

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2018

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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CERTIFICATE OF BOARD

Santa Gertrudis Independent School District
Name of School District

Kleberg
County

137-904
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's reports of the above named school district were reviewed and ___approved
- ___disapproved for the year ended August 31, 2018, at a meeting of the board of school trustees of such school district on the
___ day of _____, 2018.

Signature of Board Secretary

Signature of Board President

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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Independent Auditor's Report

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Board of Trustees
Santa Gertrudis Independent School District
P.O. Box 592
Kingsville, Texas 78364

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for Santa Gertrudis Independent School District (the "District") as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Santa Gertrudis Independent School District as of August 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note T to the financial statements, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule for the General Fund, Schedule of District's Proportionate Share of the Net Pension Liability (TRS), Schedule of District Contributions to TRS, Schedule of District's Proportionate Share of the Net OPEB Liability (TRS) and Schedule of District OPEB Contributions to TRS as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedure to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the TEA required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements and the TEA required schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

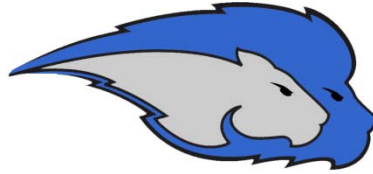
Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 24, 2018, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Cameron L. Gulley
Certified Public Accountant

October 24, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Santa Gertrudis Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2018. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's net position and changes in them. The District's net position (the net difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully

assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the District into one activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's fund type - governmental - use the following accounting approaches.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 16 and 17. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities decreased from \$10,923,009 to \$8,443,425. Implementation of new accounting pronouncement GASB Statement No. 75 related to accruals of other post-employment benefit liabilities (OPEB) was the primary reason behind the significant decrease in net position for the year. The net effect of GASB 75 on current year net position was approximately (\$2.8) million. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from \$4,091,356 to \$1,329,266 due to the effects of GASB 75. Current and other assets increased by \$72,261 due to increases in cash by \$558,000 offset by reductions in receivables by \$490,000. Capital assets decreased by \$302,025 due to current year depreciation expense in excess of asset additions. Long-term liabilities increased by \$1,212,754 due to the effects of GASB 75 offset by principal retired on outstanding debt. Other liabilities decreased by \$8,510 due to ending accrued liabilities. Deferred resource outflows related to TRS net pension and OPEB liabilities decreased by \$87,850 and deferred resource inflows related to TRS net pension and OPEB liabilities increased by \$957,726.

The District's total revenues were \$1,617,259 less than last year. Operating grants and contributions were lower by \$1.2 million due primarily to the effects of negative on-behalf revenue related to GASB 75. Charges for services were lower by \$200,000 due to loss of tuition fees from other districts. Decreases in tax revenues of \$278,000 were due to valuation decreases by 10%. State revenues increased by \$68,000 due to higher student mandated programs (primarily in career and technology classes).

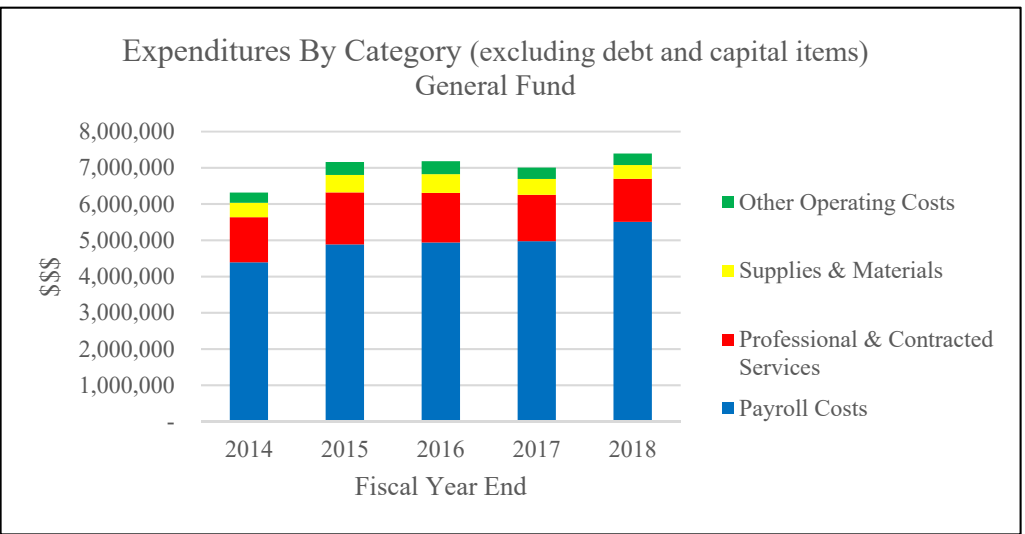
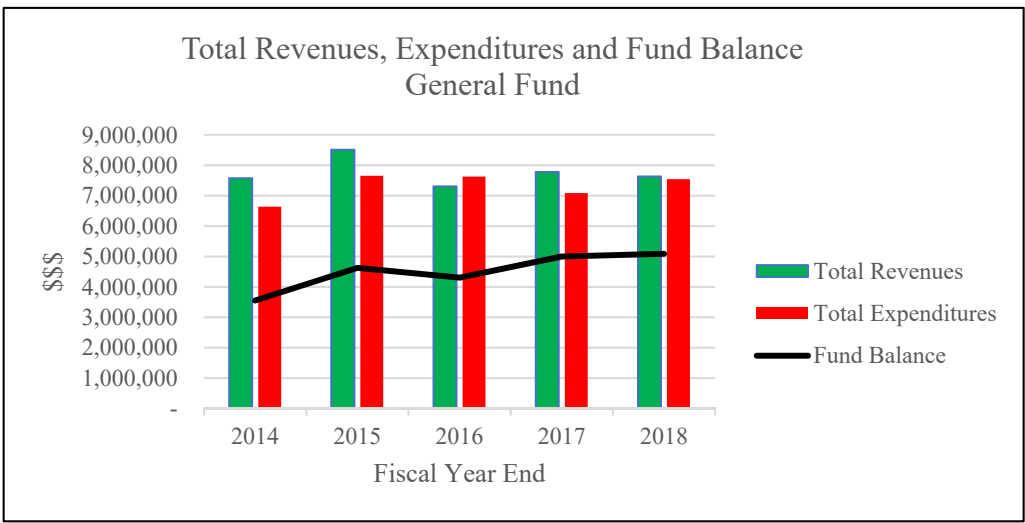
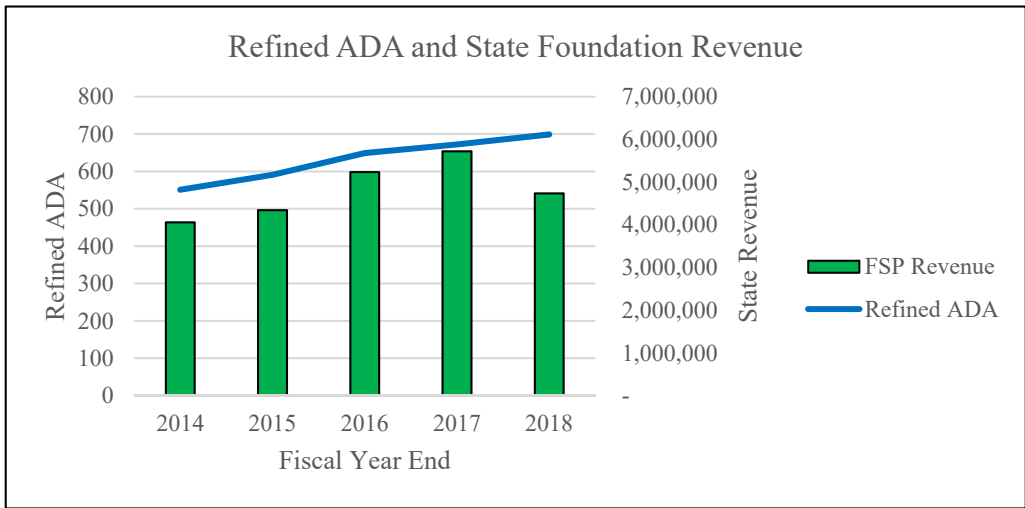
Changes in expenses for the year are not comparable to prior year due to the overall effects of GASB 75 on current year expenses. As stated previously, current year on-behalf activity relative to last year was negative by \$1.24 million. Therefore, nearly every functional category was affected by this significant net decrease in expenses.

