

FRANKSTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of School Trustees
Frankston Independent School District
PO Box 428
Frankston, Texas 755763

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District for the year ended August 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, when applicable, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 4, 2018. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

Managements estimate of the uncollectible accounts and accumulated depreciation. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Audit Differences and Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information

We applied certain limited procedures to the management's discussion and analysis which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit this RSI and do not express an opinion or provide any assurance of the RSI.

We were engaged to report on other RSI and other information which accompany the financial statements. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the other RSI and other information to the underlying accounting records used to prepare the financial statements or to the financial statement themselves.

General Audit Comments, Findings or Issues

In connection with the annual audit of the records of the Frankston Independent School District as of August 31, 2018, we offer the following additional comments:

1. Accounting Records:

The accounting records are very good and are in compliance with the requirements of the TEA Resource Guide. Normal adjusting entries were made during the audit process for reclassifications and corrections. The accounting records and supporting documentation adequately support the representations made in the financial statements.

This information is intended solely for the use of those charged with governance, including the audit committee, Board of Trustees and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

January 21, 2019

FRANKSTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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FRANKSTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

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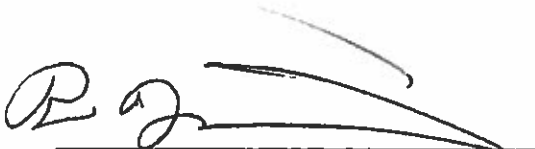
CERTIFICATE OF BOARD

Frankston Independent School District
Name of School District

Anderson
County

001-904
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved disapproved for the year ended August 31, 2018 at a meeting of the board of school trustees of such school district on the 24 day of January, 2019.



Signature of Board Secretary



Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is(are):

(attach list as necessary)

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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**Unmodified Opinions on Basic Financial Statements
Accompanied by Required Supplementary Information and Other Information**

Independent Auditor's Report

Board of School Trustees
Frankston Independent School District
P. O. Box 428
Frankston, Texas 75763

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Required Supplementary Information and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, schedule of the District's proportionate share of the net OPEB liability - TRS, schedule of District contributions for other post-employment benefits - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, schedule of the District's proportionate share of the net OPEB liability - TRS, schedule of District contributions for other post-employment benefits - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

January 22, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS



Frankston Independent School District

Established 1929

Post Office Box 428, Frankston, Texas 75763 • 903-876-2556

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Frankston Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2018. Please read it in conjunction with the independent auditors' report and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The District's net position decreased as a result of this year's operations by 4,191,516, due to a prior period adjustment. Please note that with the new requirements of the GASB 68 TRS Pension Liability and GASB 75 TRS Post-Employment Benefits, there are new lines on the Exhibit A-1. These requirements cause some unusual balances, but that was expected due to the size of the liabilities.
- During the year, the District had total expenses that were 758,008 less than the 10,309,305 million generated in taxes and other revenues for government programs.
- The General Fund ended the year with a fund balance of 3,526,331.
- The resources available for appropriation were 601,767 more than the amount budgeted for the General Fund.

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. 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 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. 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 the District.

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

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 the grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of 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 year or future years.

These two statements report the District's net position and changes. 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 assets 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 non-financial 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, the District reports only governmental activities, since the District has no business type activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements 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 Every Student Succeeds Act (ESSA), 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, such as Campus Activities.

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

Net Position of the District's governmental activities decreased from 4,700,081, to 508,565.

Increase in net assets	1,460,354
Transfers	0
Special items - Prior Period Adjustments	5,651,870
Net assets at the beginning of 09/01/17	4,700,081
Net assets at the end of 8/31/18	508,565

The Governmental Funds Statement of Revenue and Expenditures Reported:

The total cost of all programs and services were 9,551,197.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of 3,963,597, which is more than last year's total of 3,205,589. Included in this year's total change in fund balance is an increase of 581,973, in the District's General Fund.

Over the course of the year, the Board of Trustees revised the District's budget. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved after the beginning of the year and reflect the actual beginning balances versus the balances estimated in August 2018. The second category involved amendments moving funds from programs that did not need the resources appropriated to them into programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had 28,058,204, invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

No major additions were added during the school year 2017-2018.

Debt

At year-end, the District had 14,576,275, in bonds and notes outstanding. In November, 2011, the voters approved a \$17.3 million bond. These were issued as Series 11 and Series 12. For more detailed information please refer to the Bond Payable charts in the audit report.

ECONOMIC FACTORS: NEXT YEAR'S BUDGET AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2019 budget and tax rates. Amounts available for appropriation in the General Fund budget are 8,109,083, a decrease of 2.7% from the final 2018 budget of 8,334,116. Property taxes are set at a total of \$1.17 for M&O and \$0.3691 for I&S, for a total tax rate of \$1.5391.

If these estimates are realized, the District's budgetary General Fund balance will remain unchanged by the close of 2019. The District will continue to monitor enrollment figures and tax collections and will implement spending cuts if significant decreases occur in either.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Frankston Independent School District, 100 Perry Street, or P.O. Box 428, Frankston, Texas 75763. The phone number is 903-876-2556.

Frankston Independent School District Net Position – Governmental Activities

	2016-2017	2017-2018
Current and Other Assets	3,905,364	4,799,306
Capital Assets	17,552,958	16,774,305
Total Assets	21,458,322	21,573,611
<i>Deferred Outflow - TRS</i>	<i>834,393</i>	<i>652,454</i>
Long Term Liabilities	17,246,527	19,716,076
Other Liabilities	259,325	403,978
Total Liabilities	17,505,852	20,119,754
<i>Deferred Inflow - TRS</i>	<i>86,782</i>	<i>1,597,746</i>
Invested in Capital Assets		
Net of Related debt	1,812,142	1,484,653
Restricted	261,231	437,266
Unrestricted	2,626,708	(1,413,354)
Total Net Position	4,700,081	508,565

