
1700	Deferred outflows	-	-	-
1000a	Total assets and deferred outflows	\$ 38,618,119	\$ 9,691,759	\$ 5,959,883
	Liabilities			
2110	Accounts payable	\$ 937,013	\$ 537	\$ -
2160	Accrued wages payable	3,705,761	-	-
2170	Due to other funds	-	-	3,692
2180	Due to other governments	1,852,504	-	-
2300	Unearned revenues	-	-	-
2400	Payable from restricted assets	-	-	940,633
2000	Total liabilities	6,495,278	537	944,325
	Deferred Inflows of Resources			
2600	Unavailable revenue - property taxes	548,763	223,106	-
	Total deferred inflows of resources	548,763	223,106	-
	Fund Balance			
3410	Nonspendable - inventory	39,674	-	-
3430	Nonspendable - prepaid items	844,121	-	-
3450	Restricted - federal or state funds grant	-	-	-
3470	Restricted - capital acquisition and contractual obligation	-	-	5,015,558
3480	Restricted - retirement of long term debt	-	9,468,116	-
3545	Committed - other	-	-	-
3550	Assigned - construction	2,500,000	-	-
3570	Assigned - capital expenditures for equipment	500,000	-	-
3590	Assigned - other	500,000	-	-
3600	Unassigned fund balance	27,190,283	-	-
3000	Total fund balances	31,574,078	9,468,116	5,015,558
4000	Total liabilities, deferred inflows, and fund balances	\$ 38,618,119	\$ 9,691,759	\$ 5,959,883

See Notes to Financial Statements

Frenship Independent School District
 Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
 Funds to the Statement of Activities (Exhibit C-2r)
 Year Ended August 31, 2018

Total Net Change in Fund Balances - Governmental Funds	\$ (1,551,928)
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The change in net position of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.	9,182
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays of \$4,847,259 and debt principal payments of \$5,257,012 is to increase net position.	10,104,271
3 Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(7,582,499)
4 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 increase in the amount of \$87,096. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate shares of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$760,827. The net effect is a decrease in net position.	(673,731)
5 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 \$116,779. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the OPEB be recognized. These cause the change in net position to increase in the amount of \$8,462,31. The net effect is a increase in net position.	8,579,092
6 Bond premiums, deferred charge on refunding, and prepaid interest are recorded as expenditures when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization.	878,578
7 Proceeds from sales of assets are shown as sources of funds in the governmental funds, but the government-wide financial statements recognize the gain net of the remaining net book value of the disposed assets. This is the net book value that was removed.	(10,807)

Frenship Independent School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities (Exhibit C-2r)
Year Ended August 31, 2018

8	Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is a decrease of \$4,136. Capital appreciation bonds are issued at a discount and then increase in value until maturity. The current year accretion is \$71,226. The net effect is to decrease net position.	(67,090)
9	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred inflows of \$771,869 as revenue, removing prior year's tax collection of \$842,971, recognizing deferred revenue of \$219,876 from advertising contracts, other various adjustments, and eliminating interfund transactions.	<u>148,774</u>
	Change in Net Position of Governmental Activities (See B-1)	<u><u>\$ 9,833,842</u></u>

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

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
Assets		
Current Assets		
Cash and cash equivalents	\$ 860,842	\$ 57,475
Due from other governments	133,461	-
Other receivables	22,708	3,481
Total current assets	1,017,011	60,956
Noncurrent Assets		
Capital assets:		
Furniture and equipment	1,337,383	-
Depreciation on furniture and equipment	(814,171)	-
Total noncurrent assets	523,212	-
Total assets	1,540,223	60,956
Liabilities		
Current Liabilities		
Accounts payable	206,409	-
Due to other funds	3,690	-
Total current liabilities	210,099	-
Net Position		
Net investment in capital assets	523,212	-
Restricted for federal and state programs	806,912	-
Unrestricted net position	-	60,956
Total net position	\$ 1,330,124	\$ 60,956

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

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
Operating revenues		
Local and intermediate sources	\$ 1,516,789	\$ 6,020,139
Total operating revenues	<u>1,516,789</u>	<u>6,020,139</u>
Operating expenses		
Payroll services	52,804	-
Professional and contracted services	3,709,165	-
Supplies and materials	213,034	-
Other operating costs	99,820	6,014,269
Total operating expenses	<u>4,074,823</u>	<u>6,014,269</u>
Operating income (loss)	(2,558,034)	5,870
Nonoperating revenues		
National school breakfast program	524,856	-
National school lunch program	1,743,024	-
Donated commodities	204,343	-
Earnings from temporary deposits and investments	12,683	3,312
Total nonoperating revenues	<u>2,484,906</u>	<u>3,312</u>
Change in net position	(73,128)	9,182
Total net position - September 1 (Beginning)	<u>1,403,252</u>	<u>51,774</u>
Total net position - August 31 (Ending)	<u>\$ 1,330,124</u>	<u>\$ 60,956</u>

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

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
Operating activities		
Cash received from user charges	\$ 1,511,187	\$ 6,017,057
Cash payment for insurance premiums	-	(6,014,269)
Cash payments for employees services	(56,029)	-
Cash payments for suppliers	(3,645,457)	-
Net cash used for (from) operating activities	<u>(2,190,299)</u>	<u>2,788</u>
Cash flows from non-capital financing activities		
Federal grants received	<u>2,179,427</u>	-
Net cash from non-capital financing activities	<u>2,179,427</u>	-
Capital and related financing activities		
Acquisition of capital assets	-	-
Net cash used for capital and related financing activities	<u>-</u>	<u>-</u>
Investing activities		
Earnings from temporary deposits and investments	<u>12,683</u>	<u>3,312</u>
Net cash from non-capital financing activities	<u>12,683</u>	<u>3,312</u>
Net change in cash and cash equivalents	1,811	6,100
Cash balances, beginning of the year	<u>859,031</u>	<u>51,375</u>
Cash balances, end of the year	<u>\$ 860,842</u>	<u>\$ 57,475</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating (loss) income	\$ (2,558,034)	\$ 5,870
Adjustments to reconcile operating (loss) income to net cash used in operating activities		
Depreciation	95,693	-
Donated commodities	204,343	-
Effect of increases and decreases in current assets and liabilities		
(Increase) decrease in receivables	(5,602)	(3,082)
Increase in accounts payable	76,526	-
Decrease in accrued wages and payroll deductions	<u>(3,225)</u>	<u>-</u>
Net cash (used for) from operating activities	<u>\$ (2,190,299)</u>	<u>\$ 2,788</u>

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

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 811,207
Other receivables	9,022
	<hr/>
Total assets	\$ 820,229
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Liabilities	
Accounts payable	\$ 34,106
Due to other funds	17,940
Due to student groups	768,183
	<hr/>
Total liabilities	\$ 820,229
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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 Frenship Independent School District (the District). The public elects the members of the Board of Trustees. 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. There are no component units included within the reporting entity. 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 must comply 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 are 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.