Excluding the effects on expenses of GASB 75, total expenses increased by \$414,000. Payroll expenses increased by \$499,000 as the main contributor to the overall increase in expenses offset other operating expenses attributable mainly to flow-thru student tuition fee payments related to the lost revenue discussed above. The net increase in payroll expenses affected the following functional categories: instruction by \$138,000; instructional and school leadership by \$162,000; student support services by \$183,000; extra-curricular activities by \$53,000; general administration by \$32,000. Decreases in payroll expenses affected the following functional categories: child nutrition by \$24,000 and facilities maintenance and operations by \$45,000.

	Governmental Activities 2018	Governmental Activities 2017	Variance Increase/ (Decrease)
Current and other assets	\$ 5,599,744	\$ 5,527,483	\$ 72,261
Capital assets	9,981,229	10,283,254	(302,025)
Deferred resource outflows for TRS	315,968	403,818	(87,850)
Total assets and deferred resource outflows	15,896,941	16,214,555	(317,614)
Long-term liabilities	6,338,731	5,125,977	1,212,754
Other liabilities	79,149	87,659	(8,510)
Deferred resource inflows for TRS	1,035,636	77,910	957,726
Total liabilities and deferred resource inflows	7,453,516	5,291,546	2,161,970
Net position:			
Net investment in capital assets	6,759,078	6,509,645	249,433
Restricted for federal and state programs	9,980	0	9,980
Restricted for debt service	345,101	322,008	23,093
Unrestricted	1,329,266	4,091,356	(2,762,090)
Total net position	\$ 8,443,425	\$ 10,923,009	\$ (2,479,584)

	Governmental Activities 2018	Governmental Activities 2017	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 324,495	\$ 523,814	\$ (199,319)
Operating grants and contributions	(580,515)	632,318	(1,212,833)
General Revenues:			
Property taxes	1,599,971	1,877,948	(277,977)
State aid - formula grants	6,252,899	6,185,045	67,854
Other	24,455	19,439	5,016
Total Revenues	7,621,305	9,238,564	(1,617,259)
Expenses:			
Instruction, curriculum and media services	2,827,153	4,095,525	1,268,372
Instructional and school leadership	549,935	621,793	71,858
Student support services	425,157	362,974	(62,183)
Child nutrition	311,731	377,560	65,829
Extracurricular activities	593,887	760,070	166,183
General administration	363,827	368,689	4,862
Plant maintenance, security & data processing	1,365,635	1,599,034	233,399
Community service	3,880	1,778	(2,102)
Debt service	109,259	126,955	17,696
Other intergovernmental charges	41,877	44,223	2,346
Total Expenses	6,592,341	8,358,601	1,766,260
Increase (Decrease) in Net Position	1,028,964	879,963	149,001
Net Position - beginning of year	10,923,009	10,043,046	879,963
Prior period adjustment	(3,508,548)	0	(3,508,548)
Net Position - end of year	\$ 8,443,425	\$ 10,923,009	\$ (2,479,584)

The following charts depict trend information for the past five years.



THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$5,519,784, an increase of \$121,828 in the District's Governmental Funds from last year's fund balance of \$5,397,956. The primary reasons for the net increase are similar to the narrative related to the tables above. The major exceptions are depreciation expense which is not charged to the governmental funds and the net effect relative to GASB 68 and 75 whose impacts are only at the government-wide level financial statements. The specific variances in the changes in fund balance versus the change in net position are detailed out on Exhibit C-4 on the accompanying general purpose financial statements.

The Board of Trustees revised the District's budget several times during the year. Most budget amendments were for increased personnel costs which affected the following functional categories: school leadership; guidance, counseling and evaluation services; health services; extra-curricular activities; general administration and data processing services. Budget increases in facilities maintenance and operations were due to building improvements and an elementary playground.

The District's General Fund balance of \$5,087,887 reported on pages 14 and 41 differs from the General Fund's budgetary fund balance of \$3,362,216 reported in the budgetary comparison schedule on page 41. Temporary state revenues received due to loss of state aid funding formula for Additional State Aid for Tax Reduction ("ASATR") which expired at the beginning of the fiscal year totaled approximately \$1.07 million was not built into the current year budget. Additionally, corrections to student PEIMS data from previous years resulted in approximately \$350,000 additional state aid not budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2018, the District had \$9,981,229 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Following were asset additions for the year.

Asset additions:

Elementary playground	\$	105,171
Network upgrades		42,096
Total asset additions	\$	<u>147,267</u>

Debt

At year-end, the District had on outstanding long-term liability in the form of a general obligation bond that was obtained in order to finance a new elementary school. Future payments will approximate \$661,000 to \$721,000 annually until fully retired in 2023. Outstanding debt compared to last year is as follows:

	2018	2017
General obligation bonds, series 2008	<u>\$ 3,225,000</u>	<u>\$ 3,775,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District should continue to maintain its financial health. A budget adopted for 2018-19 reflected tax rates at \$1.04 for maintenance and operations and \$0.3248 for debt service. General fund revenues were budgeted at \$7.31 million and expenditures were budgeted at approximately \$7.59 million for a projected loss of \$276,000. Therefore, the District expects that its general fund balance will approximate \$4.8 million at August 31, 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show 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 business office at: Santa Gertrudis Independent School District, P.O. Box 592, Kingsville, Texas 78364.