Frankston Independent School District

Changes in Net Position for Years Stated

	2016-2017	2017-2018
Revenues:		
<i>Program Revenues</i>		
Charges for Services	313,864	196,145
Operating Grants	<u>901,129</u>	<u>(137,685)</u>
<i>General Revenues</i>		
Taxes	2,628,713	2,700,938
Debt Service Taxes	900,714	898,281
State Aid Formula Grants	4,654,566	5,172,052
Grants and Contributions	2,548	0
Not Restricted		
Investment Earnings	29,080	62,262
Miscellaneous	173,643	95,161
Special Item-Capital Adjust	0	0
Total General Revenue	<u>8,389,264</u> 0	<u>8,928,694</u>
Expenses:		
Instruction	4,611,335	3,203,985
Inst Res & Media Services	105,097	59,430
Curriculum & Staff Development	136,340	86,087
Instructional Leadership	0	0
School Leadership	486,824	279,733
Guidance & Counseling	170,641	150,840
Health Services	99,576	64,674
Student Transportation	123,905	72,098
Food Services	558,859	472,483
Co-curricular /Extracurricular Activity	1,052,685	958,891
General Administration	526,103	388,372
Plant Maintenance & Operations	1,016,872	914,385
Data Processing Services	219,550	133,107
Security & Monitoring Service	46,978	48,754
Debt Service-Interest LT Debt	471,189	465,291
Debt Service-Bond Issue & Fee	1,450	1,700
Facility Acquisition/Construction	87,000	0
Payments to Fiscal Agents	140,379	154,096
Other Governmental Charges	71,186	72,514
Total Expenses	<u>9,925,969</u>	<u>7,526,800</u>
<i>Change in Net Position</i>	<u>(321,712)</u>	<u>1,460,354</u>

FINANCIAL STATEMENTS

FRANKSTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2018

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 164,217
1120 Current Investments	3,429,119
1220 Property Taxes - Delinquent	475,500
1230 Allowance for Uncollectible Taxes	(23,775)
1240 Due from Other Governments	749,192
1267 Due from Fiduciary Funds	5,053
Capital Assets:	
1510 Land	81,180
1520 Buildings, Net	15,815,558
1530 Furniture and Equipment, Net	877,567
1000 Total Assets	21,573,611
DEFERRED OUTFLOWS OF RESOURCES	
1703 Deferred Resource Outflow Related to TRS OPEB	38,338
1705 Deferred Resource Outflow Related to TRS Pension	614,116
1700 Total Deferred Outflows of Resources	652,454
LIABILITIES	
2110 Accounts Payable	8,816
2140 Interest Payable	19,694
2160 Accrued Wages Payable	375,168
Noncurrent Liabilities:	
2501 Due Within One Year	470,000
2502 Due in More Than One Year	14,819,652
2540 Net Pension Liability (District's Share)	1,204,149
2545 Net OPEB Liability (District's Share)	3,222,275
2000 Total Liabilities	20,119,754
DEFERRED INFLOWS OF RESOURCES	
2603 Deferred Resource Inflow Related to TRS OPEB	1,347,883
2605 Deferred Resource Inflow Related to TRS Pension	249,863
2600 Total Deferred Inflows of Resources	1,597,746
NET POSITION	
3200 Net Investment in Capital Assets	1,484,653
3850 Restricted for Debt Service	419,946
3870 Restricted for Campus Activities	17,320
3900 Unrestricted	(1,413,354)
3000 Total Net Position	\$ 508,565

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

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

EXHIBIT B-1

Data Control Codes	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	1	3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 3,203,985	\$ -	\$ (295,747)	\$ (3,499,732)
12 Instructional Resources and Media Services	59,430	-	47,030	(12,400)
13 Curriculum and Instructional Staff Development	86,087	-	(27,148)	(113,235)
23 School Leadership	279,733	-	(68,990)	(348,723)
31 Guidance, Counseling and Evaluation Services	150,840	-	(31,537)	(182,377)
33 Health Services	64,674	-	(17,448)	(82,122)
34 Student (Pupil) Transportation	72,098	-	(4,099)	(76,197)
35 Food Services	472,483	128,588	279,999	(63,896)
36 Extracurricular Activities	958,891	67,557	(48,307)	(939,641)
41 General Administration	388,732	-	(60,341)	(449,073)
51 Facilities Maintenance and Operations	914,385	-	(91,253)	(1,005,638)
52 Security and Monitoring Services	48,754	-	-	(48,754)
53 Data Processing Services	133,107	-	1,926	(131,181)
72 Debt Service - Interest on Long-Term Debt	465,291	-	178,230	(287,061)
73 Debt Service - Bond Issuance Cost and Fees	1,700	-	-	(1,700)
93 Payments Related to Shared Services Arrangements	154,096	-	-	(154,096)
99 Other Intergovernmental Charges	72,514	-	-	(72,514)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 7,526,800	\$ 196,145	\$ (137,685)	(7,468,340)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	2,700,938
DT	Property Taxes, Levied for Debt Service	898,281
SF	State Aid - Formula Grants	5,172,052
IE	Investment Earnings	62,262
MI	Miscellaneous Local and Intermediate Revenue	95,161
TR	Total General Revenues	8,928,694
CN	Change in Net Position	1,460,354
NB	Net Position - Beginning	4,700,081
PA	Prior Period Adjustment	(5,651,870)
NE	Net Position--Ending	\$ 508,565

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

FRANKSTON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 202,046	\$ 29,745	\$ (67,574)	\$ 164,217
1120 Investments - Current	3,078,571	350,548	-	3,429,119
1220 Property Taxes - Delinquent	383,352	92,148	-	475,500
1230 Allowance for Uncollectible Taxes	(19,168)	(4,607)	-	(23,775)
1240 Due from Other Governments	585,952	41,298	121,942	749,192
1260 Due from Other Funds	6,698	-	-	6,698
1000 Total Assets	<u>\$ 4,237,451</u>	<u>\$ 509,132</u>	<u>\$ 54,368</u>	<u>\$ 4,800,951</u>
LIABILITIES				
2110 Accounts Payable	\$ 8,816	\$ -	\$ -	\$ 8,816
2160 Accrued Wages Payable	338,120	-	37,048	375,168
2170 Due to Other Funds	-	1,645	-	1,645
2000 Total Liabilities	<u>346,936</u>	<u>1,645</u>	<u>37,048</u>	<u>385,629</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	364,184	87,541	-	451,725
2600 Total Deferred Inflows of Resources	<u>364,184</u>	<u>87,541</u>	<u>-</u>	<u>451,725</u>
FUND BALANCES				
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	419,946	-	419,946
Committed Fund Balance:				
3510 Construction	1,992,354	-	-	1,992,354
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	17,320	17,320
3600 Unassigned Fund Balance	1,533,977	-	-	1,533,977
3000 Total Fund Balances	<u>3,526,331</u>	<u>419,946</u>	<u>17,320</u>	<u>3,963,597</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,237,451</u>	<u>\$ 509,132</u>	<u>\$ 54,368</u>	<u>\$ 4,800,951</u>