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

Separate financial statements are provided for governmental funds, proprietary funds, 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, as well as the proprietary and fiduciary fund financial statements, are reported using the economic resources measurement focus and the accrual basis of accounting. 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 to expenditures for principal and interest on long-term debt of governmental activities.

The capital projects fund, a governmental fund type, accounts for the financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

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 or committed 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.

The enterprise fund, a proprietary fund type, accounts for the District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District currently reports food service as a non-major Enterprise Fund.

The internal service fund, a proprietary fund type, accounts for its health insurance. The general fund is contingently liable for liabilities of this fund.

Agency funds, 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 health insurance internal service fund are District contributions for health insurance. Operating expenses include premiums and administrative expense for administering the health 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 are reported at amortized cost.

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).

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities and business type activities columns 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 assets lives are not capitalized.

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	5 - 65
Furniture & equipment	3 - 15

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premiums or discounts.

In the fund statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

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 11 and its OPEB liability as described in Note 12. 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 11 and for its proportionate share of TRS-Care's deferred outflow related to OPEB as described in Note 12. The District has deferred outflows of resources for a deferred charge on a bond refunding.

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 Other 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 12.

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 Resource (FAR) 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

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which 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 they complied with all significant requirements of the PFIA and the District's investment policies.

Custodial Credit Risk – Deposits

At August 31, 2018, the District's deposits (cash, certificates of deposit and interest-bearing savings accounts including temporary investments) 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 the U.S. or its agencies and instrumentalities; 2) obligations of the State of Texas or its agencies; 3) other obligations guaranteed by the U.S. or the State of Texas or their agencies and instrumentalities; 4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than "A" or its equivalent; 5) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 6) fully collateralized repurchase agreements; 7) commercial paper that has a stated maturity of 270 days or fewer from the date of issuance and is rated not less than A1-1 or P-1 or an equivalent rating by at least two nationally recognized credit agencies; and 8) public funds investment pools. Temporary investments are reported at cost, which approximates market, and are secured, when necessary, by the FDIC or obligations of items 1-4 above at 101% of the investments market value.

Concentration of Credit Risk

The District’s investment policy is for the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity or specific issuer.

Interest Rate Risk

The District’s investment policy states that any internally created pool fund group of the District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

The following table presents the maturities of investments at August 31, 2018.

Investment Type	Amortized Cost	Weighted Average Maturity (Days) *	Rating
TexSTAR	\$ 7,412,818	44	AAAm
LOGIC	20,594,064	45	AAAm
TexasTerm DAILY	272,822	29	AAAm
	<u>\$ 28,279,704</u>		
Reported as investments	\$ 17,541,101		
Reported as restricted assets	<u>10,738,603</u>		
	<u>\$ 28,279,704</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.

TexSTAR

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with First Southwest. TexSTAR invests in treasury and agency securities and repurchase agreements fully collateralized by government securities. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective. TexSTAR uses amortized cost rather than market value to report net assets to compute share prices.

Credit Risk. TexSTAR is rated AAAm by Standard & Poor’s.

LOGIC

Local Government Investment Cooperative (LOGIC) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with First Southwest. LOGIC invests in treasury and agency securities and repurchase agreements as well as prime commercial paper. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective. LOGIC uses amortized cost rather than market value to report net assets to compute share prices.

Credit Risk. LOGIC is rated AAAM by Standard & Poor’s.

TexasTERM

The Texas Term Local Government Investment Pool (TexasTERM) 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. TexasTERM is administered by PFM Asset Management LLC, who also serves as the investment advisor. The reported value of the pool is the same as the fair value of the pool shares. TexasTERM uses amortized cost rather than market value to report net assets to compute share prices.

Credit risk. TexasTERM is rated AAAM by Standard & Poor's.

Restricted Assets

The nature and restrictions associated with assets reported in object code 1800 Restricted Assets is as follows:

Cash and equivalents	
Restricted for debt service	\$ 3,781,964
Restricted for capital projects	864,676
	4,646,640
Investments	
Restricted for debt service	5,643,396
Restricted for capital projects	5,095,207
	10,738,603
Total restricted assets	\$ 15,385,243

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 January 31 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 \$3,802,392,081. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended August 31, 2018 were 99% 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 \$923,102.

The tax rate to finance general governmental services was \$1.06005 per \$100 and the tax rate to finance the payment of principal and interest on long-term obligations was \$0.4300 per \$100 for the year ended August 31, 2018.

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.

Governmental Activities	State Grants/ Entitlements	Federal Grants	Total
General Fund	\$ 53,742	\$ -	\$ 53,742
Nonmajor Governmental Funds	60,891	628,616	689,507
	\$ 114,633	\$ 628,616	\$ 743,249
Business-type Activities			
Enterprise Fund	\$ -	\$ 133,461	\$ 133,461

Interfund Receivables and Payables

The composition of interfund balances as of August 31, 2018, is as follows:

	Due From Other Funds	Due To Other Funds
General fund		
Nonmajor governmental funds	\$ 773,369	\$ -
Capital project funds	3,692	-
Enterprise fund	3,690	-
Fiduciary funds	17,940	-
Capital project funds		
General fund	-	3,692
Enterprise Fund		
General fund	-	3,690
Nonmajor governmental funds		
General fund	-	773,369
Nonmajor governmental funds	3,532	3,532
Fiduciary funds		
General fund	-	17,940
	-	17,940
Totals	\$ 802,223	\$ 802,223

Interfund receivables and payables were recorded to eliminate cash deficit balances and to record temporary interfund borrowing.