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BASIC FINANCIAL STATEMENTS

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 3,946,346
1120 Current Investments	971,636
1220 Property Taxes Receivable (Delinquent)	19,646
1230 Allowance for Uncollectible Taxes	(10,289)
1240 Due from Other Governments	618,946
1290 Other Receivables, net	5,200
1490 Other Current Assets	48,259
Capital Assets:	
1520 Buildings, Net	9,446,347
1530 Furniture and Equipment, Net	534,882
1000 Total Assets	15,580,973
DEFERRED OUTFLOWS OF RESOURCES	
1703 Deferred Outflow Related to TRS OPEB	35,801
1705 Deferred Outflow Related to TRS Pension	280,167
1700 Total Deferred Outflows of Resources	315,968
LIABILITIES	
2110 Accounts Payable	38,235
2140 Interest Payable	8,546
2150 Payroll Deductions & Withholdings	1,941
2160 Accrued Wages Payable	29,612
2177 Due to Fiduciary Funds	142
2200 Accrued Expenses	673
Noncurrent Liabilities	
2501 Due Within One Year	580,000
2502 Due in More Than One Year	2,645,000
2540 Net Pension Liability (District's Share)	1,113,067
2545 Net OPEB Liability (District's Share)	2,000,664
2000 Total Liabilities	6,417,880
DEFERRED INFLOWS OF RESOURCES	
2603 Deferred Inflow Related to TRS OPEB	836,881
2605 Deferred Inflow Related to TRS Pension	198,755
2600 Total Deferred Inflows of Resources	1,035,636
NET POSITION	
3200 Net Investment in Capital Assets	6,759,078
3820 Restricted for Federal and State Programs	9,980
3850 Restricted for Debt Service	345,101
3900 Unrestricted	1,329,266
3000 Total Net Position	\$ 8,443,425

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 2,762,509	\$ 51,034	\$ (378,501)	\$ (3,089,976)
12 Instructional Resources and Media Services	42,427	-	(5,976)	(48,403)
13 Curriculum and Staff Development	22,217	-	2,811	(19,406)
21 Instructional Leadership	117,801	-	(19,266)	(137,067)
23 School Leadership	432,134	-	(97,530)	(529,664)
31 Guidance, Counseling and Evaluation Services	156,782	-	(39,250)	(196,032)
33 Health Services	66,667	-	(19,280)	(85,947)
34 Student (Pupil) Transportation	201,708	-	(11,310)	(213,018)
35 Food Services	311,731	141,294	162,913	(7,524)
36 Extracurricular Activities	593,887	131,907	(57,310)	(519,290)
41 General Administration	363,827	-	(22,465)	(386,292)
51 Facilities Maintenance and Operations	1,137,439	260	(35,122)	(1,172,301)
52 Security and Monitoring Services	19,275	-	(245)	(19,520)
53 Data Processing Services	208,921	-	(59,984)	(268,905)
61 Community Services	3,880	-	-	(3,880)
72 Debt Service - Interest on Long Term Debt	109,259	-	-	(109,259)
99 Other Intergovernmental Charges	41,877	-	-	(41,877)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 6,592,341</u>	<u>\$ 324,495</u>	<u>\$ (580,515)</u>	<u>\$ (6,848,361)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			1,215,549
DT	Property Taxes, Levied for Debt Service			384,422
SF	State Aid - Formula Grants			6,252,899
IE	Investment Earnings			20,940
MI	Miscellaneous Local and Intermediate Revenue			1,515
FR	Gain (Loss) on Sale of Assets			2,000
TR	Total General Revenues & Transfers			<u>7,877,325</u>
CN	Change in Net Position			1,028,964
NB	Net Position - Beginning			10,923,009
PA	Prior Period Adjustment			(3,508,548)
NE	Net Position--Ending			<u>\$ 8,443,425</u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110	\$ 3,524,697	\$ 337,023	\$ 84,626	\$ 3,946,346
1120	971,636	-	-	971,636
1220	15,287	4,359	-	19,646
1230	(8,257)	(2,032)	-	(10,289)
1240	583,535	12,156	23,255	618,946
1260	24,341	-	-	24,341
1290	-	-	5,200	5,200
1490	48,259	-	-	48,259
1000	<u>\$ 5,159,498</u>	<u>\$ 351,506</u>	<u>\$ 113,081</u>	<u>\$ 5,624,085</u>
LIABILITIES				
2110	\$ 32,504	\$ -	\$ 5,731	\$ 38,235
2150	1,941	-	-	1,941
2160	29,348	-	264	29,612
2170	142	6,405	17,936	24,483
2200	646	-	27	673
2000	<u>64,581</u>	<u>6,405</u>	<u>23,958</u>	<u>94,944</u>
DEFERRED INFLOWS OF RESOURCES				
2601	7,030	2,327	-	9,357
2600	<u>7,030</u>	<u>2,327</u>	<u>-</u>	<u>9,357</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3430	48,259	-	-	48,259
Restricted Fund Balance:				
3450	-	-	9,980	9,980
3480	-	342,774	-	342,774
3600	5,039,628	-	79,143	5,118,771
3000	<u>5,087,887</u>	<u>342,774</u>	<u>89,123</u>	<u>5,519,784</u>
4000	<u>\$ 5,159,498</u>	<u>\$ 351,506</u>	<u>\$ 113,081</u>	<u>\$ 5,624,085</u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 AUGUST 31, 2018

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	5,519,784
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$14,561,311 and the accumulated depreciation was (\$4,278,057). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		6,508,254
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 capital outlays and debt principal payments is to increase net position.		697,267
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$280,167, a deferred resource inflow in the amount of \$198,755 and a net pension liability in the amount of \$1,113,067.		(3,833,399)
<p>Also included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$35,801, a deferred resource inflow in the amount of \$836,881 and a net OPEB liability in the amount of \$2,000,664. The net effect of items related to GASB 68 and GASB 75 for pension and OPEB liabilities was a decrease in net position.</p>		
4 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(449,292)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		811
19 Net Position of Governmental Activities	\$	8,443,425

