

**GHOLSON INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL AND COMPLIANCE REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2019*

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**GHOLSON INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2019**

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*CERTIFICATE OF BOARD*

Gholson Independent School District  
Name of School District

McLennan  
County

161-925  
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, 2019, at a meeting of the board of school trustees of such school district on the  
\_\_\_ day of \_\_\_\_\_, 2019.

\_\_\_\_\_  
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  
Gholson Independent School District  
137 Hamilton Drive  
Waco, Texas 76705

#### 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 Gholson Independent School District (the "District") as of and for the year ended August 31, 2019, 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 Gholson Independent School District as of August 31, 2019, 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.

## **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 Pension 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 14, 2019, 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 14, 2019



# Gholson Independent School District

137 Hamilton Drive  
Waco, Texas 76705  
(254) 829-1528 • Fax: (254) 829-0054

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Gholson Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August, 31, 2019. 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 tuition received from students from outside the District and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, 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 two different types of funds - governmental and proprietary - use different 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 and scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 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 increased from \$3,373,949 to \$3,576,464. 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 - increased from \$268,431 to \$587,938. Current and other assets increased by \$431,203 due to cash and state receivables. Capital assets decreased by \$116,992 due to depreciation expense in excess of asset additions. Long-term liabilities increased by \$498,711 due to the effects of net pension (NPL) and other post-employment benefit (OPEB) liabilities related to GASB 68 and GASB 75. Other liabilities increased by \$10,657 related to payroll accruals. Deferred resource outflows related to NPL and OPEB liabilities increased by \$356,134 and deferred resource inflows related to NPL and OPEB liabilities decreased by \$41,538.

Changes in revenues and expenses for the year are not comparable to prior year due to the overall effects of GASB 68 and 75 on current year and prior year activity. GASB 68 and 75 effects on current year revenue relative to last year were higher by approximately \$520,000. GASB 68 and 75 effects on current year expenses relative to last year were higher by approximately \$861,000.

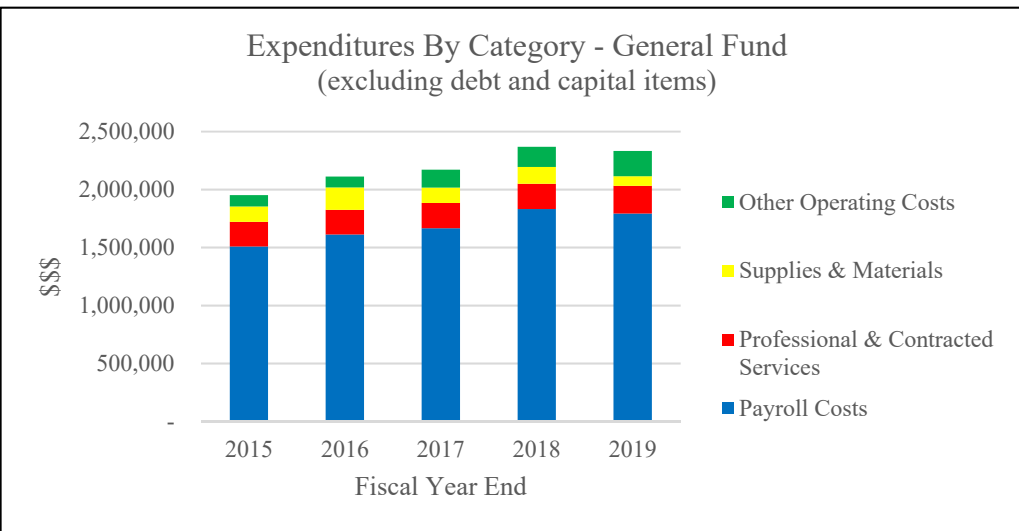
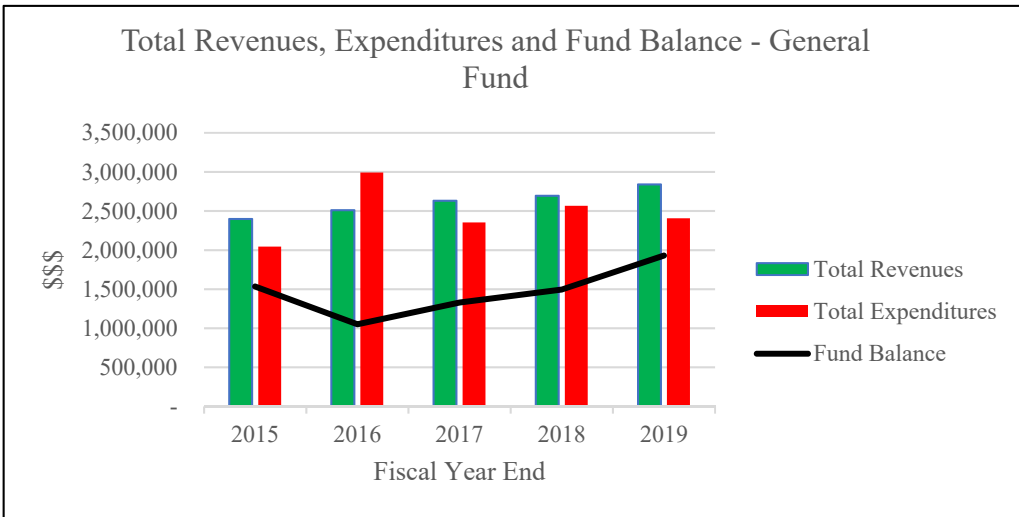
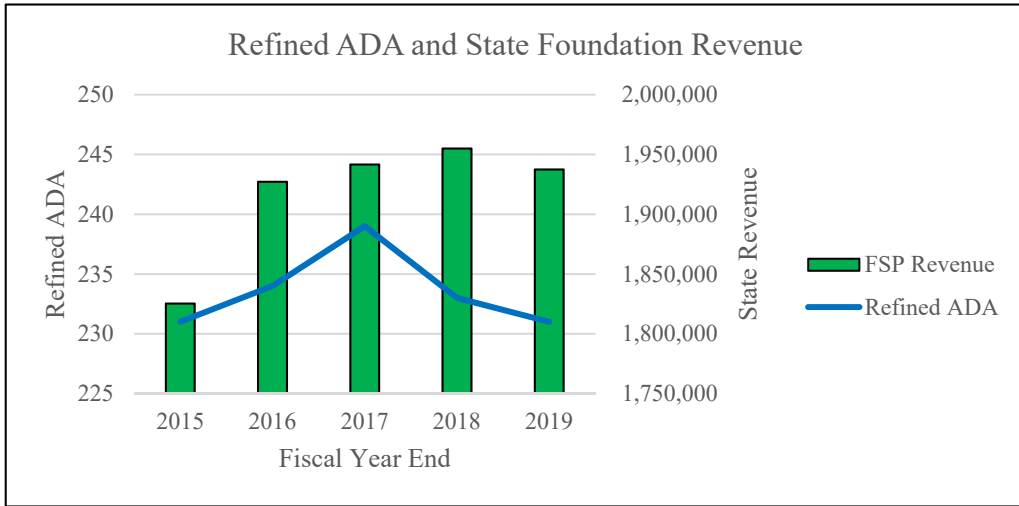
Excluding the effects of GASB 68 and 75 on revenues, total revenues increased by \$172,000 for the year. State aid-formula grants increased by \$84,000 due to Available School Fund formula revenue. Property tax revenues increased by \$84,000 due to valuation increases for the year. Operating grants and contributions increased by \$53,000 due to federal SHARS and state textbook grant funds received for the year. Other revenue was comparable to last year.