Interfund Transfers

There were no interfund transfers for the year ended August 31, 2018.

Note 8 - Capital Assets

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

	Balance 9/1/2017	Additions	Deletions	Balance 8/31/2018
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 5,869,317	\$ 873,261	\$ (10,807)	\$ 6,731,771
Construction in progress	1,398,298	538,411	(1,384,828)	551,881
Total capital assets, not being depreciated	<u>7,267,615</u>	<u>1,411,672</u>	<u>(1,395,635)</u>	<u>7,283,652</u>
Capital assets, being depreciated				
Building and improvements	303,530,509	3,865,919	-	307,396,428
Furniture and equipment	9,934,301	954,496	-	10,888,797
Total capital assets, being depreciated	<u>313,464,810</u>	<u>4,820,415</u>	<u>-</u>	<u>318,285,225</u>
Less accumulated depreciation for				
Building and improvements	(70,481,504)	(6,517,250)	-	(76,998,754)
Furniture and equipment	(5,585,505)	(1,065,249)	-	(6,650,754)
Total accumulated depreciation	<u>(76,067,009)</u>	<u>(7,582,499)</u>	<u>-</u>	<u>(83,649,508)</u>
Total capital assets, being depreciated (net)	<u>237,397,801</u>	<u>(2,762,084)</u>	<u>-</u>	<u>234,635,717</u>
Total capital assets (net)	<u><u>\$244,665,416</u></u>	<u><u>\$ (1,350,412)</u></u>	<u><u>\$ (1,395,635)</u></u>	<u><u>\$241,919,369</u></u>
Business-Type Activities				
Capital assets, being depreciated				
Furniture and equipment	\$ 1,337,383	\$ -	\$ -	\$ 1,337,383
Less accumulated depreciation for				
Furniture and equipment	(718,478)	(95,693)	-	(814,171)
Total capital assets, being depreciated (net)	<u>\$ 618,905</u>	<u>\$ (95,693)</u>	<u>\$ -</u>	<u>\$ 523,212</u>

Construction in Progress consists of primarily renovations to the Transportation Facility and Auxiliary Building. The estimated cost to completion is \$640,000.

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

Instruction	\$ 4,134,524
Instructional resources and media services	144,475
Instructional leadership	41,190
School leadership	65,014
Guidance, counseling and evaluation services	16,398
Health services	18,066
Student transportation	19,061
Food service	364,487
Cocurricular/Extracurricular activities	1,873,579
General administration	188,957
Facilities maintenance and operations	116,496
Security and monitoring services	21,144
Data processing services	<u>579,108</u>
 Total depreciation expense	 <u><u>\$ 7,582,499</u></u>

Note 9 - Long Term Debt

Bonded indebtedness of the District is reflected in the Government-Wide Statement of Net Position. In the Fund Financial Statements, the current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

Long-term debt includes par bonds and capital appreciation (deep discount) serial bonds. Bond premiums and discounts are amortized using the straight-line method. At August 31, 2018, the District's debt limitation under local policies, which represents 10% of the District's total assessed property value for school tax purposes, is \$380,239,208 and the District's legal debt margin is \$131,119,927.

Frenship Independent School District
Notes to Financial Statements
August 31, 2018

A summary of the changes in long term debt follows below:

	Interest Rate Payable	Amount of Original Issue	Amounts Outstanding 8/31/2017	Issued / Accretion	Refunded/ Retired	Amounts Outstanding 8/31/2018
Series 2008 Capital						
Appreciation Bonds	4.29-4.87%	\$ 1,503,746	\$ 1,503,746	\$ 71,227	\$ 210,001	\$ 1,364,972
Unlimited Tax Refunding						
Bonds Series 2009	2.0-3.0%	8,680,000	595,000	-	595,000	-
Unlimited Tax School Building						
Bonds Series 2010	3.0-4.25%	12,365,000	3,175,000	-	115,000	3,060,000
Unlimited Tax Refunding						
Bonds Series 2012	2.0-3.0%	8,770,000	8,360,000	-	665,000	7,695,000
Unlimited Tax School Building						
Bonds Series 2013	5.00%	13,600,000	13,600,000	-	-	13,600,000
Unlimited Tax Refunding						
Bonds Series 2013	3.00-4.0%	19,330,000	19,330,000	-	555,000	18,775,000
Unlimited Tax School Building						
Bonds Series 2014	3.0-5.0%	39,900,000	38,665,000	-	550,000	38,115,000
Unlimited Tax School Building						
Bonds Series 2014A	3.25-3.48%	38,825,000	38,825,000	-	-	38,825,000
Unlimited Tax Refunding						
Bonds Series 2014	4.00-5.00%	65,240,000	64,145,000	-	2,435,000	61,710,000
Unlimited Tax Refunding						
Bonds Series 2015A	2.00-3.00%	24,185,000	23,890,000	-	-	23,890,000
Unlimited Tax Refunding						
Bonds Series 2015B	2.00-4.00%	6,935,000	6,845,000	-	-	6,845,000
Unlimited Tax Refunding						
Bonds Series 2015C	2.00-3.00%	4,700,000	4,570,000	-	-	4,570,000
Unlimited Tax Refunding						
Bonds, Series 2016	2.00-4.00%	8,580,000	8,440,000	-	-	8,440,000
Total Bonds Payable		<u>\$ 251,138,748</u>	<u>\$ 231,943,746</u>	<u>\$ 71,227</u>	<u>\$ 5,125,001</u>	<u>\$ 226,889,972</u>

	Interest Rate Payable	Amounts Outstanding 8/31/2017	Addition	Retired	Amounts Outstanding 8/31/2018
Note payable	2.50%	\$ 400,558	\$ -	\$ 132,011	\$ 268,547
Total note payable		<u>\$ 400,558</u>	<u>\$ -</u>	<u>\$ 132,011</u>	<u>\$ 268,547</u>