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,373,640	\$ 395,812	\$ 256,178	\$ 2,025,630
5800	State Program Revenues	6,256,100	310,082	106,096	6,672,278
5900	Federal Program Revenues	-	-	271,488	271,488
5020	Total Revenues	<u>7,629,740</u>	<u>705,894</u>	<u>633,762</u>	<u>8,969,396</u>
EXPENDITURES:					
Current:					
0011	Instruction	3,614,542	-	186,050	3,800,592
0012	Instructional Resources and Media Services	43,696	-	7,332	51,028
0013	Curriculum and Instructional Staff Development	18,247	-	3,001	21,248
0021	Instructional Leadership	149,931	-	-	149,931
0023	School Leadership	542,211	-	46,882	589,093
0031	Guidance, Counseling and Evaluation Services	217,862	-	-	217,862
0033	Health Services	94,521	-	-	94,521
0034	Student (Pupil) Transportation	186,446	-	-	186,446
0035	Food Services	-	-	330,713	330,713
0036	Extracurricular Activities	625,865	-	70,450	696,315
0041	General Administration	395,717	-	182	395,899
0051	Facilities Maintenance and Operations	1,295,201	-	-	1,295,201
0052	Security and Monitoring Services	18,626	-	-	18,626
0053	Data Processing Services	295,619	-	-	295,619
0061	Community Services	440	-	3,440	3,880
Debt Service:					
0071	Principal on Long Term Debt	-	550,000	-	550,000
0072	Interest on Long Term Debt	-	110,717	-	110,717
Intergovernmental:					
0099	Other Intergovernmental Charges	41,877	-	-	41,877
6030	Total Expenditures	<u>7,540,801</u>	<u>660,717</u>	<u>648,050</u>	<u>8,849,568</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	88,939	45,177	(14,288)	119,828
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	2,000	-	-	2,000
1200	Net Change in Fund Balances	90,939	45,177	(14,288)	121,828
0100	Fund Balance - September 1 (Beginning)	<u>4,996,948</u>	<u>297,597</u>	<u>103,411</u>	<u>5,397,956</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 5,087,887</u>	<u>\$ 342,774</u>	<u>\$ 89,123</u>	<u>\$ 5,519,784</u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	121,828
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase net position.		697,267
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.		(449,292)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(41,057)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$122,695. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$113,493. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$15,788.		700,218
Similarly, GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$35,488. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$23,524. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by (\$694,840). The net effect for both GASB 68 and GASB 75 related to pension and OPEB expenses is an increase in the change in net position.		
Change in Net Position of Governmental Activities	<u>\$</u>	<u>1,028,964</u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2018

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 8,699	\$ 42,089
Due from Other Funds	-	142
Total Assets	8,699	\$ 42,231
LIABILITIES		
Due to Student Groups	-	\$ 42,231
Total Liabilities	-	\$ 42,231
NET POSITION		
Restricted for Scholarships	8,699	
Total Net Position	\$ 8,699	

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 13,006
Total Additions	<u>13,006</u>
DEDUCTIONS:	
Other Operating Costs	<u>14,000</u>
Total Deductions	<u>14,000</u>
Change in Net Position	(994)
Total Net Position - September 1 (Beginning)	<u>9,693</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 8,699</u></u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Santa Gertrudis Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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

Other Post-Employment Benefits (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 related 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.

The District applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-

wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

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

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

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

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund.** The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

3. **Special Revenue Funds.** The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Funds:

4. **Private Purpose Trust Funds.** The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the "Laureles Scholarship Fund."
5. **Agency Funds.** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Santa Gertrudis Student Activity Fund."

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

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

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

<u>Asset:</u>	<u>Years</u>
Buildings	25
Building Improvements	25
Vehicles	10
Equipment	7
Technology Equipment	5

6. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's board. Assignments of fund balance are amounts set aside by the District's superintendent or his designee with the intent they be used for specific purposes.
7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. In general governments are required to report investments at fair value. These methods are disclosed in section III.A. below.
9. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Items reported as deferred outflows of resources are as follows:

Deferred charges related to TRS retirement	\$ 280,167
Deferred charges related to TRS OPEB	\$ 35,801

10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Items reported as deferred inflows of resources are as follows:

Deferred charges related to TRS retirement	\$ 1,113,067
Deferred charges related to TRS OPEB	\$ 2,000,664

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other reports are in Exhibits J4 and J5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. (However, none of these were significant.)
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the District had the following functional categories in the General Fund that exceeded its final amended budget by more than \$2,500:

Functional Category	Amount Over Budget	Explanation
6023 - School leadership	\$ 4,906	Actual expenditures exceeded budget related to ending accrued payroll.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits. The District was not exposed to custodial credit risk.

Foreign Currency Risk. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

As of August 31, 2018, the following are the District's cash and cash equivalents (including it's student activity and private purpose trust fund) with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity < 1 Yr	Maturity 1-10 Yrs	Maturity > 10 Yrs	Credit Rating
Cash:						
Money market and FDIC insured accounts	\$ 2,502,453	63%	\$ 2,502,453			N/A
Investment pools	1,494,681	37%	1,494,681			AAA
Total Cash and Cash Equivalents	\$ 3,997,134	100%	\$ 3,997,134			
Investments:						
Government bonds	\$ 971,636	100%			\$ 971,636	AA+
Total Investments	\$ 971,636	100%			\$ 971,636	

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for the District are specified below:

Credit Risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in (list investments covered by the district's credit risk policy, such as commercial paper, corporate bonds, mutual bond funds) to the top (or top 2 or 3) ratings issued by nationally recognized statistical rating organizations (NRSROs).As of August 31, 2018, all of the District's investments were rated AA+ by Standard & Poor's rating agency. Therefore, the District was not exposed to credit risk.

Custodial Credit Risk for Investments. To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent. The District was not exposed to custodial credit risk.

Concentration of Credit Risk. To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund

types than they are in the primary government. Usually this limitation is 20%. The District was not exposed to concentration of credit risk.

Interest Rate Risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires a review of its investment portfolio at least annually to determine whether market conditions pose an inherent risk of future interest rates either rising or falling which could significantly affect investment performance.

The District was exposed to interest rate risk for its municipal bond investments. However, the District’s intent is to hold the investments to maturity at which time the payout will be at par price regardless of interest rate market conditions. The District’s belief that the current investment market conditions warrant a greater inherent risk to maintain the status quo by maintaining investments in shorter-termed maturity investment vehicles that offer little to no rate of return.

Foreign Currency Risk for Investments. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in any foreign currency. Therefore, the District was not exposed to foreign currency risk.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurement in their entirety are categorized based on the lowest level input that is significant to the valuation. The District’s assessment of the significance of particular inputs to these fair value measurement requires judgement and considers factors specific to each asset or liability.