Excluding the effects on of GASB 68 and 75 on expenses, there were expense increases in the following functional categories: student support services by \$16,000 due to payroll costs; food services by \$12,000 due to food costs; general administration by \$32,000 due to payroll and contracted service costs; and facilities maintenance by \$31,000 due to repairs and maintenance. Decreases in instructional and instructional and school leadership decreased by \$33,000 and \$60,000, respectively, due to reduced payroll costs. Decreases in extracurricular activities by \$12,000 were due to athletic supply costs.

Table I Net Position			
	Governmental Activities 2019	Governmental Activities 2018	Variance Increase/ (Decrease)
Current and other assets	\$ 2,100,869	\$ 1,669,666	\$ 431,203
Capital assets	2,988,526	3,105,518	(116,992)
Deferred resource outflows for TRS	609,224	253,090	356,134
Total assets and deferred resource outflows	5,698,619	5,028,274	670,345
Long-term liabilities	1,668,678	1,169,967	498,711
Other liabilities	112,731	102,074	10,657
Deferred resource inflows for TRS	340,746	382,284	(41,538)
Total liabilities and deferred resource inflows	2,122,155	1,654,325	467,830
Net position:			
Net investment in capital assets	2,988,526	3,105,518	(116,992)
Unrestricted	587,938	268,431	319,507
Total net position	\$ 3,576,464	\$ 3,373,949	\$ 202,515

Table II Changes in Net Position			
	Governmental Activities 2019	Governmental Activities 2018	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 40,264	\$ 64,000	\$ (23,736)
Operating grants and contributions	558,649	(14,063)	572,712
General Revenues:			
Property taxes	568,166	483,974	84,192
State aid - formula grants	2,067,535	2,009,702	57,833
Other	5,113	3,918	1,195
Total Revenues	3,239,727	2,547,531	692,196
Expenses:			
Instruction, curriculum and media services	1,701,438	1,139,394	(562,044)
Instructional and school leadership	130,407	125,877	(4,530)
Student support services	147,597	119,111	(28,486)
Child nutrition	209,696	145,080	(64,616)
Extracurricular activities	152,362	135,575	(16,787)
General administration	93,679	49,299	(44,380)
Plant maintenance, security & data processing	465,611	340,105	(125,506)
Payments related to shared service arrangements	120,186	115,988	(4,198)
Total Expenses	3,020,976	2,170,429	(850,547)
Increase (Decrease) in Net Position	218,751	377,102	(158,351)
Net Position - beginning of year	3,373,949	4,333,348	(959,399)
Prior period adjustment	(16,236)	(1,336,501)	1,320,265
Net Position - end of year	\$ 3,576,464	\$ 3,373,949	\$ 202,515

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 \$1,930,709, an increase of \$435,699 in the District's Governmental Funds from last year's fund balance of \$1,495,010 (net of beginning balance adjustments). 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 one times during the year. The amendments were to student (pupil) transportation for \$41,500 and facilities acquisition and construction for \$35,000 for extra-duty payroll and construction costs.

The District's General Fund balance of \$1,930,709 reported on pages 14 and 40 differs from the General Fund's budgetary fund balance of \$1,418,376 reported in the budgetary comparison schedule on page 40 primarily due to total revenues and expenditures being more favorable than budgeted.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### *Capital Assets*

At the end of fiscal year 2019, the District had \$5,095,746 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:

Baseball field	\$ 47,000
Security graphics on school windows	6,200
Floor scrubber	7,246
Total asset additions	<u>\$ 60,446</u>

### *Debt*

None.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's overall fund balance should remain strong with a break-even budget adopted for 2019-20. The tax rate was lowered to \$0.97 for maintenance and operations as a result of Texas HB 3 for tax rate compression. General fund revenues and expenditures were budgeted at approximately \$2.97 million. Therefore, the District expects that its fund balance will remain at approximately \$1.93 million at August 31, 2020.

