

TORNILLO

INDEPENDENT SCHOOL DISTRICT



Annual Financial Report

FOR THE YEAR ENDED AUGUST 31, 2018

TORNILLO INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORTS
FOR THE YEAR ENDED AUGUST 31, 2018

TORNILLO INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED AUGUST 31, 2018

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TORNILLO INDEPENDENT SCHOOL DISTRICT

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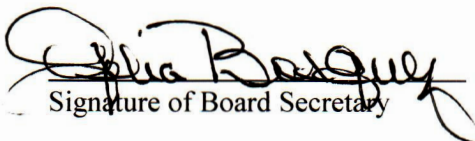
CERTIFICATE OF BOARD

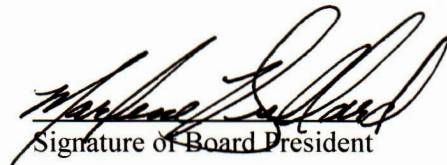
Tornillo Independent School District
Name of School District

El Paso County
County

071-908
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved _____ disapproved for the year ended August 31, 2018, at a meeting of the board of trustees of such school district on the 23rd 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)

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FINANCIAL SECTION

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Independent Auditor's Report

To the Board of Trustees
Tornillo Independent School District

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 Tornillo Independent School District (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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, 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 preparation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provides 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 Tornillo Independent School District, as of August 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note I.F to the financial statements, in 2018, the Tornillo Independent School District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Refer to Note III.J for discussion on the impact on revenues, expenses and net position related to adoption of this statement. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the TRS pension system and other post employment benefits information on pages 9 through 18 and 69 through 77 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Tornillo Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the required TEA schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the 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 statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The required TEA schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

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

Gibson Ruddock Patterson LLC

Gibson Ruddock Patterson LLC
El Paso, Texas
January 16, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we the managers of Tornillo Independent School District, discuss and analyze the District's financial performance for the fiscal year ending August 31, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

USING THIS 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, which provide information about the activities of the District as a whole, 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 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 the activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

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

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

All of the District's basic services are reported in governmental funds. These funds 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 schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position. 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.

FINANCIAL HIGHLIGHTS

Total assets and total deferred outflows and resources of the Tornillo Independent School District exceeded its liabilities for fiscal year 2018 by \$11,804,925 (net position). Of this amount, \$493,248 (unrestricted net position) may be used to meet the District's ongoing obligations to creditors and residents.

Total Net Position of the District decreased from \$17,358,476 in fiscal year 2017 to \$11,804,925 at year- end 2018. Of this total amount, unrestricted decreased by \$4,905,909 from \$5,399,157 to \$493,248. Total revenues decreased \$1,305,749 from \$14,463,797 in fiscal year 2017, to \$13,158,048 in fiscal year 2018. Total expenses decreased \$2,741,448 from \$13,943,539 to \$11,202,091.

The District's governmental funds financial statements reported a combined ending fund balance in fiscal year 2018 of \$8.9 million. The combined ending fund balance of the District remained unchanged from \$8.9 million in fiscal year 2017. Of this total amount, \$32,247 is Nonspendable, \$513,142 is Restricted, \$228 is Committed, \$926,805 is Assigned and \$7,480,148 is Unassigned and is available for spending at the District's discretion.

The fund balance in the Debt Service Fund is \$326,600. For fiscal year 2018, a combined tax rate of \$1.4008 per \$100 valuation is comprised of an Interest and Sinking tax rate of \$.3107 and a Maintenance and Operations tax rate of \$1.0901.

In 2015, the Superintendent assigned \$900,000 in addition to the \$100,000 assigned in 2014 for any other construction needs of the district. As of August 31, 2017, the assigned fund balance was \$660,630 after construction-related expenses and an assessment of District's facilities. During 2018, this balance was reassigned for the purchase of furniture (\$280,315), fund technology infrastructure (\$50,000), the purchase of technology equipment (\$50,000) and fund facility improvements/construction (\$280,315).

Furthermore, of the \$296,520 committed by the Board of Trustees for the Athletic Program, \$273,130 was spent during 2017. As of year-end 2017, the commitment for this fund was \$23,390. Funds were used to recondition athletic equipment during 2018. As of August 31, 2018, a commitment in the amount of \$228 remains due to the resolution approved by the Board of Trustees during 2017 to purchase a tractor. The amount of the total purchase was less than the amount committed by the Board of Trustees. These funds will be uncommitted during 2019.