Frenship Independent School District
Notes to Financial Statements
August 31, 2018

The current portion of bonds and notes payable at August 31, 2018 was as follows:

	Outstanding 8/31/2018
Series 2008 Capital Appreciation Bonds	\$ 485,000
Unlimited Tax Refunding Bonds Series 2009	-
Unlimited Tax School Building Bonds Series 2010	260,000
Unlimited Tax Refunding Bonds Series 2012	-
Unlimited Tax School Building Bonds Series 2013	1,215,000
Unlimited Tax Refunding Bonds Series 2013	795,000
Series 2013 Capital Appreciation Bonds	-
Unlimited Tax School Building Bonds Series 2014	165,000
Unlimited Tax School Building Bonds Series 2014A	-
Unlimited Tax Refunding Bond Series 2014	2,510,000
Unlimited Tax Refunding Bond Series 2015A	-
Unlimited Tax Refunding Bond Series 2015B	-
Unlimited Tax Refunding Bond Series 2015C	-
Note payable	135,357
Total	\$ 5,565,357

Debt service requirements for long term debt are as follows:

Year Ended August 31	Principal	Accretion	Interest	Total Requirements
2019	\$ 5,137,796	\$ 427,561	\$ 9,854,720	\$ 15,420,077
2020	6,171,264	121,925	9,659,098	15,952,287
2021	6,908,860	161,140	9,366,238	16,436,238
2022	7,848,923	201,077	9,023,738	17,073,738
2023	8,788,505	241,495	8,637,063	17,667,063
2024-2028	46,862,774	282,227	37,153,390	84,298,391
2029-2033	58,050,000	-	26,467,865	84,517,865
2034-2038	24,580,000	-	17,133,531	41,713,531
2039-2043	35,255,000	-	9,919,350	45,174,350
2044-2047	26,315,000	-	1,642,125	27,957,125
	\$ 225,918,122	\$ 1,435,425	\$ 138,857,118	\$ 366,210,665

Frenship Independent School District
Notes to Financial Statements
August 31, 2018

There are a number of limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2018.

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

	Amounts Outstanding 8/31/2017	Additions	Reductions	Amounts Outstanding 8/31/2018	Amounts Due Within One Year
Bonds payable					
General obligation bonds	\$ 230,440,000	\$ -	\$ 4,915,000	\$ 225,525,000	\$ 4,945,000
Capital appreciation bond	144,991	-	30,415	114,576	57,439
Unamortized bond premium	23,370,250	-	1,409,489	21,960,761	-
Total bonds payable	253,955,241	-	6,354,904	247,600,337	5,002,439
Note payable	400,558	-	132,011	268,547	135,357
Accreted interest on cap. appreciation	1,358,755	71,226	179,586	1,250,395	427,561
Net pension liability	12,092,288	1,526,850	3,071,247	10,547,891	-
Net OPEB liability	43,016,436	4,124	18,654,847	24,365,713	-
Total long-term debt	<u>\$ 310,823,278</u>	<u>\$ 1,602,200</u>	<u>\$ 28,392,595</u>	<u>\$ 284,032,883</u>	<u>\$ 5,565,357</u>

Pension and OPEB liabilities are typically liquidated through contributions to TRS made by the following funds: General Fund, ESEA I – Improving Basic Programs, and IDEA – B Formula.

Note 10 - 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 11 - 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 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at 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	
	2017	2018
Member	7.70%	7.70%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%
Member Contributions	\$ 3,649,052	\$ 4,140,017
Employer Contributions	1,070,429	1,157,525
NECE On-Behalf Contributions	3,326,363	3,317,819

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

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

- On the portion of the member’s salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days of employment.
- When any part or all of an employee’s salary is paid by federal funding 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
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 weekly rate closest to but not later than the Measurement Date). The source for the rate is the Federal Reserve Statistical Release H.15, citing the Bond Buyer Index of general obligation bonds with 20 years to maturity and an average AA credit rating.

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 on the next page.

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	0.0%	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	100.0%		8.7%

* 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	\$ 17,781,660	\$ 10,547,891	\$ 4,524,604

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 \$10,547,891 for its proportionate share of the TRS's net pension liability measured at August 31, 2017. 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	\$ 10,547,891	
State's proportionate share that is associated with the District	27,358,022	
Total	\$ 37,905,913	

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 .000329883317 which was a decrease of .00000988 from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation

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

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

For the year ended August 31, 2018, the District recognized pension expense of \$2,086,761. Additionally, the District recognized revenue of \$2,798,330 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	\$ 154,320	\$ 568,834
Changes in actuarial assumptions	480,473	275,060
Difference between projected and actual investment earnings	-	768,708
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,178,809	541
Contributions paid to TRS subsequent to the measurement date	1,157,525	-
Total	\$ 4,971,127	\$ 1,613,143

\$1,157,525 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, 2018. 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
2019	\$ 438,075
2020	1,111,373
2021	386,337
2022	158,612
2023	78,031
Thereafter	28,031
Total	\$ 2,200,459

Note 12 - 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		
	2017	2018
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		\$ 408,084
Member Contributions		349,482
NECE On-Behalf Contributions		365,936

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 **	3.50% to 9.50%
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 *
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	0.0%	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 OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease Discount in Rate (2.42%)	Discount Rate (3.42%)	1% Increase Discount in 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	\$ 28,757,590	\$ 24,365,713	\$ 20,835,634

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	\$ 20,286,890	\$ 24,365,713	\$ 29,717,642

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 \$24,365,713 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	\$ 24,365,713
State's proportionate share that is associated with the District	37,593,158
Total	\$ 61,958,871

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 0.056031% 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 \$850/\$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 expense of \$(12,579,670) and revenue of \$449,446 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	\$ -	\$ 508,653
Changes in actuarial assumptions	-	9,683,571
Difference between projected and actual investment earnings	3,701	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	113	-
Contributions paid to TRS subsequent to the measurement date	408,084	-
Total	\$ 411,898	\$ 10,192,224

\$408,084 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:

<u>Year Ended August 31</u>	<u>OPEB Expense Amount</u>
2019	\$ (1,344,372)
2020	(1,344,372)
2021	(1,344,372)
2022	(1,344,372)
2023	(1,344,298)
Thereafter	(3,466,624)
Total	\$ (10,188,410)

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amount of \$148,223, \$143,419 and \$172,330 for the years ended August 31, 2018, 2017 and 2016, respectively.