## 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: Gholson Independent School District, 137 Hamilton Drive, Waco, Texas 76705.

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*BASIC FINANCIAL STATEMENTS*

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GHOLSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2019

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 1,627,109
1220 Property Taxes - Delinquent	91,315
1230 Allowance for Uncollectible Taxes	(33,886)
1240 Due from Other Governments	416,331
Capital Assets:	
1510 Land	24,851
1520 Buildings, Net	2,467,311
1530 Furniture and Equipment, Net	228,785
1560 Library Books and Media, Net	84,743
1590 Infrastructure, Net	182,836
1000 Total Assets	5,089,395
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705 Deferred Outflow Related to TRS Pension	448,356
1706 Deferred Outflow Related to TRS OPEB	160,868
1700 Total Deferred Outflows of Resources	609,224
<b>LIABILITIES</b>	
2110 Accounts Payable	13,622
2150 Payroll Deductions and Withholdings	30
2160 Accrued Wages Payable	96,719
2200 Accrued Expenses	2,360
Noncurrent Liabilities:	
2540 Net Pension Liability (District's Share)	715,017
2545 Net OPEB Liability (District's Share)	953,661
2000 Total Liabilities	1,781,409
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	39,176
2606 Deferred Inflow Related to TRS OPEB	301,570
2600 Total Deferred Inflows of Resources	340,746
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	2,988,526
3900 Unrestricted	587,938
3000 Total Net Position	\$ 3,576,464

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

GHOLSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		3	4	6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 1,698,334	\$ -	\$ 359,396	\$ (1,338,938)
13 Curriculum and Instructional Staff Development	3,104	-	3,104	-
23 School Leadership	130,407	-	8,431	(121,976)
31 Guidance, Counseling and Evaluation Services	4,666	-	438	(4,228)
33 Health Services	12,718	-	-	(12,718)
34 Student (Pupil) Transportation	130,213	-	5,129	(125,084)
35 Food Services	209,696	24,568	146,321	(38,807)
36 Extracurricular Activities	152,362	15,696	8,586	(128,080)
41 General Administration	93,679	-	3,145	(90,534)
51 Facilities Maintenance and Operations	260,803	-	6,773	(254,030)
52 Security and Monitoring Services	1,637	-	-	(1,637)
53 Data Processing Services	203,171	-	17,326	(185,845)
93 Payments Related to Shared Services Arrangements	120,186	-	-	(120,186)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 3,020,976</u>	<u>\$ 40,264</u>	<u>\$ 558,649</u>	<u>(2,422,063)</u>

Data Control Codes	General Revenues:		
Codes	Taxes:		
MT	Property Taxes, Levied for General Purposes		568,166
SF	State Aid - Formula Grants		2,067,535
IE	Investment Earnings		4,356
MI	Miscellaneous Local and Intermediate Revenue		757
TR	Total General Revenues		<u>2,640,814</u>
CN	Change in Net Position		218,751
NB	Net Position - Beginning		3,373,949
PA	Prior Period Adjustment		(16,236)
NE	Net Position--Ending		<u>\$ 3,576,464</u>

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

GHOLSON INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2019

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 1,614,271	\$ 12,838	\$ 1,627,109
1220 Property Taxes - Delinquent	91,315	-	91,315
1230 Allowance for Uncollectible Taxes	(33,886)	-	(33,886)
1240 Due from Other Governments	387,532	28,799	416,331
1260 Due from Other Funds	28,499	-	28,499
1000 Total Assets	<u>\$ 2,087,731</u>	<u>\$ 41,637</u>	<u>\$ 2,129,368</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 8,544	\$ 5,078	\$ 13,622
2150 Payroll Deductions and Withholdings Payable	30	-	30
2160 Accrued Wages Payable	89,162	7,557	96,719
2170 Due to Other Funds	-	28,499	28,499
2200 Accrued Expenditures	1,857	503	2,360
2000 Total Liabilities	<u>99,593</u>	<u>41,637</u>	<u>141,230</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	57,429	-	57,429
2600 Total Deferred Inflows of Resources	<u>57,429</u>	<u>-</u>	<u>57,429</u>
<b>FUND BALANCES</b>			
3600 Unassigned Fund Balance	1,930,709	-	1,930,709
3000 Total Fund Balances	<u>1,930,709</u>	<u>-</u>	<u>1,930,709</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,087,731</u>	<u>\$ 41,637</u>	<u>\$ 2,129,368</u>

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

GHOLSON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2019

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	1,930,709
<b>1</b> 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 \$5,035,300 and the accumulated depreciation was (\$1,929,782). The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to decrease net position.		3,105,518
<b>2</b> Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the capital outlays is to increase net position.		60,446
<b>3</b> 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 \$448,356, a deferred resource inflow in the amount of \$39,176, and a net pension liability in the amount of \$715,017. This resulted in a decrease in net position.		(305,837)
<b>4</b> 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 \$160,868, a deferred resource inflow in the amount of \$301,570, and a net OPEB liability in the amount of \$953,661. This resulted in a decrease in net position.		(1,094,363)
<b>5</b> Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(177,438)
<b>6</b> 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. The net effect of these reclassifications and recognitions is to increase net position.		57,429
<b>19 Net Position of Governmental Activities</b>	\$	3,576,464