The District scored 86 out of 100 possible points for 2017-2018 Financial Integrity Rating System of Texas (FIRST) based on 2016-2017 data, which resulted in an "Above Standard" rating.

Government-Wide Financial Analysis

Our analysis of comparative balances and changes therein compares both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District decreased from \$17,358,476 in fiscal year 2017 to \$11,804,925 in 2018. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was \$493,248 at August 31, 2018. The decrease in governmental net position is mainly attributed to the prior period adjustment recorded for the adoption of Governmental Accounting Standards Board (GASB) Statement No. 75.

In fiscal year 2018, the District adopted the GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. GASB 75 establishes financial reporting standards and accounting standards for state and local government defined other postemployment benefit (OPEB) plans and defined contribution OPEB plans. The statement requires that, at transition, a government recognizes a beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The effects of the adoption of this statement have no impact on the District's governmental fund financial statements. However, adoption resulted in certain changes to the presentation of the District's government-wide financial statements.

Table I
The District's Net Position
(in thousands)

Governmental & Other
Business-Type Activities

	2017	2018
Current and Other Assets	\$12,329	\$10,569
Non-Current Assets	30,931	30,667
Deferred Outflows of Resources	<u>1,930</u>	<u>1,555</u>
Total Assets and Deferred Outflows	<u>45,191</u>	<u>42,791</u>
Current Liabilities	3,225	1,473
Long Term Liabilities	24,372	27,068
Deferred Inflows of Resources	<u>235</u>	<u>2,445</u>
Total Liabilities and Deferred Inflows	<u>27,832</u>	<u>30,986</u>
Net Positions:		
Invested in capital assets,		
net of related debt	10,818	10,893
Restricted	1,141	419
Unrestricted	<u>5,399</u>	<u>493</u>
 Total Net Position	 <u><u>\$17,358</u></u>	 <u><u>\$11,805</u></u>

Changes in Net Position

The District's total revenues were \$13.2 million. A significant portion, 80 percent, of the district's revenues comes from state aid formula grants. Approximately 8 percent comes from taxes. The remaining 12 percent comes from investment earnings, federal grants and miscellaneous services. (See figure A-1 below.)

Figure A-1 Sources of Revenues for Fiscal Year 2018

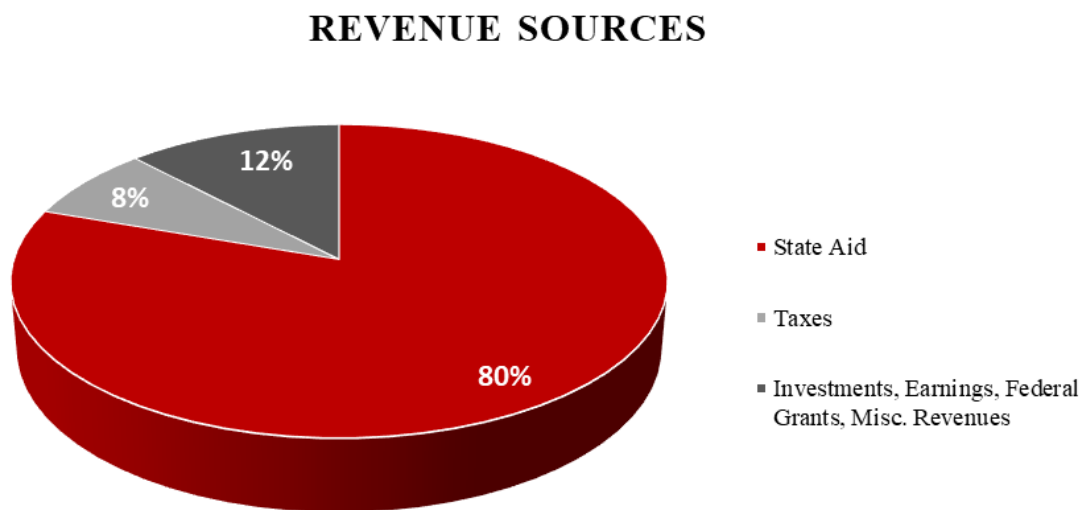
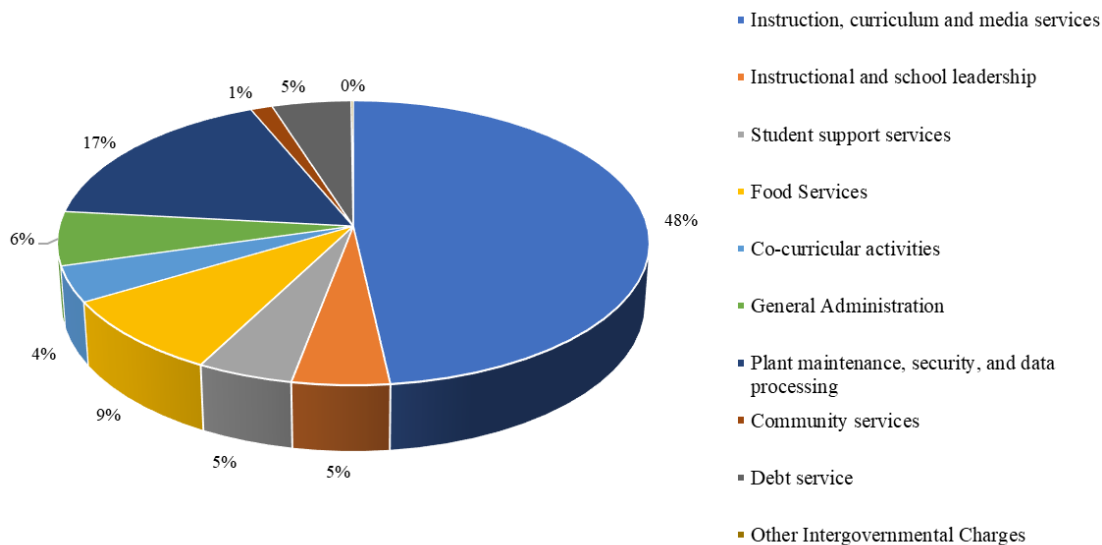