	Fair Value Measurements Using			
	Balance at 08/31/18	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by Fair Value Level:				
Debt Securities:				
Government bonds	\$ 971,636	\$ 971,636		
Total Debt Securities	971,636	971,636		
Total Investments by Fair Value Level	\$ 971,636	\$ 971,636		

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General Fund is based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

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

	Receivable	Payable	Purpose	Current?
General Fund	\$ 24,341	\$ 142	Temporary advances	Yes
Debt Service Fund		6,405	Temporary advances	Yes
Agency Fund	142		Temporary advances	Yes
Nonmajor Governmental Funds		17,936	Temporary advances	Yes
Total	<u>\$ 24,483</u>	<u>\$ 24,483</u>		

Interfund transfers for the year ended August 31, 2018 consisted of the following individual amounts:

None.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2018 were as follows:

	Property Taxes (net)	Other Government	Other Receivables	Total Receivables
Governmental Activities:				
General Fund	\$ 7,030	\$ 583,535		\$ 590,565
Debt Service Fund	2,327	12,156		14,483
Nonmajor Governmental Funds		23,255	5,200	28,455
Total Governmental Activities	<u>\$ 9,357</u>	<u>\$ 618,946</u>	<u>\$ 5,200</u>	<u>\$ 633,503</u>

Payables at August 31, 2018 were as follows:

	Accounts	Salaries and Benefits	Total Payables
Governmental Activities:			
General Fund	\$ 32,504	\$ 31,935	\$ 64,439
Nonmajor Governmental Funds	5,731	291	6,022
Total Governmental Activities	<u>\$ 38,235</u>	<u>\$ 32,226</u>	<u>\$ 70,461</u>

F. CAPITAL ASSET ACTIVITY

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

	Balance 8/31/17	Additions	Disposals	Balance 8/31/18
Governmental activities:				
Buildings and improvements	\$ 12,632,062			\$ 12,632,062
Furniture and equipment	1,929,249	147,267	132,740	1,943,776
Totals	<u>14,561,311</u>	<u>147,267</u>	<u>132,740</u>	<u>14,575,838</u>
Less accumulated depreciation for:				
Buildings and improvements	2,849,353	336,362		3,185,715
Furniture and equipment	1,428,704	112,930	132,740	1,408,894
Total accumulated depreciation	<u>4,278,057</u>	<u>449,292</u>	<u>132,740</u>	<u>4,594,609</u>
Governmental activities capital assets, net	<u>\$ 10,283,254</u>	<u>\$ (302,025)</u>	<u>\$ 0</u>	<u>\$ 9,981,229</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

11 - Instruction	\$ 185,640
12 - Instructional resources and media services	3,058
13 - Curriculum and instructional staff development	1,273
21 - Instructional leadership	8,986
23 - School leadership	35,305
31 - Guidance, counseling and evaluation services	13,057
33 - Health services	5,665
34 - Student (pupil) transportation	42,136
35 - Food services	19,820
36 - Extracurricular activities	41,731
41 - General administration	23,727
51 - Facilities maintenance and operations	50,061
52 - Security and monitoring services	1,116
53 - Data processing services	17,717
Total depreciation expense - governmental activities	<u>\$ 449,292</u>

G. BONDS AND LONG-TERM NOTES PAYABLE

The District accounts for long-term debts for maintenance purposes through the General Fund. Long-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from long-term loans are shown in the financial statements as non-current liabilities and principal payments as expenditures in the fund financial statements and reductions in liabilities in the government-wide financial statements.

Bonded indebtedness of the District is accounted for in the Statement of Net Position and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2017 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/17	Issued	Retired	Amounts Outstanding 8/31/18
Bonds Payable:						
Unlimited tax building bonds, series 2008	3.18%	\$ 7,500,000	<u>\$ 3,775,000</u>		\$ 550,000	<u>\$ 3,225,000</u>

H. DEBT SERVICE REQUIREMENTS - BONDS AND LONG-TERM NOTES PAYABLE

Future debt service requirements are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2019	\$ 580,000	\$ 93,333	\$ 673,333
2020	610,000	74,412	684,412
2021	645,000	54,458	699,458
2022	680,000	33,390	713,390
2023	710,000	11,289	721,289
Totals	<u>\$ 3,225,000</u>	<u>\$ 266,882</u>	<u>\$ 3,491,882</u>

I. DEFINED BENEFIT PENSION PLAN

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

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

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

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 179,336,534,819
Less: Plan Fiduciary Net Position	(147,361,922,120)
Net Pension Liability	<u>\$ 31,974,612,699</u>
 Net Position as a percentage of Total Pension Liability	 82.17%

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 grand fathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) 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. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2017 and 2018.

Contribution Rates		
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Current fiscal year District contributions	\$ 122,695
Current fiscal year Member contributions	\$ 349,241
2017 measurement year NECE contributions	\$ 227,002

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.

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

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

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5% including inflation
Benefit Changes During the Year	None
Ad hoc Post-Employment Benefit Changes	None

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term

expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

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

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

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%)
District's proportionate share of the net pension liability	\$ 1,876,411	\$ 1,113,067	\$ 477,459

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, the District reported a liability of \$1,113,067 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 1,113,067
State's proportionate share that is associated with the District	2,219,296
Total	\$ 3,332,363

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 District's proportion of the net

pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the District's proportion of the collective net pension liability was 0.0034810956% which was a decrease of 0.0000940051% 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 period.

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

For the year ended August 31, 2018, the District recognized pension expense of \$298,560 and revenue of \$169,279 for support provided by the Sate in the Government-Wide Statement of Activities.

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
Difference between expected and actual economic experiences	\$ 16,285	\$ 60,026
Changes in actuarial assumptions	50,702	29,026
Differences between projected and actual investment earnings		81,118
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	90,485	28,585
Total as of August 31, 2017 measurement date	\$ 157,472	\$ 198,755
Contributions paid to TRS subsequent to the measurement date	122,695	
Total as of August 31, 2018 fiscal year end	<u>\$ 280,167</u>	<u>\$ 198,755</u>

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

Fiscal year ended August 31,	Amount
2019	\$ (18,271)
2020	\$ 52,779
2021	\$ (23,731)
2022	\$ (42,793)
2023	\$ (4,516)
Thereafter	\$ (4,751)

J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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 benefit 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.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512)542-6592.

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 43,885,784,621
Less: plan fiduciary net position	399,535,986
Net OPEB liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.91%

Benefits Provided. TRS-Care provides a basic health insurance coverage (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-employment 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 Sept. 1, 2016 - Dec. 31, 2017			
	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ 0	\$ 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

* or surviving spouse

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 plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for the plan 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 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer 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%	0.75%
Federal/private funding remitted by employers	1.00%	1.25%

Current fiscal year District contributions	\$ 35,488
Current fiscal year member contributions	\$ 29,482
2017 measurement year NECE contributions	\$ 41,834

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 \$212.0 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 actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including mortality, and most of the economic assumptions are identical to those which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study of TRS.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates were based on the 2015 TRS of Texas Healthy Pensioner Mortality Tables.