Note 13 - Health Care and Workers' Compensation Coverage

During the year ended August 31, 2017, employees of the District were covered by a third party commercial health insurance (the Plan). The District has paid premiums of \$300 per month per employee to the plan, and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator acting on behalf of a licensed insurer. The plan was authorized by Section 21.922, Texas Education Code, and was documented by contractual agreement. The plan is accounted for in the internal service fund. The contract between the District and the third-party administrator is renewable annually on September 1, and terms of coverage and premium costs are included in the contractual provisions.

Note 14 - 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	Capital Projects Fund	Nonmajor Governmental Funds	Total
Property taxes	\$40,047,839	\$ 16,247,441	\$ -	\$ -	\$ 56,295,280
Athletic activities	231,932	-	-	-	231,932
Tuition and fees	230,106	-	-	4,391	234,497
Investment income	633,714	201,527	182,378	-	1,017,619
Revenues from foundations, other non-profit organizations, gifts and bequests	-	-	-	110,714	110,714
Penalties, interest, and other tax related income	192,336	73,581	-	-	265,917
Other	387,765	-	-	552,462	940,227
Total	\$41,723,692	\$ 16,522,549	\$ 182,378	\$ 667,567	\$59,096,186

Note 15 - Accumulated Unpaid Vacation and Sick Leave Benefits

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.

Note 16 - 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.

Note 17 - Fund Balance

The District classifies governmental fund balance in accordance with GASB 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 for inventory of \$39,674 and prepaid items of \$844,522 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. As of August 31, 2018, \$5,015,558 was restricted for capital acquisition and contractual obligations. Fund balance restricted for federal or state grants totaled \$22 as of August 31, 2018. Fund balance restricted for the retirement of funded indebtedness totaled \$9,468,116 as of August 31, 2018.

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 by the Board’s resolution. At August 31, 2018, the District had \$281,769 committed for Campus Activity Funds.

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. At August 31, 2018, the District had \$2,500,000 assigned for construction, \$500,000 assigned for capital expenditures for equipment, and \$500,000 for other future growth expenditures.

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

The District uses restricted amounts first when both restricted and unrestricted fund balances are available. Additionally, the District would first 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 the general operating fund in which the total fund balance is 20% of the total operating expenditures.

Note 18 - General Fund Federal Source Revenues

Revenues from federal sources, which are reported in the General Fund, consist of:

	CFDA	Total
School of Health and Related Services	N/A	\$ 1,161,388
Federal in lieu of taxes	N/A	353,361
Indirect costs		
Title I, Part A	84.010A	30,786
Career and Technical - Basic Grant	84.048	1,474
IDEA - Part B, Formula	84.027	41,929
Title II, Part A	84.367A	6,972
Title III, Part A - ELA	84.365A	1,107
Summer School LEP	84.369A	502
Total		\$ 1,597,519

Note 19 - Prior Period Adjustments

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 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, and deferred outflows of resources related to contributions made after the measurement date as follows:

Net position - August 31, 2017, as previously reported	\$ 38,337,301
Add net OPEB liability under GASB Statement No. 75 at August 31, 2017	(43,016,436)
Deferred outflows of resources related to contributions made during the year ended August 31, 2017	<u>291,305</u>
Net position - September 1, 2017, as restated	<u>\$ (4,387,830)</u>



Required Supplementary Information
August 31, 2018

Frenship Independent School District

Frenship 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	Total local and intermediate sources	\$ 40,737,889	\$ 40,737,889	\$ 41,723,692	\$ 985,803
5800	State program revenues	34,903,634	34,903,634	35,169,837	266,203
5900	Federal program revenues	790,000	790,000	1,597,519	807,519
5020	Total revenues	<u>76,431,523</u>	<u>76,431,523</u>	<u>78,491,048</u>	<u>2,059,525</u>
Expenditures					
Current					
0011	Instruction	42,083,071	41,682,483	42,235,204	(552,721)
0012	Instructional resources and media services	1,021,216	1,038,444	1,064,728	(26,284)
0013	Curriculum and instructional staff development	1,139,087	1,112,983	825,039	287,944
0021	Instructional leadership	1,679,767	1,683,428	1,708,605	(25,177)
0023	School leadership	4,543,438	4,618,155	4,659,233	(41,078)
0031	Guidance, counseling, and evaluation services	1,761,880	2,101,466	2,066,492	34,974
0033	Health services	933,088	933,498	891,009	42,489
0034	Student (pupil) transportation	2,335,462	2,335,462	2,240,298	95,164
0035	Food services	1,500	1,500	25,402	(23,902)
0036	Extracurricular activities	3,619,420	3,594,880	3,571,820	23,060
0041	General administration	2,967,187	2,959,147	3,019,307	(60,160)
0051	Facilities maintenance and operations	10,673,590	10,676,569	9,983,248	693,321
0052	Security and monitoring services	721,691	721,691	747,908	(26,217)
0053	Data processing services	2,097,487	2,097,762	1,438,671	659,091
0061	Community services	75,364	95,780	89,170	6,610
0071	Debt service	142,265	142,265	142,164	101
Capital outlay					
0081	Facilities acquisition and construction	91,010	91,010	89,150	1,860
Intergovernmental					
0095	Payments to juvenile justice alternative education program	20,000	20,000	-	20,000
0099	Other intergovernmental charges	525,000	525,000	494,168	30,832
6030	Total expenditures	<u>76,431,523</u>	<u>76,431,523</u>	<u>75,291,616</u>	<u>1,139,907</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	3,199,432	3,199,432
Other Financing Sources (Uses)					
7912	Sale of real and personal property	-	-	724,900	-
7080	Total other financing sources (uses)	-	-	724,900	-
1200	Net Change in Fund Balances	-	-	3,924,332	3,199,432
0100	Fund Balance - September 1 (Beginning)	27,649,746	27,649,746	27,649,746	-
3000	Fund Balance - August 31 (Ending)	<u>\$ 27,649,746</u>	<u>\$ 27,649,746</u>	<u>\$ 31,574,078</u>	<u>\$ 3,924,332</u>