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

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	3,963,597
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$28,058,204 and the accumulated depreciation was (\$10,505,246). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The long term debt was \$15,740,816. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. Note: Beginning Balances related to TRS are NOT included in this amount.		1,812,142
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to increase (decrease) net position.		460,000
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$614,116 , a deferred resource inflow in the amount of \$249,863 , and a net pension liability in the amount of \$1,204,149. This resulted in an increase (decrease) in net position.		(839,896)
4 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 \$38,338 , a deferred resource inflow in the amount of \$1,347,883 , and a net OPEB liability in the amount of \$3,222,275. This resulted in an increase (decrease) in net position.		(4,531,820)
5 The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(778,653)
6 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, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		423,195
19 Net Position of Governmental Activities	\$	<u>508,565</u>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 2,845,716	\$ 941,169	\$ 174,654	\$ 3,961,539
5800	State Program Revenues	5,488,400	178,230	56,193	5,722,823
5900	Federal Program Revenues	-	-	624,843	624,843
5020	Total Revenues	<u>8,334,116</u>	<u>1,119,399</u>	<u>855,690</u>	<u>10,309,205</u>
EXPENDITURES:					
Current:					
0011	Instruction	4,012,201	-	310,292	4,322,493
0012	Instructional Resources and Media Services	14,684	-	47,030	61,714
0013	Curriculum and Instructional Staff Development	139,573	-	-	139,573
0023	School Leadership	405,446	-	-	405,446
0031	Guidance, Counseling and Evaluation Services	225,963	-	-	225,963
0033	Health Services	100,852	-	-	100,852
0034	Student (Pupil) Transportation	24,920	-	-	24,920
0035	Food Services	2,859	-	445,200	448,059
0036	Extracurricular Activities	759,740	-	67,066	826,806
0041	General Administration	535,326	-	-	535,326
0051	Facilities Maintenance and Operations	1,081,433	-	-	1,081,433
0052	Security and Monitoring Services	48,754	-	-	48,754
0053	Data Processing Services	153,988	-	30,772	184,760
Debt Service:					
0071	Principal on Long-Term Debt	-	460,000	-	460,000
0072	Interest on Long-Term Debt	-	456,788	-	456,788
0073	Bond Issuance Cost and Fees	-	1,700	-	1,700
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	154,096	-	-	154,096
0099	Other Intergovernmental Charges	72,514	-	-	72,514
6030	Total Expenditures	<u>7,732,349</u>	<u>918,488</u>	<u>900,360</u>	<u>9,551,197</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>601,767</u>	<u>200,911</u>	<u>(44,670)</u>	<u>758,008</u>
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	19,794	19,794
8911	Transfers Out (Use)	(19,794)	-	-	(19,794)
7080	Total Other Financing Sources (Uses)	<u>(19,794)</u>	<u>-</u>	<u>19,794</u>	<u>-</u>
1200	Net Change in Fund Balances	581,973	200,911	(24,876)	758,008
0100	Fund Balance - September 1 (Beginning)	<u>2,944,358</u>	<u>219,035</u>	<u>42,196</u>	<u>3,205,589</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 3,526,331</u>	<u>\$ 419,946</u>	<u>\$ 17,320</u>	<u>\$ 3,963,597</u>

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

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	758,008
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays and debt principal payments is to increase (decrease) net position.		460,000
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.		(778,653)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(17,255)
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 \$125,416. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability. This caused a decrease in net position totaling \$122,574. Finally, the proportionate share of the pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$84,638. The net result is an increase (decrease) in the change in net position.		(81,796)
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 \$37,834. 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 \$36,893. 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 (\$1,119,109). The net result is an increase (decrease) in the change in net position.		1,120,050
Change in Net Position of Governmental Activities	\$	<u>1,460,354</u>

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

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

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 112,799
Other Receivables	34
Total Assets	<u>\$ 112,833</u>
LIABILITIES	
Due to Other Funds	\$ 5,053
Due to Student Groups	107,780
Total Liabilities	<u>\$ 112,833</u>

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

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Frankston 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 promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *GASB Statement No. 56*; 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. 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.

A. REPORTING ENTITY

The Board of Trustees (the “Board”) has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public, has the authority to make decisions, appoint administrators and managers, significantly influence operations, and has primary accountability for fiscal matters. As such, the District is not included in any other governmental “reporting entity” as defined by *GASB Statement No. 14, The Financial Reporting Entity*. There are no component units included within the reporting entity. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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. Direct costs are identifiable with a specific function. Program revenues of the District include charges for services and operating grants and contributions. 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.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from /to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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 and enterprise 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 and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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, as do the proprietary fund and fiduciary fund financial statements. 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. The District considers all revenues available if they are collectible within 60 days after year end.

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

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 deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The proprietary fund types 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 Agency funds apply the accrual basis of accounting but do not have a measurement focus. All assets and all liabilities associated with operation of these funds are included on the Statement of Net Position. The total net position is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The fiduciary fund types 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 Agency funds apply the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

D. FUND ACCOUNTING

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expenses.

The District reports the following fund types:

Governmental Funds:

- 1. General Fund** - The general fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.
- 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.
- 3. Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
- 4. Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

- 5. Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are the student activity fund and the clearing fund for workers compensation.

E. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

F. INVENTORIES

The District records purchases of supplies as expenditures. Inventory on the balance sheet, if present, is recorded at cost and represents supplies and materials purchased for the subsequent school year. Food service commodities are recorded at fair market value as supplied by the Texas Department of Human Services.

G. PREPAYMENTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments in both government-wide and fund financial statements.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

H. CAPITAL ASSETS

Capital assets, which include land, buildings, furniture and equipment are reported in the governmental column 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>Assets</u>	<u>Years</u>
Buildings	30
Vehicles	10
Furniture and Equipment	7 - 20

Land and construction in progress are not depreciated.