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 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 for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 years.

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. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to

maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

Sensitivity of the Net OPEB Liability:

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 in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of net OPEB liability	\$ 2,361,281	\$ 2,000,664	\$ 1,710,810

Healthcare Cost Trend Rates 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 healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 1,665,753	\$ 2,000,664	\$ 2,440,110

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 \$2,000,664 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	\$ 2,000,664
State's proportionate share that is associated with the District	3,499,111
Total	<u>\$ 5,499,775</u>

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

At August 31, 2017 the District's proportion of the collective net OPEB liability was 0.0046006826%. Since this is the first year of implementation, the District does not have the 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 the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option 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 total OPEB liability.

In this valuation the impact of 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:

- 2018 thresholds of \$850/\$2,292 were indexed annual by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- 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 provision 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 (\$1,842,212) and revenue of (\$1,170,896) 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 Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual actuarial experience		\$ 41,765
Changes in actuarial assumptions		795,116
Differences between projected and actual investment earnings	304	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	9	
Total as of August 31, 2017 measurement date	\$ 313	\$ 836,881
Contributions paid to TRS subsequent to the measurement date	35,488	
Total as of August 31, 2018 fiscal year end	<u>\$ 35,801</u>	<u>\$ 836,881</u>

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

Year ended August 31,	Amount
2019	\$ (110,385)
2020	\$ (110,385)
2021	\$ (110,385)
2022	\$ (110,385)
2023	\$ (110,462)
Thereafter	\$ (284,566)

K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Texas Insurance Code Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a

publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by phoning the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The Contribution Rate for the State was 1.00% for 2016 and 2017 and 1.25% for 2018. The contribution rate for the district was 0.55% for 2016 and 2017 and 0.75% for 2018. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.0 % for 2016 and 2017 and 1.25% for 2018.

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf to the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2018, 2017 and 2016 are as follows:

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2018	0.65%	\$ 29,482	1.25%	\$ 56,695	0.75%	\$ 33,842
2017	0.65%	\$ 27,678	1.00%	\$ 42,582	0.55%	\$ 23,413
2016	0.65%	\$ 27,322	1.00%	\$ 42,036	0.55%	\$ 23,119

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. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2018, 2017 and 2016 were \$13,320, \$12,854 and \$16,258, respectively.

Active Employee Health Care Coverage

Plan Description. The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

L. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2018, was as follows:

	(restated) Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds Payable	\$ 3,775,000		\$ 550,000	\$ 3,225,000	\$ 580,000
Net Pension Liability	1,350,977	(123,820)	114,090	1,113,067	0
Net OPEB liability	3,532,072	(1,507,489)	23,919	2,000,664	0
Total	<u>\$ 8,658,049</u>	<u>\$ 1,631,309</u>	<u>\$ 688,009</u>	<u>\$ 6,338,731</u>	<u>\$ 580,000</u>

M. UNAVAILABLE/UNEARNED REVENUE

Unavailable and unearned revenue at year-end consisted of the following:

	Unavailable Revenue (levied but uncollected property taxes)
General Fund	\$ 7,030
Debt Service Fund	2,327
Total	<u>\$ 9,357</u>

N. DUE FROM STATE AND FEDERAL AGENCIES

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. They are reported on the combined financial statements as Due from Other Governments.

	State Entitlements	Federal Grants	Total
General	\$ 583,535		\$ 583,535
Debt Service Fund	12,156		12,156
Nonmajor Governmental Funds		23,255	23,255
Net Total Receivables	<u>\$ 595,691</u>	<u>\$ 23,255</u>	<u>\$ 618,946</u>

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

Description	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 1,242,663	\$ 395,169		\$ 1,637,832
Penalties, interest and other tax related income	4,183	471		4,654
Food sales			141,294	141,294
Investment income	20,703	172	65	20,940
Extracurricular student activities	34,821		97,086	131,907
Gifts and contributions	18,460		17,733	36,193
Tuition and fees	51,034			51,034
Other income	1,776			1,776
Total	<u>\$ 1,373,640</u>	<u>\$ 395,812</u>	<u>\$ 256,178</u>	<u>\$ 2,025,630</u>

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

Q. JOINT VENTURE SHARED SERVICE ARRANGEMENTS

The District also participates in various shared service arrangements with the Education Service Center Region 2. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Education Service Center Region 2 is the fiscal agent manager and is responsible for all financial activities of the shared service arrangement.

R. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2018, the District purchased commercial insurance to cover general liabilities. Additional insurance information by coverage type follows.

Property Casualty Program

The District participated in the Texas Association of School Boards Risk Management Fund (the "Fund") with coverage in auto liability, auto physical damage, general liability, property and legal liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were not settlements exceeding insurance coverage for each of the past three years.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its auto, liability and property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2018, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

Workers' Compensation

The District has established a partially self-funded workers' compensation plan by participating in the SchoolComp self-insured workers' compensation program administered by Creative Risk Funding, Inc. (the "Association"). The Association is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to a agreed upon retention limit. The plan for workers' compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable and of claims incurred but not reported at August 31, 2018, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the fund as they become due.

Unemployment Compensation

During the year ended August 31, 2018, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's unemployment compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2018, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution. The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's board of trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

S. GENERAL FUND FEDERAL SOURCE REVENUES

None.

T. PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the District adopted GASB Statement No. 75 for *Accounting and Financial Reporting for Post-employment Benefits Other Than Pensions*. With GASB 75, the District assumed their proportionate share of the net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled (\$3,508,548) which resulted in a restated beginning net position balance of \$7,414,461.

U. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 24, 2018; the date which the financial statements were available for distribution. There were none noted.

V. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS - STATEMENT OF ACTIVITIES

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11 - Instruction	\$ (378,501)	\$ (689,513)	\$ 311,012
12 - Instructional Resources and Media Services	(5,976)	(8,564)	2,588
13 - Curriculum and Instructional Staff Development	2,811	(222)	3,033
21 - Instructional Leadership	(19,266)	(22,522)	3,256
23 - School Leadership	(97,530)	(119,723)	22,193
31 - Guidance, Counseling and Evaluation Services	(39,250)	(45,885)	6,635
33 - Health Services	(19,280)	(22,538)	3,258
34 - Student (Pupil) Transportation	(11,310)	(13,222)	1,912
35 - Food Services	162,913	(22,941)	185,854
36 - Extracurricular Activities	(57,310)	(88,039)	30,729
41 - General Administration	(22,465)	(26,262)	3,797
51 - Facilities Maintenance and Operations	(35,122)	(41,059)	5,937
52 - Security and Monitoring Services	(245)	(286)	41
53 - Data Processing Services	(59,984)	(70,120)	10,136
	<u>\$ (580,515)</u>	<u>\$ (1,170,896)</u>	<u>\$ 590,381</u>

W. COMMITMENTS UNDER NON-CAPITALIZED LEASES

The District executed two operating lease agreements at the end of the fiscal year for facility rentals for the next five year as follows:

Beginning for the 2012-13 academic year, the District entered into an operating lease agreement with Texas A&M University - Kingsville for athletic facilities rental and usage. The lease term is for five (5) years due in annual payments on September 15, 2012 of \$80,000 and continuing through the end of the 2016-17 academic year. The lease can be canceled at the end of each one-year period without penalty with notice provided the other party by July 15th of the then-current year. In September, 2017, the District extended the lease for an additional five-year period through the 2021-22 fiscal year Future operating lease obligations are as follows:

Academic Year	Amount
2018-19	\$ 80,000
2019-20	80,000
2020-21	80,000
2021-22	80,000
Total Lease Obligation	<u>\$ 320,000</u>

Beginning August 1, 2012, the District entered into an operating lease agreement with Texas A&M University - Kingsville (the “lessor”) for rental and usage of a 71,648 square foot instructional facility. The lease term is for five (5) years with an initial lease of \$113,120 escalating 4% each year thereafter. Additionally, for renovations made by the lessor, secondary rents are due for the facility payable semi-annually over a 10-year period. If the original lease is terminated before the 10-year amortization period of the secondary rents are completed, all remaining unpaid rents for the secondary lease will become due and payable. In July, 2018, the District extended the primary lease for one additional year using the same 4% escalator clause through the 2018-19 academic year. Future operating lease obligations for the lease are as follows:

Academic Year	Primary Lease	Secondary Lease	Total Lease
2018-19	\$ 143,133	\$ 95,000	\$ 238,133
2019-20		95,000	95,000
2020-21		95,000	95,000
2021-22		95,000	95,000
Total Lease Obligation	<u>\$ 143,133</u>	<u>\$ 380,000</u>	<u>\$ 523,133</u>

REQUIRED SUPPLEMENTARY INFORMATION

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE 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	\$ 1,318,291	\$ 1,318,491	\$ 1,373,640	\$ 55,149
5800	State Program Revenues	4,810,724	4,810,724	6,256,100	1,445,376
5020	Total Revenues	6,129,015	6,129,215	7,629,740	1,500,525
EXPENDITURES:					
Current:					
0011	Instruction	3,660,370	3,659,186	3,614,542	44,644
0012	Instructional Resources and Media Services	48,530	48,530	43,696	4,834
0013	Curriculum and Instructional Staff Development	28,200	30,700	18,247	12,453
0021	Instructional Leadership	188,599	169,099	149,931	19,168
0023	School Leadership	473,805	537,305	542,211	(4,906)
0031	Guidance, Counseling and Evaluation Services	195,801	238,501	217,862	20,639
0033	Health Services	88,825	96,825	94,521	2,304
0034	Student (Pupil) Transportation	206,745	208,745	186,446	22,299
0036	Extracurricular Activities	579,688	634,285	625,865	8,420
0041	General Administration	370,528	425,528	395,717	29,811
0051	Facilities Maintenance and Operations	1,280,454	1,345,141	1,295,201	49,940
0052	Security and Monitoring Services	19,371	19,371	18,626	745
0053	Data Processing Services	282,231	293,231	295,619	(2,388)
0061	Community Services	2,500	2,500	440	2,060
Capital Outlay:					
0081	Facilities Acquisition and Construction	25,000	-	-	-
Intergovernmental:					
0099	Other Intergovernmental Charges	55,000	55,000	41,877	13,123
6030	Total Expenditures	7,505,647	7,763,947	7,540,801	223,146
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,376,632)	(1,634,732)	88,939	1,723,671
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	2,000	2,000
1200	Net Change in Fund Balances	(1,376,632)	(1,634,732)	90,939	1,725,671
0100	Fund Balance - September 1 (Beginning)	4,996,948	4,996,948	4,996,948	-
3000	Fund Balance - August 31 (Ending)	\$ 3,620,316	\$ 3,362,216	\$ 5,087,887	\$ 1,725,671

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

	Measurement Year Ended August 31,			
	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0034810956%	0.0035751007%	0.0037038000%	0.0026565000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,113,067	\$ 1,350,977	\$ 1,309,244	\$ 709,588
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	2,219,296	2,683,872	4,021,756	2,077,743
Total	<u>\$ 3,332,363</u>	<u>\$ 4,034,849</u>	<u>\$ 5,331,000</u>	<u>\$ 2,787,331</u>
District's Covered Payroll	\$ 4,258,211	\$ 4,203,551	\$ 3,997,029	\$ 3,856,302
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	26.14%	32.14%	32.76%	18.40%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2018

	Fiscal Year Ended August 31,			
	2018	2017	2016	2015
Contractually Required Contribution	\$ 122,695	\$ 113,493	\$ 115,452	\$ 109,588
Contribution in Relation to the Contractually Required Contribution	<u>(122,695)</u>	<u>(113,493)</u>	<u>(115,452)</u>	<u>(109,588)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 4,535,582	\$ 4,258,211	\$ 4,203,551	\$ 3,997,029
Contributions as a percentage of Covered Payroll	2.71%	2.67%	2.75%	2.74%

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2018

	Measurement Year Ended August 31, <u>2017</u>
District's Proportion of the Net OPEB Liability (Asset)	0.0046006826%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 2,000,664
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	<u>3,499,111</u>
Total	<u><u>\$ 5,499,775</u></u>
District's Covered Payroll	\$ 4,258,211
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	46.98%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.91%

Note: Only one year of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2018

	Fiscal Year Ended August 31, 2018
Contractually Required Contribution	\$ 35,488
Contribution in Relation to the Contractually Required Contribution	(35,488)
Contribution Deficiency (Excess)	\$ -
District's Covered Payroll	\$ 4,535,582
Contributions as a percentage of Covered Payroll	0.78%

Note: Only one year of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2018

Budget

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

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

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

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

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level.

Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

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

Defined Benefit Pension Plan

Changes of benefit terms.

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

Changes of assumptions.

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

Other Post-Employment Benefit Plan

Changes of benefit terms.

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

Changes of assumptions.

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 the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option 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 total OPEB liability.