Table II
Changes In Net Position
(in thousands)
Governmental
Activities

Revenues:	2017	2018
<u>Program Revenues:</u>		
Charges for Services	\$127	\$189
Operating Grants and Contributions	3,545	1,156
<u>General Revenues:</u>		
Maintenance & Operations Taxes	727	788
Debt Service Taxes	192	211
State Aid-Formula Grants	9,673	10,563
Investment Earnings	150	170
Miscellaneous Revenue	49	81
Total Revenues	<u>14,463</u>	<u>13,158</u>
Expenses:		
Instruction, curriculum and		
media services	7,269	5,402
Instructional and school leadership	960	534
Student support services	628	527
Food Services	1,064	986
Co-curricular activities	436	455
General Administration	862	686
Plant maintenance, security, and		
data processing	2,031	1,906
Community services	140	149
Debt service	541	542
Other Intergovernmental Charges	12	15
Facilities acquisition and construction	0	0
Payments to fiscal agent/member district	0	0
Other business-type activities	0	0
Total Expenses	<u>13,943</u>	<u>11,202</u>
Increase in net position	520	1,956
Beginning net position	<u>18,038</u>	<u>17,358</u>
Prior Period Adjustment	(1,200)	(7,509)
Ending Net Position	<u>\$17,358</u>	<u>\$11,805</u>

The total cost of all programs and services was \$11.2 million. Forty-eight percent of these costs were for instructional student services. Five percent for all programs and services cost was for instructional and school leadership and seventeen percent was for plant maintenance, security and data processing services.



THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported combined fund balances of \$8.9 million which was maintained from last year's total of \$8.9 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had \$30,667,124 invested in a broad range of capital assets including the renovations and remodeling of the W.E. Neill Service Center and Boardroom, the replacement of network switches and the completion of the 2016 Bond projects.

Debt

At year-end, the District had \$18.6 million in bonds outstanding versus \$19.2 million last year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's student population continues to show a decrease over previous years. Due to the District's proximity to the Border, it is not unusual to see students return to their Country of Origin especially during the last couple of years in which the wave of violence has decreased in our neighboring city of Cd. Juarez, Mexico. In addition, several families have moved out of the District into neighboring school districts or have relocated to the Midland area seeking employment opportunities in the oil industry. With historic enrollment trends in mind, the Board of Trustees and Administration continue to use a conservative budget approach to ensure next year's budget is balanced. Other areas such as staffing ratios and attendance projections are considered during the budget development process.