I. DEFERRED OUTFLOWS / DEFERRED INFLOWS OF RESOURCES

GASB No. 63 and GASB No. 65 provide guidance on financial reporting related to deferred outflows of resources and deferred inflows of resources. The objective of these statements is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

In addition to assets, the Balance Sheet and Statement of Net Position may 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.

In addition to liabilities, the Balance Sheet and Statement of Net Position may 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 or resource (revenue) until that time.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

J. LONG TERM DEBT

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 position. 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. Bond issuance costs are reported as current year debt service expenditures.

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.

K. FUND BALANCE

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. Nonspendable fund balance - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.
2. Restricted Fund Balance - includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. Assigned Fund Balance - includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent or his/her designee.
5. Unassigned Fund Balance - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

L. USE OF ESTIMATES

The presentation of financial statements, in conformity with Generally Accepted Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

M. DATA CONTROL CODES

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.

N. TEACHER RETIREMENT SYSTEM

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/deduction 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 of the system are reported at fair value.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 81 180	\$	\$ 81 180	
Buildings & Improvements	24 962 611	8 454 765	16 507 846	
Furniture & Equipment	2 366 009	2 050 481	315 528	
Non-Depreciable Assets	<u>648 404</u>	<u></u>	<u>648 404</u>	
Totals	<u>\$ 28 058 204</u>	<u>\$ 10 505 246</u>		
Change in Net Position				\$ 17 552 958
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			\$ 15 036 275	
Accretion Payable			184 539	
Premium on Issuance of Bonds			<u>520 002</u>	
Change in Net Position				<u>(15 740 816)</u>
Net Adjustment to Net Position				<u>\$ 1 812 142</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Position
Current Year Capital Outlay:			
Buildings & Improvements	\$		
Furniture & Equipment			
Total Capital Outlay	0	0	0
 Debt Payments:			
Bond Principal	460 000		
Total Principal Payments	\$ 460 000	460 000	460 000
 Capital Asset Adjustment			
Total Adjustment to Net Position		\$ 460 000	\$ 460 000

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

C. EXPLANATION OF OTHER DIFFERENCES

Another element of the reconciliation on Exhibits C-2 and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
Adjustments to Revenue and Deferred Revenue:			
Taxes Collected from Prior Year Levies	\$ 126 611	\$ (126 611)	\$
Uncollected taxes(assumed collectible) from Current Year Levy	117 859	117 859	117 859
Uncollected Taxes (assumed collectible) from Prior Year Levy	333 866		333 866
Accrued Interest on Debt:			
Prior Year	20 027	20 027	
Current Year	19 694	(19 694)	(19 694)
Accretion on Capital Appreciation Bonds:			
Current Year Accrued	37 072	(37 072)	(37 072)
Current Year Paid	0		
Bond Premium Amortization:			
Current Year	28 236	28 236	28 236
		<u> </u>	<u> </u>
Total		<u>\$ (17 255)</u>	<u>\$ 423 195</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Fund). 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 and the other two reports are in Exhibits J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the basic 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 to be made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended during the year.

Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function /object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	<u>August 31, 2018</u> <u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 0
Nonappropriated Budget Funds	<u>17 320</u>
All Special Revenue Funds	<u>\$ 17 320</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District made expenditures in excess of budgeted amount in functional areas in the general fund. The budget was positive overall.

C. ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrance accounting is utilized to ensure effective budgetary control and accountability. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each fiscal year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments. There were no outstanding encumbrances at the end of the fiscal year that were subsequently provided for in the 2018-2019 budget.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

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

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies. The risks that the District may be subject are:

- a. **Custodial Credit Risk - Deposits:** This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2017-2018 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

The largest combined balances of cash, savings and time deposit accounts amounted to \$1,859,648 and occurred on January 10, 2018. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$2,421,114. The total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

- b. **Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.
- d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At August 31, 2018, the amount of the District's cash balance in checking accounts was \$266,016. Cash on hand was \$11,000.

INVESTMENTS - CASH EQUIVALENTS

The District's investments - cash equivalents at August 31, 2018, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
First Public / Lone Star Investment Pool	\$ 2 144 676	\$ 2 144 563	.263013
Texas CLASS	<u>1 284 443</u>	<u>1 284 896</u>	.202739
Total Investments	<u>\$ 3 429 119</u>	<u>\$ 3 429 459</u>	

INVESTMENTS - OTHER

The District's investments - other at August 31, 2018, are shown below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
N/A	\$ _____	\$ _____	
Total Investments	<u>\$ _____</u>	<u>\$ _____</u>	

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, if any, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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 upon receipt of the tax bill and are delinquent if not paid by 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. Delinquent taxes not paid by June 30 are subject to penalty and interest charges plus delinquent collection fees for attorney costs. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible taxes are periodically reviewed and written off by the District as provided by specific statutory authority from the Texas Legislature.

The assessed value of the property tax roll on January 1, 2017 upon which the levy for the 2017-2018 fiscal year was based, was \$299,195,545. The tax rates assessed for the year ended August 31, 2018 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$.40 per \$100 valuation, respectively, for a total of \$1.57 per \$100 valuation. Current tax collections for the year ended August 31, 2018 were 96.6% of the year end adjusted tax levy. As of August 31, 2018, property taxes receivable totaled \$ 383,352 and \$ 92,148 for the General and Debt Service Funds respectively.

C. RECEIVABLES FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Receivables from Other Governments.

	General Fund	Debt Service Fund	Other Funds	Totals
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
State Entitlements	\$ 585 952	\$	\$	\$ 585 952
State Grants			11 152	11 152
Federal Grants			110 790	110 790
Existing Debt Allotment		32 512		32 512
Instructional Facilities Allotment		8 786		8 786
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 585 952</u>	<u>\$ 41 298</u>	<u>\$ 121 942</u>	<u>\$ 749 192</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2018 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General Fund:		
Debt Service Fund	\$ 1 645	\$
Agency Fund	<u>5 053</u>	<u> </u>
Total	<u>\$ 6 698</u>	<u>\$</u>
Debt Service Fund:		
General Fund	<u>\$</u>	<u>\$ 1 645</u>
Agency Fund:		
General Fund	<u>\$</u>	<u>\$ 5 053</u>
Totals	<u>\$ 6 698</u>	<u>\$ 6 698</u>