COMBINING SCHEDULES

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2018

Data Control Codes	224 IDEA - Part B Formula	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income
ASSETS				
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -
1240	Receivables from Other Governments	4,899	18,333	-
1290	Other Receivables	-	5,200	-
1000	Total Assets	<u>\$ 4,899</u>	<u>\$ 23,533</u>	<u>\$ 23</u>
LIABILITIES				
2110	Accounts Payable	\$ -	\$ 248	\$ -
2160	Accrued Wages Payable	264	-	-
2170	Due to Other Funds	4,608	13,305	23
2200	Accrued Expenditures	27	-	-
2000	Total Liabilities	<u>4,899</u>	<u>13,553</u>	<u>23</u>
FUND BALANCES				
Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	-	9,980	-
3600	Unassigned Fund Balance	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>9,980</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 4,899</u>	<u>\$ 23,533</u>	<u>\$ 23</u>

410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ 969	\$ 83,657	\$ 84,626
-	-	23,255
-	-	5,200
<u>\$ 969</u>	<u>\$ 83,657</u>	<u>\$ 113,081</u>
\$ 969	\$ 4,514	\$ 5,731
-	-	264
-	-	17,936
-	-	27
<u>969</u>	<u>4,514</u>	<u>23,958</u>
-	-	9,980
-	79,143	79,143
<u>-</u>	<u>79,143</u>	<u>89,123</u>
<u>\$ 969</u>	<u>\$ 83,657</u>	<u>\$ 113,081</u>

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	224 IDEA - Part B Formula	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 141,294	\$ -	\$ -
5800 State Program Revenues	-	8,041	-	-
5900 Federal Program Revenues	87,995	180,492	3,001	-
5020 Total Revenues	87,995	329,827	3,001	-
EXPENDITURES:				
Current:				
0011 Instruction	87,995	-	-	-
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	3,001	-
0023 School Leadership	-	-	-	-
0035 Food Services	-	330,713	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0061 Community Services	-	-	-	-
6030 Total Expenditures	87,995	330,713	3,001	-
1200 Net Change in Fund Balance	-	(886)	-	-
0100 Fund Balance - September 1 (Beginning)	-	10,866	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ 9,980	\$ -	\$ -

410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ 114,884	\$ 256,178
98,055	-	106,096
-	-	271,488
98,055	114,884	633,762
98,055	-	186,050
-	7,332	7,332
-	-	3,001
-	46,882	46,882
-	-	330,713
-	70,450	70,450
-	182	182
-	3,440	3,440
98,055	128,286	648,050
-	(13,402)	(14,288)
-	92,545	103,411
\$ -	\$ 79,143	\$ 89,123

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2018

	BALANCE SEPTEMBER 1 2017	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2018
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 30,596	\$ 126,872	\$ 115,379	\$ 42,089
Due From Other Funds	142	-	-	142
Total Assets	<u>\$ 30,738</u>	<u>\$ 126,872</u>	<u>\$ 115,379</u>	<u>\$ 42,231</u>
Liabilities:				
Due to Student Groups	<u>\$ 30,738</u>	<u>\$ 126,872</u>	<u>\$ 115,379</u>	<u>\$ 42,231</u>
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 30,596	\$ 126,872	\$ 115,379	\$ 42,089
Due From Other Funds	142	-	-	142
Total Assets	<u>\$ 30,738</u>	<u>\$ 126,872</u>	<u>\$ 115,379</u>	<u>\$ 42,231</u>
Liabilities:				
Due to Student Groups	<u>\$ 30,738</u>	<u>\$ 126,872</u>	<u>\$ 115,379</u>	<u>\$ 42,231</u>

REQUIRED TEA SCHEDULES

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2018

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
2010	1.040000	0.327230	180,898,864
2011	1.040000	0.345700	180,350,957
2012	1.040000	0.415700	149,138,322
2013	1.040000	0.382500	166,833,377
2014	1.040000	0.386800	175,952,280
2015	1.040000	0.325400	187,247,855
2016	1.040000	0.363800	151,777,259
2017	1.040000	0.372700	129,920,539
2018 (School year under audit)	1.040000	0.329500	116,338,697
1000 TOTALS			

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 4,286	\$ -	\$ -	\$ -	\$ (1,834)	\$ 2,452
1,092	-	99	48	-	945
1,778	-	422	223	-	1,133
1,714	-	53	38	-	1,623
1,380	-	-	-	-	1,380
4,542	-	46	24	-	4,472
2,321	-	26	12	-	2,283
2,768	-	559	272	-	1,937
47,739	-	34,410	12,122	-	1,207
-	1,593,258	1,207,049	382,429	(1,566)	2,214
<u>\$ 67,620</u>	<u>\$ 1,593,258</u>	<u>\$ 1,242,664</u>	<u>\$ 395,168</u>	<u>\$ (3,400)</u>	<u>\$ 19,646</u>

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE 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	\$ 267,500	\$ 267,500	\$ 141,294	\$ (126,206)
5800	State Program Revenues	9,793	9,793	8,041	(1,752)
5900	Federal Program Revenues	138,000	138,000	180,492	42,492
5020	Total Revenues	415,293	415,293	329,827	(85,466)
EXPENDITURES:					
0035	Food Services	415,293	415,293	330,713	84,580
6030	Total Expenditures	415,293	415,293	330,713	84,580
1200	Net Change in Fund Balances	-	-	(886)	(886)
0100	Fund Balance - September 1 (Beginning)	10,866	10,866	10,866	-
3000	Fund Balance - August 31 (Ending)	\$ 10,866	\$ 10,866	\$ 9,980	\$ (886)

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE 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	\$ 381,142	\$ 381,142	\$ 395,812	\$ 14,670
5800	State Program Revenues	275,000	275,000	310,082	35,082
5020	Total Revenues	656,142	656,142	705,894	49,752
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	550,000	550,000	550,000	-
0072	Interest on Long Term Debt	111,300	111,300	110,717	583
6030	Total Expenditures	661,300	661,300	660,717	583
1200	Net Change in Fund Balances	(5,158)	(5,158)	45,177	50,335
0100	Fund Balance - September 1 (Beginning)	297,597	297,597	297,597	-
3000	Fund Balance - August 31 (Ending)	\$ 292,439	\$ 292,439	\$ 342,774	\$ 50,335

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OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Independent Auditor's Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS

Board of Trustees
Santa Gertrudis Independent School District
P.O. Box 592
Kingsville, Texas 78364

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Santa Gertrudis 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 my report thereon dated October 24, 2018.

Internal Control Over Financial Reporting

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

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

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Santa Gertrudis Independent School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cameron L. Gulley
Certified Public Accountant

October 24, 2018

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

Finding	Statement of Condition	Material Weakness?	Questioned Costs
	None.		

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2018

I. Summary of Auditor's Results

A. Financial Statements

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

B. Federal Awards

Not applicable.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None.

III. Findings and Questioned Costs for Federal Awards

N/A.

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2018

None required.