Frenship Independent School District

Schedule of District's Proportionate Share of the Net Pension Liability – Teacher Retirement System of Texas
(Exhibit G-2)
Year Ended August 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.003299%	0.003200%	0.003658%	0.001562%
District's proportionate share of net pension liability	\$ 10,547,891	\$ 12,092,288	\$ 11,897,514	\$ 4,171,597
State's proportionate share of the net pension liability associated with the District	<u>27,358,022</u>	<u>31,596,122</u>	<u>29,454,428</u>	<u>24,332,846</u>
Total	<u>\$ 37,905,913</u>	<u>\$ 43,688,410</u>	<u>\$ 41,351,942</u>	<u>\$ 28,504,443</u>
District's covered payroll	\$ 47,390,280	\$ 44,427,147	\$ 42,471,132	\$ 39,228,465
District's proportionate share of net pension liability as a percentage of its covered payroll	22.26%	27.22%	28.01%	10.63%
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.

Frenship Independent School District
Schedule of District's Contributions – Teacher Retirement System of Texas (Exhibit G-3)
Year Ended August 31, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 1,157,525	\$ 1,070,429	\$ 1,015,357	\$ 996,615
Contribution in relation to the contractually required contribution	<u>(1,157,525)</u>	<u>(1,070,429)</u>	<u>(1,015,357)</u>	<u>(996,615)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 53,766,453	\$ 47,390,280	\$ 44,427,147	\$ 42,471,132
Contributions as a percentage of covered payroll	2.15%	2.26%	2.29%	2.35%

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.

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

	2018
District's proportion of the net OPEB liability	0.056031%
District's proportionate share of net OPEB liability	\$ 24,365,713
State's proportionate share of the net OPEB liability associated with the District	37,593,158
Total	\$ 61,958,871
District's covered-employee payroll	\$ 47,390,280
District's proportionate share of net OPEB liability as a percentage of its covered-employee payroll	51.42%
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 with is August 31 of the preceding fiscal year.

Note: Plan information was unavailable prior to 2018.

Frenship Independent School District
Schedule of the District's Contributions to the OPEB (Exhibit G-5)
Year Ended August 31, 2018

	<u>2018</u>
Contractually required contribution	\$ 408,084
Contribution in relation to the contractually required contribution	<u>(408,084)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
District's covered-employee payroll	53,766,453
Contributions as a percentage of covered-employee payroll	0.76%

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 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.

Once a budget is approved, it can be amended by function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law. Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budget amounts are as amended by the Board. All budget appropriations lapse at year end.

Note 2 - Net Pension Liability – Teachers Retirement System

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 are 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.



Other Supplementary Information
August 31, 2018

Frenship Independent School District

Data Control Codes		211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	244 Career and Technical - Basic Grant
	Assets				
1110	Cash and cash equivalents	\$ 15,772	\$ -	\$ 5,474	\$ 21,454
1240	Receivables from other governments	210,747	358,065	-	1,474
1260	Due from other funds	-	-	-	-
1290	Other receivables	-	-	-	-
1410	Prepayments	-	-	-	401
1000	Total assets	\$ 226,519	\$ 358,065	\$ 5,474	\$ 23,329
	Liabilities				
2110	Accounts payable	\$ -	\$ 11,173	\$ -	\$ -
2160	Accrued wages payable	62,134	122,067	-	-
2170	Due to other funds	155,800	223,916	5,474	23,329
2180	Due to other governments	8,585	909	-	-
2300	Unearned revenues	-	-	-	-
2000	Total liabilities	226,519	358,065	5,474	23,329
	Fund Balances				
3430	Nonspendable - prepaid items	-	-	-	401
3450	Restricted - federal or state funds grant	-	-	-	-
3545	Committed - other	-	-	-	-
3600	Unassigned	-	-	-	(401)
3000	Total fund balances	-	-	-	-
4000	Total liabilities, deferred inflows and fund balances	\$ 226,519	\$ 358,065	\$ 5,474	\$ 23,329

Frenship Independent School District
Combining Balance Sheet – Nonmajor Governmental Funds (Exhibit H-1)
Year Ended August 31, 2018

255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Other Federal Special Revenue Funds	397 Advanced Placement Services	410 Textbook & Kindergarten Material	411 Technology Allotment
\$ 32,687	\$ -	\$ 71,016	\$ -	\$ 189,888	\$ 22
46,678	11,652	-	-	60,891	-
3,532	-	-	-	-	-
-	38	-	-	-	-
-	-	-	-	-	-
<u>\$ 82,897</u>	<u>\$ 11,690</u>	<u>\$ 71,016</u>	<u>\$ -</u>	<u>\$ 250,779</u>	<u>\$ 22</u>
\$ 439	\$ 130	\$ 55	\$ -	\$ 250,779	\$ -
-	-	-	-	-	-
82,458	11,560	68,105	-	-	-
-	-	-	-	-	-
-	-	2,856	-	-	-
<u>82,897</u>	<u>11,690</u>	<u>71,016</u>	<u>-</u>	<u>250,779</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	22
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 82,897</u>	<u>\$ 11,690</u>	<u>\$ 71,016</u>	<u>\$ -</u>	<u>\$ 250,779</u>	<u>\$ 22</u>

Frenship Independent School District
Combining Balance Sheet – Nonmajor Governmental Funds (Exhibit H-1)
Year Ended August 31, 2018