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

GHOLSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 590,790	\$ 24,577	\$ 615,367
5800 State Program Revenues	2,173,375	50,194	2,223,569
5900 Federal Program Revenues	76,834	240,850	317,684
5020 Total Revenues	<u>2,840,999</u>	<u>315,621</u>	<u>3,156,620</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	1,349,525	145,347	1,494,872
0013 Curriculum and Instructional Staff Development	-	3,104	3,104
0023 School Leadership	113,045	-	113,045
0031 Guidance, Counseling and Evaluation Services	4,063	-	4,063
0033 Health Services	12,074	-	12,074
0034 Student (Pupil) Transportation	102,385	-	102,385
0035 Food Services	-	179,548	179,548
0036 Extracurricular Activities	122,937	-	122,937
0041 General Administration	84,401	-	84,401
0051 Facilities Maintenance and Operations	254,817	-	254,817
0052 Security and Monitoring Services	1,637	-	1,637
0053 Data Processing Services	180,852	-	180,852
Capital Outlay:			
0081 Facilities Acquisition and Construction	47,000	-	47,000
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	120,186	-	120,186
6030 Total Expenditures	<u>2,392,922</u>	<u>327,999</u>	<u>2,720,921</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>448,077</u>	<u>(12,378)</u>	<u>435,699</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	-	12,378	12,378
8911 Transfers Out (Use)	(12,378)	-	(12,378)
7080 Total Other Financing Sources (Uses)	<u>(12,378)</u>	<u>12,378</u>	<u>-</u>
1200 Net Change in Fund Balances	435,699	-	435,699
0100 Fund Balance - September 1 (Beginning)	1,495,010	16,236	1,511,246
1300 Increase (Decrease) in Fund Balance	-	(16,236)	(16,236)
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,930,709</u>	<u>\$ -</u>	<u>\$ 1,930,709</u>

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

GHOLSON 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, 2019

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	435,699
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of removing the capital outlays is to increase net position.		60,446
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.		(177,438)
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 adjusting current year revenue to show the revenue earned from the current year's tax levy. The net effect of these reclassifications and recognitions is to increase net position.		1,083
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 \$43,280. 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 \$43,755. 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 \$79,795. The net result is a decrease in the change in net position.		(80,270)
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 \$13,200. 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 \$13,188. 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 \$20,781. The net result is a decrease in the change in net position.		(20,769)
<b>Change in Net Position of Governmental Activities</b>	<u>\$</u>	<u>218,751</u>

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

GHOLSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2019

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 10,178	\$ 26,080
Total Assets	10,178	\$ 26,080
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 26,080
Total Liabilities	-	\$ 26,080
<b>NET POSITION</b>		
Unrestricted Net Position	10,178	
Total Net Position	\$ 10,178	

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

GHOLSON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2019

	Private Purpose Trust Fund
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 975
Total Additions	<u>975</u>
DEDUCTIONS:	
Other Operating Costs	800
Total Deductions	<u>800</u>
Change in Net Position	175
Total Net Position - September 1 (Beginning)	<u>10,003</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 10,178</u></u>

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



**GHOLSON INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*AT AND FOR THE YEAR ENDED AUGUST 31, 2019*

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Gholson 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.

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

Governmental Funds:

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

Fiduciary Funds:

3. **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 "Gholson Scholarship Fund."
4. **Agency Funds.** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Gholson 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 and improvements	20-40
Infrastructure	20
Vehicles	5-10
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	\$ 448,356
Deferred charges related to TRS OPEB	\$ 160,868

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	\$ 39,176
Deferred charges related to TRS OPEB	\$ 301,570

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 Exhibit J4.

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 that exceeded its final amended budget by more than \$2,500:

Functional Category	Amount Over Budget	Explanation
0035 - Food Services	\$ 7,434	Overage due to ending accounts payable.

## 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, 2019, the following are the District's cash and cash equivalents (including its 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
Money market and FDIC insured accounts	\$ 1,663,367	100%	\$ 1,663,367			N/A
Total Cash and Cash Equivalents	\$ 1,663,367	100%	\$ 1,663,367			

## **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 commercial paper, corporate bonds and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2019, all of the District's investments were rated AAA 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 not exposed to interest rate risk.

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.

The District had no investments during the year under audit.

**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, 2019 is as follows:

	Receivable	Payable	Purpose	Current?
General Fund	\$ 28,499		Temporary advances	Yes
Special Revenue Funds		28,499	Temporary advances	Yes
Total	<u>\$ 28,499</u>	<u>\$ 28,499</u>		

Interfund transfers for the year ended August 31, 2019 consisted of the following individual amounts:

	Transfers In	Transfers Out	Purpose
Special Revenue Fund	\$ 12,378		Operating deficit transfer
General Fund		12,378	Operating deficit transfer
Total	<u>\$ 12,378</u>	<u>\$ 12,378</u>	

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2019 were as follows:

	Property Taxes (net)	Other Government	Total Receivables
Governmental Activities:			
General Fund	\$ 57,429	\$ 387,532	\$ 444,961
Nonmajor Governmental Funds		28,799	28,799
Total Governmental Activities	<u>\$ 57,429</u>	<u>\$ 416,331</u>	<u>\$ 473,760</u>

Payables at August 31, 2019 were as follows:

	Accounts	Salaries and Benefits	Total Payables
Governmental Activities:			
General Fund	\$ 8,544	\$ 91,049	\$ 99,593
Nonmajor Governmental Funds	5,078	8,060	13,138
Total Governmental Activities	<u>\$ 13,622</u>	<u>\$ 99,109</u>	<u>\$ 112,731</u>