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

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Special Revenue Fund	<u>\$</u>	<u>\$ 19 794</u>
Special Revenue Fund:		
General Fund	<u>\$ 19 794</u>	<u>\$</u>
Totals	<u>\$ 19 794</u>	<u>\$ 19 794</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

E. RECEIVABLES AND PAYABLES

Receivables at August 31, 2018, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes (Net)	\$ 364 184	\$ 87 541	\$	\$ 451 725
Other Governments	585 952	41 298	121 942	749 192
Other Funds	<u>6 698</u>			<u>6 698</u>
Totals	<u>\$ 956 834</u>	<u>\$ 128 839</u>	<u>\$ 121 942</u>	<u>\$ 1 207 615</u>

Payables at August 31, 2018, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Accounts Payable	\$ 8 816	\$	\$	\$ 8 816
Accrued Wages	338 120		37 048	375 168
Other Funds		<u>1 645</u>		<u>1 645</u>
Totals	<u>\$ 346 936</u>	<u>\$ 1 645</u>	<u>\$ 37 048</u>	<u>\$ 385 629</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District's governmental activities for the year ended August 31, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets				
Land	\$ 81 180	\$	\$	\$ 81 180
Non Depreciable Assets	648 404			648 404
Construction in Progress				
Subtotal Nondepreciable Assets	<u>729 584</u>			<u>729 584</u>
Depreciable Capital Assets				
Building & Improvements	24 962 611			24 962 611
Furniture & Equipment	<u>2 366 009</u>			<u>2 366 009</u>
Subtotal Depreciable Assets	<u>27 328 620</u>			<u>27 328 620</u>
Total at Historical Cost	<u>28 058 204</u>			<u>28 058 204</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	8 454 765	692 288		9 147 053
Furniture & Equipment	<u>2 050 481</u>	<u>86 365</u>		<u>2 136 846</u>
Total Accumulated Depreciation	<u>10 505 246</u>	<u>778 653</u>		<u>11 283 899</u>
Governmental Activities Capital Assets, Net	<u>\$ 17 552 958</u>	<u>\$ 778 653</u>	<u>\$</u>	<u>\$ 16 774 305</u>

Depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 306 957
12	Instructional Resources and Media Services	20 188
13	Curriculum Development and Instructional Staff Development	170
23	School Leadership	25 058
31	Guidance, Counseling and Evaluation Services	1 287
34	Student (Pupil) Transportation	55 026
35	Food Services	94 578
36	Cocurricular/Extracurricular Activities	252 073
41	General Administration	4 465
51	Plant Maintenance and Operations	14 707
53	Data Processing Services	<u>4 144</u>
	Total Depreciation Expense	<u>\$ 778 653</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in bonds payable for the year ended August 31, 2018 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/17	Issued	Retired	Amounts Outstanding 8/31/2018	Interest Current Year
Unlimited Tax School Building Bonds Series 2011	1.45% to 2.45%	\$ 8 300 000	\$ 1 920 000	\$	\$ 370 000	\$ 1 550 000	\$ 37 700
Unlimited Tax School Building Bonds Series 2012	.40% to 4.00%	8 996 275	8 561 275		90 000	8 471 275	298 850
Unlimited Tax Refunding Bonds Series 2016	2.0% to 3.0%	4 555 000	4 555 000		0	4 555 000	120 238
Totals			<u>\$ 15 036 275</u>	<u>\$ 0</u>	<u>\$ 460 000</u>	<u>\$ 14 576 275</u>	<u>\$ 456 788</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

Debt service requirements are as follows:

<u>Year Ended</u> <u>August 31</u>	<u>General Obligations</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2019	470 000	448 599	918 599
2020	475 000	439 416	914 416
2021	490 000	428 520	918 520
2022	500 000	416 038	916 038
2023	505 000	402 062	907 062
2024 - 2028	2 750 000	1 779 737	4 529 737
2029 - 2033	2 753 876	1 817 943	4 571 819
2034 - 2038	3 122 399	1 611 201	4 733 600
2039 - 2042	<u>3 510 000</u>	<u>287 800</u>	<u>3 797 800</u>
Totals	<u>\$ 14 576 275</u>	<u>\$ 7 631 316</u>	<u>\$ 22 207 591</u>

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

The District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account asset and liabilities for the defeased bond are not included in the District's financial statements. As of August 31, 2018, \$4,740,000 of bond considered defeased are still outstanding.

H. CHANGES IN LONG-TERM LIABILITIES

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

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 15 036 275	\$ _____	\$ 460 000	\$14 576 275	\$ 470 000
Accretion Payable:					
Capital Appreciation Bonds	184 539	37072	_____	221 611	_____
Premium (Discount) on Issuance of Bonds:					
Premium	520 002	_____	28 236	491 766	_____
Total Governmental Activities Long-term	<u>\$ 15 740 816</u>	<u>\$ 37 072</u>	<u>\$ 488 236</u>	<u>\$15 289 652</u>	<u>\$ 470 000</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

I. UNEARNED REVENUE AND UNAVAILABLE REVENUE

Unearned revenue at the fiscal year-end consisted of the following:

	General Fund	Debt Service Fund	Other Funds	Total
State Foundation	\$ 0	\$ 0	\$ 0	\$ 0

Unavailable revenue at the fiscal year end consisted of the following:

Net Property Taxes	\$ 364 184	\$ 87 541	\$ 0	\$ 451 725
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FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

J. FUND BALANCE

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

<u>Fund Balance</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Nonspendable:				
Inventory	\$	\$	\$	\$
Prepaid Items				
Restricted:				
Federal Grants				
State Grants				
Debt Service		419 946		419 946
Capital Projects				
Other				
Committed:				
Construction	1 992 354			1 992 354
Assigned:				
Campus Activity			17 320	17 320
Unassigned	<u>1 533 977</u>	<u> </u>	<u> </u>	<u>1 533 977</u>
Total Fund Balances	<u>\$ 3 526 331</u>	<u>\$ 419 946</u>	<u>\$ 17 320</u>	<u>\$ 3 963 597</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