Data Control Codes		429 Other Federal Special Revenue Funds	461 Campus Activity Funds	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
Assets					
1110	Cash and cash equivalents	\$ 197,348	\$ 304,699	\$ 125,523	\$ 963,883
1240	Receivables from other governments	-	-	-	689,507
1260	Due from other funds	-	-	-	3,532
1290	Other receivables	-	5,261	7,848	13,147
1410	Prepayments	-	-	-	401
1000	Total assets	<u>\$ 197,348</u>	<u>\$ 309,960</u>	<u>\$ 133,371</u>	<u>\$ 1,670,470</u>
Liabilities					
2110	Accounts payable	\$ 423	\$ 21,734	\$ 5,751	\$ 290,484
2160	Accrued wages payable	-	-	-	184,201
2170	Due to other funds	190,595	6,457	9,207	776,901
2180	Due to other governments	-	-	-	9,494
2300	Unearned revenues	6,330	-	118,413	127,599
2000	Total liabilities	<u>197,348</u>	<u>28,191</u>	<u>133,371</u>	<u>1,388,679</u>
Fund Balances					
3430	Nonspendable - prepaid items	-	-	-	401
3450	Restricted - federal or state funds grant	-	-	-	22
3545	Committed - other	-	281,769	-	281,769
3600	Unassigned	-	-	-	(401)
3000	Total fund balances	<u>-</u>	<u>281,769</u>	<u>-</u>	<u>281,791</u>
4000	Total liabilities, deferred inflows and fund balances	<u>\$ 197,348</u>	<u>\$ 309,960</u>	<u>\$ 133,371</u>	<u>\$ 1,670,470</u>

Data Control Codes		211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	244 Career and Technical - Basic Grant
	Revenues				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	1,124,203	1,407,028	-	58,439
5020	Total revenues	1,124,203	1,407,028	-	58,439
	Expenditures				
	Current				
0011	Instruction	959,114	794,859	-	58,439
0013	Curriculum and instructional staff development	154,182	11,050	-	-
0021	Instructional leadership	2,240	715	-	-
0023	School leadership	431	-	-	-
0031	Guidance, counseling and evaluation services	-	600,299	-	-
0036	Extracurricular activities	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0052	Security and monitoring services	-	-	-	-
0053	Data processing services	-	-	-	-
0061	Community services	8,236	105	-	-
6030	Total expenditures	1,124,203	1,407,028	-	58,439
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

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

255 ESEA II, A Training and Recruiting	263 Title III, A English Language Acquisition	289 Other Federal Special Revenue Funds	397 Advanced Placement Services	410 Textbook & Kindergarten Material	411 Technology Allotment
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	438	832,099	-
120,118	42,016	15,465	-	-	-
120,118	42,016	15,465	438	832,099	-
-	26,039	15,465	-	755,273	-
120,118	12,667	-	438	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	76,826	-
-	3,310	-	-	-	-
120,118	42,016	15,465	438	832,099	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	22
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22

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

Data Control Codes		429 Other Federal Special Revenue Funds	461 Campus Activity Funds	499 Other Local Special Revenue Funds	Total Nonmajor Governmental Funds
Revenues					
5700	Local and intermediate sources	\$ -	\$ 415,909	\$ 251,658	\$ 667,567
5800	State program revenues	1,772	170	9,148	843,627
5900	Federal program revenues	-	-	-	2,767,269
5020	Total revenues	<u>1,772</u>	<u>416,079</u>	<u>260,806</u>	<u>4,278,463</u>
Expenditures					
Current					
0011	Instruction	1,772	43,128	183,702	2,837,791
0013	Curriculum and instructional staff development	-	2,635	30,602	331,692
0021	Instructional leadership	-	-	-	2,955
0023	School leadership	-	104,117	3,538	108,086
0031	Guidance, counseling and evaluation services	-	-	41,364	641,663
0036	Extracurricular activities	-	204,787	-	204,787
0051	Plant maintenance and operations	-	11,428	-	11,428
0052	Security and monitoring services	-	1,995	-	1,995
0053	Data processing services	-	-	-	76,826
0061	Community services	-	5,225	1,600	18,476
6030	Total expenditures	<u>1,772</u>	<u>373,315</u>	<u>260,806</u>	<u>4,235,699</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>42,764</u>	<u>-</u>	<u>42,764</u>
1200	Net Change in Fund Balance	-	42,764	-	42,764
0100	Fund Balance - September 1 (Beginning)	-	239,005	-	239,027
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 281,769</u>	<u>\$ -</u>	<u>\$ 281,791</u>



Required TEA Schedules
August 31, 2018

Frenship Independent School District

<u>Last Ten Years Ended August 31</u>	1	2	3
	<u>Tax Rates</u>		Assessed/ Appraised Value for School Tax Purposes
	<u>Maintenance</u>	<u>Debt Service</u>	
2009 (and prior years)	1.040000	0.460000	\$ 2,195,849,461
2010	1.040050	0.458700	2,306,627,139
2011	1.040050	0.460000	2,383,627,671
2012	1.040050	0.460000	2,475,162,929
2013	1.040050	0.460000	2,639,507,416
2014	1.040050	0.460000	2,816,531,927
2015	1.040050	0.480000	3,022,248,029
2016	1.040050	0.460000	3,220,413,608
2017	1.040050	0.450000	3,525,454,900
2018 (school year under audit)	1.060050	0.430000	3,802,392,081
1000 Totals			

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

10	20	31	32	40	50
Beginning Balance September 1, 2017	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance August 31, 2018
\$ 249,508		\$ 4,395	\$ 1,783	\$ (107,212)	\$ 136,118
53,743		1,210	491	(668)	51,374
47,122		1,328	539	(991)	44,264
41,286		2,008	815	(983)	37,480
59,070		2,346	952	(1,244)	54,528
60,601		4,958	2,011	(282)	53,350
79,688		8,360	3,391	507	68,444
156,623		23,049	9,350	(7,145)	117,079
432,774		29,601	12,008	(208,669)	182,496
<u>-</u>	<u>56,655,642</u>	<u>39,864,145</u>	<u>16,171,304</u>	<u>(157,560)</u>	<u>462,633</u>
<u>\$ 1,180,415</u>	<u>\$ 56,655,642</u>	<u>\$ 39,941,400</u>	<u>\$ 16,202,644</u>	<u>\$ (484,247)</u>	<u>\$ 1,207,766</u>