**F. CAPITAL ASSET ACTIVITY**

Capital asset activity for the year ended August 31, 2019, was as follows:

	Balance 8/31/18	Additions	Disposals	Balance 8/31/18
Governmental activities:				
Land and improvements	\$ 24,851			\$ 24,851
Infrastructure	189,524	47,000		236,524
Buildings and improvements	3,789,283	6,200		3,795,483
Furniture and equipment	946,899	7,246		954,145
Library books	84,743			84,743
Totals	<u>5,035,300</u>	<u>60,446</u>		<u>5,095,746</u>
Less accumulated depreciation for:				
Infrastructure	44,622	9,066		53,688
Buildings and improvements	1,202,900	125,272		1,328,172
Furniture and equipment	682,260	43,100		725,360
Total accumulated depreciation	<u>1,929,782</u>	<u>177,438</u>		<u>2,107,220</u>
Governmental activities capital assets, net	<u>\$ 3,105,518</u>	<u>\$ (116,992)</u>		<u>\$ 2,988,526</u>

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

Governmental activities:		
11 - Instruction	\$	79,746
23 - School leadership		6,031
31 - Guidance, counseling and evaluation services		217
33 - Health services		644
34 - Student (pupil) transportation		24,037
35 - Food services		17,349
36 - Extracurricular activities		22,388
41 - General administration		4,502
51 - Facilities maintenance and operations		12,876
53 - Data processing services		9,648
Total depreciation expense - governmental activities	<u>\$</u>	<u>177,438</u>

**G. BONDS AND LONG-TERM NOTES PAYABLE**

None.

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

Not applicable.



**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	\$ 209,611,328,793
Less: Plan Fiduciary Net Position	(154,568,901,833)
Net Pension Liability	<u>\$ 55,042,426,960</u>
 Net Position as a percentage of Total Pension Liability	 73.74%

**Benefits Provided.** TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (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 2018 and 2019.

Contribution Rates		
	2018	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Current fiscal year District contributions	\$	43,280
Current fiscal year Member contributions	\$	122,754
2018 measurement year NECE contributions	\$	84,417

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, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.3%
Salary Increases	3.05% to 9.05% 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 single discount rate used to measure the total pension liability was 6.907%. This was a change in the discount rate from the previous year of (1.093%). 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

7.25%. 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, 2018 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	5.70%	1.04%
Non-U.S. Developed	13%	6.90%	0.90%
Emerging Markets	9%	8.95%	0.80%
Directional Hedge Funds	4%	3.53%	0.14%
Private Equity	13%	10.18%	1.32%
<b>Stable Value</b>			
U.S. Treasuries	11%	1.11%	0.12%
Absolute Return	0%	0.00%	0.00%
Hedge Funds (Stable Value)	4%	3.09%	0.12%
Cash	1%	(0.30)%	0.00%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.70%	0.02%
Real Assets	16%	5.21%	0.73%
Energy and Natural Resources	3%	7.48%	0.37%
Commodities	0%	0.00%	0.00%
<b>Risk Parity</b>			
Risk Parity	5%	3.70%	0.18%
Inflation Expectations			2.30%
Alpha			(0.79)%
<b>Total</b>	<b>100%</b>		<b>7.25%</b>

\* 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 2018 Net Pension Liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability	\$ 1,079,132	\$ 715,017	\$ 420,244

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2019, the District reported a liability of \$715,017 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	\$ 715,017
State's proportionate share that is associated with the District	1,380,159
<b>Total</b>	<b>\$ 2,095,176</b>

The net pension liability was measured as of August 31, 2018 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, 2017 thru August 31, 2018.

At August 31, 2018 the District's proportion of the collective net pension liability was 0.0012990290% which was an increase of 0.0000366932% from its proportion measured as of August 31, 2017.

**Changes Since the Prior Actuarial Valuation.** Changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period are as follows:

1. The total pension liability as of August 31, 2018 was developed using the roll-forward method of the August 31, 2017 valuation.
2. Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
3. Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.
4. The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.
5. The long term assumed rate of return changed from 8.0 to 7.25 percent.
6. The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

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, 2019, the District recognized pension expense of \$260,149 and revenue of \$136,599 for support provided by the Sate in the Government-Wide Statement of Activities.

At August 31, 2019, 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	\$ 4,457	\$ 17,544
Changes in actuarial assumptions	257,798	8,056
Differences between projected and actual investment earnings		13,567
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	142,821	9
Total as of August 31, 2018 measurement date	\$ 405,076	\$ 39,176
Contributions paid to TRS subsequent to the measurement date	43,280	
Total as of August 31, 2019 fiscal year end	<u>\$ 448,356</u>	<u>\$ 39,176</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
2020	\$ 98,582
2021	\$ 70,032
2022	\$ 61,314
2023	\$ 58,460
2024	\$ 47,996
Thereafter	\$ 29,516

**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, 2018 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 50,729,490,103
Less: plan fiduciary net position	(798,574,633)
Net OPEB liability	<u>\$ 49,930,915,470</u>
Net position as a percentage of total OPEB liability	1.57%

**Benefits Provided.** TRS-Care provides a basic health insurance coverage 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 non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible Medicare retirees and dependents may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system.

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 standard plan with Medicare Part A and Part B.

TRS-Care Plan Premium Rates Effective September 1, 2016 - December 31, 2017			
	TRS-Care 1	TRS-Care 2	TRS-Care 3
Retiree or surviving spouse	\$ 0	\$ 70	\$ 100
Retiree and spouse	20	175	255
Retiree or surviving spouse and children	41	132	182
Retiree and family	61	237	337
Surviving children only	28	62	82

The new premium rates for retirees with Medicare Part A and Part B became effective January 1, 2018 and are reflected in the following table.