K. LOCAL AND INTERMEDIATE SOURCES OF REVENUES

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 2 693 416	\$ 914 555	\$	\$ 3 607 971
Penalties, Interest & Other Tax Related Income	79 028	20 183		99 211
Food Sales			128 588	128 588
Investment Income	55 831	6 431		62 262
Co-curricular Student Activities	17 441		46 066	63 507
Other				
Totals	<u>\$ 2 845 716</u>	<u>\$ 941 169</u>	<u>\$ 174 654</u>	<u>\$ 3 961 539</u>

L. JOINT VENTURE SHARED SERVICE ARRANGEMENT

The District participates in a shared services arrangement for special education services with other school districts. Although a portion of the shared services arrangement is attributable to the District's participation, 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, 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 made payments to the fiscal agent of \$154 096.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

M. 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.texas.gov/TRS%20Documents/cafr2016.pdf>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates		
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Frankston ISD 2018 Current Fiscal Year Employer Contributions		\$ <u>125,416</u>
Frankston ISD 2018 Current Fiscal Year Member Contributions		\$ <u>359,616</u>
Frankston ISD 2017 Measurement Year NECE On-Behalf Contributions		\$ <u>252,092</u>

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 source or a privately sponsored source, from non-educational and general, or local funds.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

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, 2016 actuarial valuation was determined using the following actuarial assumptions:

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

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

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

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

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

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

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 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ <u>2,029,958</u>	\$ <u>1,204,149</u>	\$ <u>516,530</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, the District reported a liability of \$1,204,149 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 1 204 149
State's proportionate share that is associated with the District	<u>2 464 593</u>
Total	<u><u>\$ 3 668 742</u></u>

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

At August 31, 2017 the employer's proportion of the collective net pension liability was .00376559542%, which was an increase (decrease) of (.0002186197%) from its proportion measured as of August 31, 2016.

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

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

For the year ended August 31, 2018, the District recognized pension expense of \$187,989 and revenue of \$187,989 for support provided by the State.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 17 617	\$ 64 938
Changes in actuarial assumptions	54 851	31 401
Difference between projected and actual investment earnings		87 756
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	416 232	65 768
Total as of August 31, 2017 measurement date	488 700	249 863
Contributions paid to TRS subsequent to the measurement date	125 416	
Total as of fiscal year end	\$ 614 116	\$ 249 863

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

Year ended August 31:	Pension Expense Amount
2019	\$ 47 792
2020	124 656
2021	41 887
2022	17 567
2023	16 624
Thereafter	(9 689)

Long-Term Liability Disclosure

	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$ 1 505 711	\$ (178 136)	\$ 123 426	\$ 1 204 149

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

N. 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 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.

Benefits Provided

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

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

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

TRS-Care Plan Premium Rates
 Effective Sept. 1, 2016 - Dec. 31, 2017

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82
* or surviving spouse			

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

Contributions

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

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

CONTRIBUTION RATES		
	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
District's 2017 Employer Contributions		\$ 37 834
District's 2017 Member Contributions		\$ 30 260
District's 2017 NECE On-behalf Contributions		\$ 42 035

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 2016 and \$182.6 million in fiscal year 2018.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions: *Actuarial Assumptions can be found in the 2017 TRS CAFR, Note 10, page 82.*

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

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.5%
Discount Rate	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.5%
Projected Salary Increases	3.5% - 9.5%
Healthcare Trend Rates	4.5% 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

Other Information

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

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. *The Discount Rate can be found in the 2017 TRS CAFR on page 83.* Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected *to not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. **The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.**

Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District’s proportionate share of the Net OPEB liability:	\$ <u>3 803 084</u>	\$ <u>3 222 275</u>	\$ <u>2 755 435</u>

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 in
Proportionate share of net OPEB liability:	\$ <u>2 682 866</u>	\$ <u>3 222 275</u>	\$ <u>3 930 047</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB's

At August 31, 2018, the District reported a liability of \$3,222,275 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 related to the State support and total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective Net OPEB Liability	\$	3 222 275
State's proportionate share that is associated with the District	\$	3 515 959
Total	\$	<u>6 738 234</u>

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

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was .0074098706%.

Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016. The Notes to the Financial Statements for August 31, 2016 for TRS stated that the change in proportion was immaterial and, therefore, disregarded this year.

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:

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

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

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

For the year ended August 31, 2018, the District recognized OPEB expense of \$ (1,176,534) and revenue of \$(1,176,534) For support provided by the State. (Refer to the 2017 Schedule of On-Behalf Contributions for this information posted on the TRS website under GASB Statements 74 & 75.)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual actuarial experience	\$	\$ 67 267
Changes in actuarial assumptions		1 280 616
Difference between projected and actual investment earnings	489	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	<u>15</u>	
Total as of August 31 measurement date	504	<u>1 347 883</u>
Contributions paid to TRS subsequent to the measurement date (To be calculated by employer)	37 834	
Total as of fiscal year end	<u>\$ 38 338</u>	<u>\$ 1 347 883</u>

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

Year ended August 31:	OPEB Expense Amount
2019	\$ (177 787)
2020	(177 787)
2021	(177 787)
2022	(177 787)
2023	(177 910)
Thereafter	(458 321)

Long-Term Liability Disclosure

	Beginning Balance	Additions	Retirements	Ending Balance
Net OPEB Liability	<u>\$ 5,688,763</u>	<u>\$ (2,427,964)</u>	<u>\$ 38,524</u>	<u>\$ 3,222,275</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

O. HEALTH CARE

During the year ended August 31, 2018 employees of the Frankston Independent School District were covered by the state sponsored health insurance plan. The district paid premiums of \$351 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Aetna. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and TRS ActiveCare is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Aetna are available for the most recent year and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

P. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description

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

Medicare Part D:

Federal Government Retiree Drug Subsidy - Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. The amount allocated on-behalf for the year ended August 31, 2018 is estimated by TRS at \$21,016.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2018

Q. COMPENSATED ABSENCES

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

Upon retirement from the District under the Teacher Retirement System of Texas, an employee who has had at least five years of consecutive employment with the District shall be compensated for unused sick days at a rate of \$20 per day, to a maximum of \$1,000. The accumulated leave benefits at August 31, 2018 were \$2,380 and are accrued as a liability in the General Fund.

R. SELF-INSURED WORKERS' COMPENSATION

During the year ended August 31, 2018 the Frankston Independent School District was a participant in the East Texas Educational Insurance Association's Workers' Compensation Self-insurance Joint Fund pursuant to Texas Labor Code Annotated Chapter 504 and Texas Government Code Ch. 791 (the Interlocal Cooperation Act).