Frenship Independent School District
 Budgetary Comparison Schedule – Child Nutrition Fund (Exhibit J-4)
 Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance with Final Budget
		Original	Final		Positive or (Negative)
	Revenues				
5700	Total local and intermediate sources	\$ 1,351,578	\$ 1,351,578	\$ 1,516,789	\$ 165,211
5800	State program revenues	24,503	24,503	-	(24,503)
5020	Total revenues	1,376,081	1,376,081	1,516,789	140,708
	Expenses				
	Current				
0035	Food service	3,729,946	3,729,946	4,074,823	(344,877)
6030	Total expenses	3,729,946	3,729,946	4,074,823	(344,877)
	Excess (Deficiency) of Revenue				
1200	Over (Under) Expenses	(2,353,865)	(2,353,865)	(2,558,034)	(204,169)
	Other Financing Sources (Uses)				
7952	National school breakfast program	501,180	501,180	524,856	23,676
7953	National school lunch program	1,656,000	1,656,000	1,743,024	87,024
7954	Donated commodities (USDA)	193,185	193,185	204,343	11,158
7955	Investment income	3,500	3,500	12,683	9,183
7080	Total other financing sources (uses)	2,353,865	2,353,865	2,484,906	131,041
1200	Change in Net Position	-	-	(73,128)	(73,128)
0100	Net Position, September 1 (Beginning)	1,403,252	1,403,252	1,403,252	-
3000	Net Position, August 31 (Ending)	\$ 1,403,252	\$ 1,403,252	\$ 1,330,124	\$ (73,128)

Frenship Independent School District
 Budgetary Comparison Schedule – Debt Service Fund (Exhibit J-5)
 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	Total local and intermediate sources	\$ 16,165,241	\$ 16,165,241	\$ 16,522,549	\$ 357,308
5800	State program revenues	353,372	353,372	377,470	24,098
5020	Total revenues	16,518,613	16,518,613	16,900,019	381,406
	Expenditures				
	Debt service				
0071	Principal on long term debt	5,945,415	5,945,415	4,945,414	1,000,001
0072	Interest on long term debt	10,149,123	10,149,123	10,149,124	(1)
0073	Bond issuance cost and fees	20,000	20,000	24,850	(4,850)
6030	Total expenditures	16,114,538	16,114,538	15,119,388	995,150
1200	Net Change in Fund Balances	404,075	404,075	1,780,631	1,376,556
0100	Fund Balance, September 1 (Beginning)	7,687,485	7,687,485	7,687,485	-
3000	Fund Balance, August 31 (Ending)	\$ 8,091,560	\$ 8,091,560	\$ 9,468,116	\$ 1,376,556



Federal Award Section
August 31, 2018

Frenship 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

The Board of Trustees
Frenship Independent School District
Wolfforth, Texas

We have audited, 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, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Frenship 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 December 6, 2018.

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 over financial reporting 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 financial reporting 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
December 6, 2018



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

The Board of Trustees
Frenship Independent School District
Wolfforth, Texas

Report on Compliance for the Major Federal Program

We have audited Frenship 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 the 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 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 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.

Opinion on the Major Federal Program

In our opinion, 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 for the year ended August 31, 2018.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the 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.

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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

The image shows a handwritten signature in cursive script that reads "Eide Bailly LLP". The signature is written in black ink and is positioned in the lower-left area of the page.

Abilene, Texas
December 6, 2018

Section 1. Summary of Auditor's Results

Financial Statements

An unmodified opinion was issued on the financial statements.

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?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None Reported

An unmodified opinion was issued on compliance for major programs

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance?	No
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Identification of Major Programs:

Special Education Cluster (84.027)

Dollar threshold used to distinguish between type A and type B federal programs	\$750,000
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Auditee qualified as a low-risk auditee?	Yes
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Section 2. Findings Related to the Financial Statements which are Required to be Reported in Accordance with *Government Auditing Standards*

The audit disclosed no findings required to be reported.

Section 3. Findings and Questioned Costs for Federal Awards Required to be Reported Under Uniform Guidance

The audit disclosed no findings and questioned costs required to be reported.

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

(1) Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. Department of Education			
Passed through Texas Education Agency			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18610101152907	\$ 1,080,978
ESEA, Title I, Part A - Improving Basic Programs	84.010A	19610101152907	<u>74,011</u>
Total CFDA Number 84.010A			1,154,989
IDEA - Part B, Formula *	84.027	186600011529076600	1,320,486
IDEA - Part B, Formula *	84.027	196600011529076600	<u>128,471</u>
Total Special Education Cluster			1,448,957
Career and Technical - Basic Grant	84.048	18420006152907	59,913
Summer School LEP	84.369A	69551702	1,187
Title III, Part A - English Language Acquisition	84.365A	18671001152907	43,123
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	18694501152907	127,090
Title IV, Part A	84.424A	18680101152907	<u>14,780</u>
Total passed through Texas Education Agency			<u>2,850,039</u>
Total Department of Education			<u><u>\$ 2,850,039</u></u>

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

(1) Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. Department of Agriculture			
Passed through Texas Education Agency			
Child Nutrition Cluster			
Passed through Texas Education Agency			
School Breakfast Program	10.553	71401801	\$ 524,856
National School Lunch Program - cash assistance	10.555	71301801	<u>1,743,024</u>
Total passed through Texas Education Agency			2,267,880
Passed through Texas Department of Agriculture			
National School Lunch Program - noncash assistance	10.555		<u>204,343</u>
Total passed through Texas Department of Agriculture			<u>204,343</u>
Total Child Nutrition Cluster			<u>2,472,223</u>
Total Department of Agriculture			<u>2,472,223</u>
Total Expenditures of Federal Awards			<u><u>\$ 5,322,262</u></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	\$ 5,322,262
School Health and Related Services (SHARS)	1,161,388
Enterprise Fund Revenue (NSLP)	(2,472,223)
Federal in lieu of taxes	<u>353,361</u>
Federal revenues - Exhibit C-2	<u><u>\$ 4,364,788</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 award.

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

<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 default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year-end.	\$ 1,250,395
SF11	Net Pension Assets (1920) at fiscal year-end	-
SF12	Net Pension Liabilities (2540) at fiscal year-end	\$10,547,891
SF13	Pension Expense (6147) at fiscal year-end	-