TRS-Care Plan Premium Rates Effective January 1, 2018 - December 31, 2018		
	Medicare	Non-Medicare
Retiree or surviving spouse	\$ 135	\$ 200
Retiree and spouse	529	689
Retiree or surviving spouse and children	468	408
Retiree and family	1,020	999

**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 1.25% 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		
	2018	2019
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	\$	13,200
Current fiscal year member contributions	\$	10,362
2018 measurement year NECE contributions	\$	18,887

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, 2018 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 with full generational mortality using Scale BB. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2018 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 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate *	3.69% *
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.
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, 2018.

\*\* 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 3.69% was used to measure the total OPEB liability. There was a change of 0.27% 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, 2018.

**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 (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of net OPEB liability	\$ 1,135,184	\$ 953,661	\$ 810,064

**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	\$ 792,031	\$ 953,661	\$ 1,166,531

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At August 31, 2019, the District reported a liability of \$953,661 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	\$ 953,661
State's proportionate share that is associated with the District	1,368,939
Total	<u>\$ 2,322,600</u>

The net OPEB liability was measured as of August 31, 2018 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, 2017 thru August 31, 2018.

At August 31, 2018 the District's proportion of the collective net OPEB liability was 0.0019099609% which was an increase of 0.0001477027% from its proportion measured as of August 31, 2017.

***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. The total OPEB liability as of August 31, 2018 was developed using the roll-forward method of the August 31, 2017 valuation.
2. Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
3. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
4. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
5. The discount rate changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. 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.

Changes of benefit terms that affected measurement of the total OPEB liability during the measurement period are listed below:



The 85<sup>th</sup> Legislature, Regular Session, passed the following statutory changes in House Bill 3976 which became effective on September 1, 2017:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed the System to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during Plan Years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

For the year ended August 31, 2019, the District recognized OPEB expense of \$83,763 and revenue of \$49,794 for support provided by the State.

At August 31, 2019, 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	\$ 50,607	\$ 15,050
Changes in actuarial assumptions	15,914	286,520
Differences between projected and actual investment earnings	167	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	80,980	
Total as of August 31, 2018 measurement date	\$ 147,668	\$ 301,570
Contributions paid to TRS subsequent to the measurement date	13,200	
Total as of August 31, 2019 fiscal year end	<u>\$ 160,868</u>	<u>\$ 301,570</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
2020	\$ (27,459)
2021	\$ (27,459)
2022	\$ (27,459)
2023	\$ (27,491)
2024	\$ (27,509)
Thereafter	\$ (16,525)

## 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](http://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 2017 and 1.25% for 2018 and 2019. The contribution rate for the district was 0.55% for 2017 and 0.75% for 2018 and 2019. 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 2017 and 1.25% for 2018 and 2019.

**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, 2019, 2018 and 2017 are as follows:

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2019	0.65%	\$ 10,362	1.25%	\$ 19,928	0.75%	\$ 11,957
2018	0.65%	\$ 10,417	1.25%	\$ 20,033	0.75%	\$ 12,020
2017	0.65%	\$ 9,773	1.00%	\$ 15,035	0.55%	\$ 8,269

**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, 2019, 2018 and 2017 were \$6,204, \$4,407 and \$4,807, 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, 2019, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Net Pension Liability	\$ 403,627	\$ 355,151	\$ 43,761	\$ 715,017	\$ 0
Net OPEB liability	766,340	200,497	13,176	953,661	0
Total	\$ 1,169,967	\$ 555,648	\$ 56,937	\$ 1,668,678	\$ 0

**M. UNAVAILABLE/UNEARNED REVENUE**

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

	Unavailable Revenue (levied but uncollected property taxes)
General Fund	<u>\$ 57,429</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, 2019, are summarized below. They are reported on the combined financial statements as Due from Other Governments.

	State Entitlements	Federal Grants	Total
General	\$ 387,532		\$ 387,532
Special Revenue		28,799	28,799
Net Total Receivables	<u>\$ 387,532</u>	<u>\$ 28,799</u>	<u>\$ 416,331</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	Nonmajor Governmental Funds	Total
Property taxes	\$ 551,178		\$ 551,178
Penalties, interest and other tax-related income	15,905		15,905
Food sales		24,569	24,569
Investment income	4,356	8	4,364
Extracurricular student activities	15,696		15,696
Local grants and donations	2,899		2,899
Other income	756		756
Total	<u>\$ 590,790</u>	<u>\$ 24,577</u>	<u>\$ 615,367</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 participates in a shared services arrangement for Special Education services with the Hill County Enrichment Program. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Covington ISD, nor does the district have a net equity interest in the fiscal agent. The

fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

The District also participates in various shared service arrangements with the Education Service Center Region 12. 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 12 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 2019 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, 2019, 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 Claims Administrative Services, Inc. self-insured workers' compensation program administered by Texas Educational Insurance Association (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. The liability of the workers' compensation self-insurance plan includes \$4,641 incurred but not reported claims and a loss-limit of \$10,729. Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable at August 31, 2019, are reflected as accounts and claims payable of the Fund (if material). The plan is funded to discharge liabilities of the fund as they become due.

### Unemployment Compensation

During the year ended August 31, 2019, 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, 2019, 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, 2019, 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**

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

<u>Program or Service</u>	<u>CFDA</u>	<u>Amount</u>
School health and related services	N/A	<u>\$ 76,834</u>

**T. PRIOR PERIOD ADJUSTMENT**

During fiscal year 2019, the District re-characterized residual fund balance of its campus activity fund to student organizations. Such re-characterization required a beginning balance adjustment of (\$16,236) to move those residual funds to various student organizations.