The Board of Trustees of the plan and the plan supervisor, Claims Administrative Services, Inc., shall establish the proportionate contribution of each participant annually upon the actual loss experience and claims of the District, the experience rating modification of the District, the prorata costs or savings to the plan from the loss experience of all participants, and all reasonable and necessary administrative expenses of the plan. The proportionate contributions of all participants shall be combined into a self-insurance joint fund.

The District paid a fixed cost of \$17,754 to the plan supervisor for administration of claims, loss control, record keeping, and the cost of excess insurance. The loss fund maximum set aside in a separate account for claims not covered by excess insurance was established to be \$45,381 for the fiscal year. The self insurance retention maximum was \$225,000.

During the fiscal year, the District paid net claims of \$7,815 covering plan periods ending August 31, 2018, and has accrued \$2,332 as a liability for unpaid claims determined by the claims administrator.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2018

S. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2018, as follows:

Year Ended August 31	Total
2019	\$ 20 874
2020	1 740
Total Minimum Rentals	\$ 22 614
Rental Expenditures in Fiscal Year 2018	\$ 22 153

T. OTHER COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and Federal 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, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

U. RISK MANAGEMENT

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

V. SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 2, 2019; the date which the financial statements were available for distribution. There were none noted.

W. PRIOR PERIOD ADJUSTMENT

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$(5,651,870) which resulted in a restated beginning net position balance of \$(981,789).

REQUIRED SUPPLEMENTARY INFORMATION

FRANKSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,067,992	\$ 3,067,992	\$ 2,845,716	\$ (222,276)
5800 State Program Revenues	4,802,656	4,802,656	5,488,400	685,744
5020 Total Revenues	7,870,648	7,870,648	8,334,116	463,468
EXPENDITURES:				
Current:				
0011 Instruction	4,023,676	4,023,676	4,012,201	11,475
0012 Instructional Resources and Media Services	23,648	23,648	14,684	8,964
0013 Curriculum and Instructional Staff Development	139,584	139,584	139,573	11
0023 School Leadership	412,891	412,891	405,446	7,445
0031 Guidance, Counseling and Evaluation Services	226,216	226,216	225,963	253
0033 Health Services	100,566	100,566	100,852	(286)
0034 Student (Pupil) Transportation	154,076	154,076	24,920	129,156
0035 Food Services	2,859	2,859	2,859	-
0036 Extracurricular Activities	712,331	712,331	759,740	(47,409)
0041 General Administration	536,431	536,431	535,326	1,105
0051 Facilities Maintenance and Operations	1,097,824	1,097,824	1,081,433	16,391
0052 Security and Monitoring Services	50,109	50,109	48,754	1,355
0053 Data Processing Services	192,731	192,731	153,988	38,743
Capital Outlay:				
0081 Facilities Acquisition and Construction	50,898	50,898	-	50,898
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	154,096	154,096	154,096	-
0099 Other Intergovernmental Charges	72,000	72,000	72,514	(514)
6030 Total Expenditures	7,949,936	7,949,936	7,732,349	217,587
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(79,288)	(79,288)	601,767	681,055
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	(19,794)	(19,794)
1200 Net Change in Fund Balances	(79,288)	(79,288)	581,973	661,261
0100 Fund Balance - September 1 (Beginning)	2,944,358	2,944,358	2,944,358	-
3000 Fund Balance - August 31 (Ending)	\$ 2,865,070	\$ 2,865,070	\$ 3,526,331	\$ 661,261

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

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.003765954%	0.003984574%	0.0034661%	0.00185333%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,204,149	\$ 1,505,711	\$ 1,225,220	\$ 495,042
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	2,464,593	2,981,871	2,907,762	2,512,646
Total	<u>\$ 3,668,742</u>	<u>\$ 4,487,582</u>	<u>\$ 4,132,982</u>	<u>\$ 3,007,688</u>
District's Covered Payroll	\$ 4,487,649	\$ 4,410,996	\$ 4,171,570	\$ 4,092,956
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	26.83%	34.14%	29.37%	12.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2017 for year 2018, August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only four years of data are presented this reporting period. "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."

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ 125,416	\$ 122,574	\$ 124,684	\$ 104,547
Contribution in Relation to the Contractually Required Contribution	(125,416)	(122,574)	(124,684)	(104,547)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 4,670,348	\$ 4,487,649	\$ 4,410,996	\$ 4,171,570
Contributions as a Percentage of Covered Payroll	2.69%	2.73%	2.83%	2.51%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Note: In accordance with GASB 68, Paragraph 138, only four years of data are presented this reporting period. "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."

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

	<u>FY 2018 Plan Year 2017</u>
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.007409871%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 3,222,275
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	3,515,959
Total	<u>\$ 6,738,234</u>
District's Covered Payroll	\$ 4,487,649
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	71.80%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the year for which this information is available. Additional information will be added until 10 years of data are available and reported.

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2018

	2018
Contractually Required Contribution	\$ 37,834
Contribution in Relation to the Contractually Required Contribution	(37,834)
Contribution Deficiency (Excess)	\$ -0-
District's Covered Payroll	\$ 4,670,348
Contributions as a Percentage of Covered Payroll	0.81%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

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

PENSIONS:

Changes of Benefit Terms

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

Changes of Assumptions

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

OTHER POST-EMPLOYMENT BENEFITS:

Changes of Benefit Term

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

Changes of Assumptions

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

COMBINING STATEMENTS

255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	289 Title IV Part A	410 State Textbook Fund	427 TX VSN Grant to Rural Schools	429 Other State Grants	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ (3,957)	\$ (7,291)	\$ -	\$ (11,152)	\$ -	\$ -	\$ 17,320	\$ (67,574)
5,374	7,291	-	11,152	-	-	-	121,942
<u>\$ 1,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,320</u>	<u>\$ 54,368</u>
<u>\$ 1,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,048</u>
<u>1,417</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>37,048</u>
-	-	-	-	-	-	17,320	17,320
-	-	-	-	-	-	17,320	17,320
<u>\$ 1,417</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,320</u>	<u>\$ 54,368</u>