**U. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 14, 2019; the date which the financial statements were available for distribution. There were none noted.

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*REQUIRED SUPPLEMENTARY INFORMATION*

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GHOLSON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 558,386	\$ 558,386	\$ 590,790	\$ 32,404
5800 State Program Revenues	2,058,101	2,058,101	2,173,375	115,274
5900 Federal Program Revenues	-	-	76,834	76,834
5020 Total Revenues	2,616,487	2,616,487	2,840,999	224,512
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	1,472,538	1,472,538	1,349,525	123,013
0012 Instructional Resources and Media Services	2,000	2,000	-	2,000
0013 Curriculum and Instructional Staff Development	2,000	2,000	-	2,000
0023 School Leadership	170,802	170,802	113,045	57,757
0031 Guidance, Counseling and Evaluation Services	47,800	47,800	4,063	43,737
0033 Health Services	14,500	14,500	12,074	2,426
0034 Student (Pupil) Transportation	63,554	105,054	102,385	2,669
0036 Extracurricular Activities	122,032	122,032	122,937	(905)
0041 General Administration	93,225	93,225	84,401	8,824
0051 Facilities Maintenance and Operations	286,411	286,411	254,817	31,594
0052 Security and Monitoring Services	2,500	2,500	1,637	863
0053 Data Processing Services	184,259	184,259	180,852	3,407
Capital Outlay:				
0081 Facilities Acquisition and Construction	30,000	65,000	47,000	18,000
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	125,000	125,000	120,186	4,814
6030 Total Expenditures	2,616,621	2,693,121	2,392,922	300,199
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(134)	(76,634)	448,077	524,711
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out (Use)	-	-	(12,378)	(12,378)
1200 Net Change in Fund Balances	(134)	(76,634)	435,699	512,333
0100 Fund Balance - September 1 (Beginning)	1,495,010	1,495,010	1,495,010	-
3000 Fund Balance - August 31 (Ending)	\$ 1,494,876	\$ 1,418,376	\$ 1,930,709	\$ 512,333

GHOLSON 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, 2019

	Measurement Year Ended August 31,				
	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0012990290%	0.0012623358%	0.0011756696%	0.0010528000%	0.0004097000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 715,017	\$ 403,627	\$ 444,268	\$ 372,151	\$ 109,436
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	1,380,159	786,337	929,837	989,805	783,177
Total	<u>\$ 2,095,176</u>	<u>\$ 1,189,964</u>	<u>\$ 1,374,105</u>	<u>\$ 1,361,956</u>	<u>\$ 892,613</u>
District's Covered Payroll	\$ 1,602,650	\$ 1,503,489	\$ 1,481,139	\$ 1,383,958	\$ 1,232,346
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	44.61%	26.85%	30.00%	26.89%	8.88%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	73.74%	82.17%	78.00%	78.43%	83.25%

Note: Only five 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."

GHOLSON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED AUGUST 31, 2019

	Fiscal Year Ended August 31,				
	2019	2018	2017	2016	2015
Contractually Required Contribution	\$ 43,280	\$ 43,755	\$ 39,450	\$ 37,349	\$ 31,170
Contribution in Relation to the Contractually Required Contribution	(43,280)	(43,755)	(39,450)	(37,349)	(31,170)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 1,594,203	\$ 1,602,650	\$ 1,503,489	\$ 1,410,137	\$ 1,383,958
Contributions as a percentage of Covered Payroll	2.71%	2.73%	2.62%	2.65%	2.25%

Note: Only five 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."

GHOLSON 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, 2019

	Measurement Year Ended August 31,	
	2018	2017
District's Proportion of the Net OPEB Liability (Asset)	0.0019099609%	0.0017622582%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 953,661	\$ 766,340
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	<u>1,368,939</u>	<u>1,176,497</u>
Total	<u>\$ 2,322,600</u>	<u>\$ 1,942,837</u>
District's Covered Payroll	\$ 1,602,650	\$ 1,503,489
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	59.51%	50.97%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	1.57%	0.91%

Note: Only two years 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."

GHOLSON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2019

	Fiscal Year Ended August 31,	
	2019	2018
Contractually Required Contribution	\$ 13,200	\$ 13,188
Contribution in Relation to the Contractually Required Contribution	<u>(13,200)</u>	<u>(13,188)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 1,594,203	\$ 1,602,650
Contributions as a percentage of Covered Payroll	0.83%	0.82%

Note: Only two years 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."

**GHOLSON INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*FOR THE YEAR ENDED AUGUST 31, 2019*

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.*

See Footnote I page 29 for changes in assumptions that affected measurement of the total pension liability during the measurement period.

Other Post-Employment Benefit Plan

*Changes of benefit terms.*

See Footnote J page 33 for changes in benefit terms that affected measurement of the total OPEB liability during the measurement period.

*Changes of assumptions.*

See Footnote J page 33 for changes in assumptions that affected measurement of the total OPEB liability during the measurement period.