255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	289 Title IV Part A	410 State Textbook Fund	427 TX VSN Grant to Rural Schools	429 Other State Grants	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 46,066	\$ 174,654
-	-	-	44,430	1,050	6,590	-	56,193
21,433	17,599	10,000	-	-	-	-	624,843
21,433	17,599	10,000	44,430	1,050	6,590	46,066	855,690
21,433	17,599	10,000	13,658	1,050	10,466	-	310,292
-	-	-	-	-	-	-	47,030
-	-	-	-	-	-	-	445,200
-	-	-	-	-	-	67,066	67,066
-	-	-	30,772	-	-	-	30,772
21,433	17,599	10,000	44,430	1,050	10,466	67,066	900,360
-	-	-	-	-	(3,876)	(21,000)	(44,670)
-	-	-	-	-	-	-	19,794
-	-	-	-	-	(3,876)	(21,000)	(24,876)
-	-	-	-	-	3,876	38,320	42,196
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,320	\$ 17,320

REQUIRED TEA SCHEDULES

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 56,772	\$ -	\$ 5,131	\$ -	\$ (1,008)	\$ 50,633
17,966	-	2,853	-	(512)	14,601
21,263	-	4,882	-	(638)	15,743
27,719	-	3,700	-	(690)	23,329
38,546	-	4,341	1,795	(903)	31,507
45,312	-	7,084	1,817	(1,029)	35,382
53,974	-	9,140	2,812	(1,532)	40,490
80,475	-	13,241	4,527	(1,784)	60,923
142,686	-	42,651	14,581	(6,624)	78,830
-	3,598,370	2,600,393	889,023	15,108	124,062
<u>\$ 484,713</u>	<u>\$ 3,598,370</u>	<u>\$ 2,693,416</u>	<u>\$ 914,555</u>	<u>\$ 388</u>	<u>\$ 475,500</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 123,500	\$ 123,500	\$ 128,588	\$ 5,088
5800 State Program Revenues	2,300	2,300	4,123	1,823
5900 Federal Program Revenues	292,000	292,000	292,695	695
5020 Total Revenues	417,800	417,800	425,406	7,606
EXPENDITURES:				
0035 Food Services	469,160	469,160	445,200	23,960
6030 Total Expenditures	469,160	469,160	445,200	23,960
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(51,360)	(51,360)	(19,794)	31,566
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	19,794	19,794
1200 Net Change in Fund Balances	(51,360)	(51,360)	-	51,360
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ (51,360)	\$ (51,360)	\$ -	\$ 51,360

FRANKSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 870,000	\$ 870,000	\$ 941,169	\$ 71,169
5800 State Program Revenues	50,000	50,000	178,230	128,230
5020 Total Revenues	920,000	920,000	1,119,399	199,399
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Debt	455,000	460,000	460,000	-
0072 Interest on Long-Term Debt	463,560	456,788	456,788	-
0073 Bond Issuance Cost and Fees	1,200	1,700	1,700	-
6030 Total Expenditures	919,760	918,488	918,488	-
1200 Net Change in Fund Balances	240	1,512	200,911	199,399
0100 Fund Balance - September 1 (Beginning)	219,035	219,035	219,035	-
3000 Fund Balance - August 31 (Ending)	\$ 219,275	\$ 220,547	\$ 419,946	\$ 199,399

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
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Athens, Texas 75751
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**Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

Independent Auditor's Report

Board of School Trustees
Frankston Independent School District
P. O. Box 428
Frankston, Texas 75763

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended August 31, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 21, 2019.

Internal Control Over Financial Reporting

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

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

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

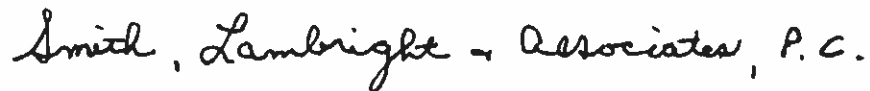
Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

January 21, 2019

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

I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards:

Internal control over major programs: N/A

- Material weakness(es) identified? _____ yes _____ no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? _____ yes _____ none reported

Type of auditor's report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a) _____ yes _____ no

Identification of major programs: N/A

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

Auditee qualified as low risk auditee? X yes _____ no

District Contact Person John Allen
 Superintendent

FRANKSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2018

II. Financial Statement Findings

The audit disclosed no finding required to be reported.

III. Federal Awards Findings and Questioned Costs

The audit disclosed no finding required to be reported.

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

N/A

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

N/A

FRANKSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2018

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18-610101001904	\$ 163,808
IDEA - Part B, Formula	84.027	18-660001001902	85,204
Career and Technical - Basic Grant	84.048	18-4200537110005	34,104
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	18-696001001904	17,599
ESEA, Title II, Part A, Supporting Effective Instr	84.367A	18-694501001904	21,433
Title IV, Part A	84.424A	18-680101001904	10,000
Total Passed Through State Department of Education			332,148
TOTAL U.S. DEPARTMENT OF EDUCATION			332,148
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		73,289
*National School Lunch Program - Cash Assistance	10.555		190,297
*National School Lunch Prog. - Non-Cash Assistance	10.555		29,109
Total CFDA Number 10.555			219,406
Total Child Nutrition Cluster			292,695
Total Passed Through the State Department of Agriculture			292,695
TOTAL U.S. DEPARTMENT OF AGRICULTURE			292,695
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 624,843

*Clustered Programs

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2018

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in the General Fund or in a Special Revenue Fund which are Governmental Fund types.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of the Period of Availability of Federal Funds.
- The National School Breakfast and Lunch Programs and the USDA donated commodities are accounted for in the nonmajor governmental funds. The Impact Aid, if any, is accounted for in the General Fund. Expenditures are not specifically attributable to these revenue sources and are shown on this schedule in an amount equal to revenue for balancing purposes only. The revenue for indirect costs is recognized in the General Fund.
- The expenditures shown on the Schedule of Expenditures of Federal Awards (SEFA) may not equal to total federal revenues shown on Exhibit C-3 by the amount of federal revenue recorded in various funds as shown below. These amounts are not subject to the Single Audit Act and are not required to be included in the SEFA.

Amount reported on the Schedule of Expenditures of Federal Awards \$	624 843
Federal Program Revenue Reported on Exhibit C-3	\$ 624 843