*COMBINING SCHEDULES*

GHOLSON INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2019

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ -	\$ 5,310	\$ -	\$ -
1240 Due from Other Governments	17,869	3,498	-	1,264
1000 Total Assets	<u>\$ 17,869</u>	<u>\$ 8,808</u>	<u>\$ -</u>	<u>\$ 1,264</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ -	\$ 5,078	\$ -	\$ -
2160 Accrued Wages Payable	3,153	3,652	-	324
2170 Due to Other Funds	14,372	-	-	905
2200 Accrued Expenditures	344	78	-	35
2000 Total Liabilities	<u>17,869</u>	<u>8,808</u>	<u>-</u>	<u>1,264</u>
4000 Total Liabilities and Fund Balances	<u>\$ 17,869</u>	<u>\$ 8,808</u>	<u>\$ -</u>	<u>\$ 1,264</u>



270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Instructional Materials	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 7,528	\$ 12,838
5,522	646	-	-	28,799
<u>\$ 5,522</u>	<u>\$ 646</u>	<u>\$ -</u>	<u>\$ 7,528</u>	<u>\$ 41,637</u>
\$ -	\$ -	\$ -	\$ -	\$ 5,078
-	428	-	-	7,557
5,522	172	-	7,528	28,499
-	46	-	-	503
<u>5,522</u>	<u>646</u>	<u>-</u>	<u>7,528</u>	<u>41,637</u>
<u>\$ 5,522</u>	<u>\$ 646</u>	<u>\$ -</u>	<u>\$ 7,528</u>	<u>\$ 41,637</u>

GHOLSON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ 24,577	\$ -	\$ -
5800 State Program Revenues	-	5,474	-	-
5900 Federal Program Revenues	58,992	137,119	200	8,350
5020 Total Revenues	58,992	167,170	200	8,350
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	55,888	-	200	8,350
0013 Curriculum and Instructional Staff Development	3,104	-	-	-
0035 Food Services	-	179,548	-	-
6030 Total Expenditures	58,992	179,548	200	8,350
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(12,378)	-	-
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	12,378	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
1300 Increase (Decrease) in Fund Balance	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Instructional Materials	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 24,577
-	-	44,720	-	50,194
24,895	11,294	-	-	240,850
24,895	11,294	44,720	-	315,621
24,895	11,294	44,720	-	145,347
-	-	-	-	3,104
-	-	-	-	179,548
24,895	11,294	44,720	-	327,999
-	-	-	-	(12,378)
-	-	-	-	12,378
-	-	-	-	-
-	-	-	16,236	16,236
-	-	-	(16,236)	(16,236)
\$ -	\$ -	\$ -	\$ -	\$ -

GHOLSON INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 AGENCY FUND  
 FOR THE YEAR ENDED AUGUST 31, 2019

	BALANCE SEPTEMBER 1 2018	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2019
<b>STUDENT ACTIVITY ACCOUNT</b>				
Assets:				
Cash and Temporary Investments	\$ 21,801	\$ 37,124	\$ 32,845	\$ 26,080
Liabilities:				
Due to Student Groups	\$ 21,801	\$ 37,124	\$ 32,845	\$ 26,080
<b>TOTAL AGENCY FUNDS</b>				
Assets:				
Cash and Temporary Investments	\$ 21,801	\$ 37,124	\$ 32,845	\$ 26,080
Liabilities:				
Due to Student Groups	\$ 21,801	\$ 37,124	\$ 32,845	\$ 26,080

*REQUIRED TEA SCHEDULES*

GHOLSON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2019

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2010 and prior years	Various	Various	\$ Various
2011	1.040000	0.000000	37,156,221
2012	1.040000	0.000000	37,651,801
2013	1.040000	0.000000	37,715,190
2014	1.040000	0.000000	39,831,210
2015	1.040000	0.000000	38,552,692
2016	1.040000	0.000000	38,050,378
2017	1.040000	0.000000	43,617,115
2018	1.040000	0.000000	46,000,652
2019 (School year under audit)	1.040000	0.000000	53,257,165
1000 TOTALS			

(10) Beginning Balance 9/1/2018	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2019
\$ 22,989	\$ -	\$ 92	\$ -	\$ (4,251)	\$ 18,646
2,438	-	-	-	-	2,438
3,438	-	-	-	-	3,438
4,203	-	459	-	-	3,744
4,414	-	875	-	686	4,225
6,442	-	1,372	-	622	5,692
8,702	-	3,176	-	939	6,465
12,159	-	4,683	-	1,063	8,539
25,890	-	15,660	-	941	11,171
-	553,875	524,861	-	(2,057)	26,957
<u>\$ 90,675</u>	<u>\$ 553,875</u>	<u>\$ 551,178</u>	<u>\$ -</u>	<u>\$ (2,057)</u>	<u>\$ 91,315</u>

GHOLSON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 28,000	\$ 28,000	\$ 24,577	\$ (3,423)
5800 State Program Revenues	6,114	6,114	5,474	(640)
5900 Federal Program Revenues	138,000	138,000	137,119	(881)
5020 Total Revenues	172,114	172,114	167,170	(4,944)
<b>EXPENDITURES:</b>				
Current:				
0035 Food Services	172,114	172,114	179,548	(7,434)
6030 Total Expenditures	172,114	172,114	179,548	(7,434)
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(12,378)	(12,378)
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	-	12,378	12,378
1200 Net Change in Fund Balances	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -



*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  
Gholson Independent School District  
137 Hamilton Drive  
Waco, Texas 76705

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 Gholson Independent School District (the "District") as of and for the year ended August 31, 2019, 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 14, 2019.

### 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 Gholson 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 14, 2019

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**GHOLSON INDEPENDENT SCHOOL DISTRICT**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED AUGUST 31, 2019*

Finding	Statement of Condition	Material Weakness?	Questioned Costs
	None.		

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**GHOLSON INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED AUGUST 31, 2019*

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.

**GHOLSON INDEPENDENT SCHOOL DISTRICT**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED AUGUST 31, 2019*

None required.