Our Board always adopts its budget using conservative Average Daily Attendance estimates. We maintained the local Maintenance and Operations tax rate at \$1.09 in order to maximize the Tier II State Funding. Tornillo ISD currently qualifies for approximately 86% funding by the state for its debt service obligations; with the remaining 14% satisfied through the District's Debt Service Taxes. It has long been the Board's objective to maintain a significant fund balance to make new construction and/or renovations to existing structures, should the need arise.

The Interest and Sinking tax rate will be maintained at the rate of \$0.3107 during the current year in order to meet the debt obligations. The Maintenance and Operation tax rate will remain at \$1.0901 per every hundredth valuation for a combined tax rate of \$1.4008.

The District continues to apply and qualify for various Federal Program Grants that assist in the enhancement of education for students identified with special needs. These funds constitute a significant portion of our operating budget.

BUDGETARY HIGHLIGHTS

GASB Statement 34 required that we provide a discussion on significant variances between the district's original budget, final budget, and actual expenditures, and the impact of these variances on the District's/department's future liquidity. *Paragraph 11e of GASB Statement No. 34*

General Fund. The FY 2018 budget was developed by balancing challenges of an increase in operational cost and maintaining an adequate fund balance reserve to ensure financial stability. The most significant fund for the District is the General Fund, funded primarily through state aide and property tax revenue.

Over the course of the year, the District approved several budget amendments. These budget amendments were related to the use of the re-assigned Assigned Fund Balance, 1:1 Student Laptop Initiative, TRS On-Behalf and District of Innovation. Amendments related to the use of Assigned Fund Balance increased functions 11, 51, 53 and 81. These amendments included the replacement of student and teacher furniture at Tornillo Elementary School (Function 11 - \$86,664), the interior and exterior painting and carpet replacement of Tornillo Elementary School (Function 51 - \$62,028), carpet replacement at Tornillo Intermediate School (Function 51 - \$11,200), parking lots resurfacing and stripping (Function 51 - \$36,692), network switch replacements at Tornillo Junior High School (Function 53 - \$13,808), the renovation and remodeling of the W.E. Neill Service Center and Boardroom (Function 81 - \$135,877), the installation of a perimeter fence at the high school football field (Function 81 - \$14,808), lower gym repairs (Function 81 - \$15,000) and HVAC connection upgrades at Tornillo Elementary School and Tornillo Junior High School (Function 81 - \$51,985). Amendments related to the 1:1 Student Laptop Initiative include the purchase of student laptops for 5th, 8th and 9th grade students and purchase and installation of additional wireless access points (Function 11 - \$150,776). An amendment related

to TRS On-behalf in the amount of \$519,400 affected various functions with Function 11 (\$307,800) being significantly affected. With the District becoming a District of Innovation and adopting an earlier start date for the 2018-2019 school year an amendment in the amount of \$450,000 was made to reflect the additional personnel and operational cost that resulted from starting the school year ten days earlier than the prior year. This amendment affected various functions with Function 11 (\$260,000) being significantly affected. Budget amendments that increase or decrease the amount in a function are presented to the Tornillo ISD Board of Trustees for approval.

Exhibit G-1 of the financial statements includes a Statement of Revenues, Expenditures, and Changes in Fund Balance report that compares original and final budget amounts to actual amounts as of year-end close. The final column of the report lists of the variance as compared to the final budget.

At the end of the fiscal year, the District's actual revenues exceeded projected revenues by \$828,379.

The District's expenditures as compared to the final budget include several negative variances.

- Function 35 (Food Service) – With the District becoming a District of Innovation, the District adopted an earlier start date for the 2018-2019 school year resulting in an increase in personnel and food cost. In addition, the District elected the Seamless Summer Option which contributed to the negative variance.
- Function 51 (Maintenance and Operations) – The increase in the utility consumption resulting from the District's conversion to HVAC units was slightly higher than budgeted expectations.
- Function 72 (Interest on Long Term Debt) – The interest for the Bond Series 2017 was not considered in the 2017-2018 budget.

Total functions within the approved budget did not exceed the total approved appropriation. The significant variances listed above will not impact future services or liquidity.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office, at Tornillo Independent School District, 19200 Cobb Avenue, Tornillo, Texas.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data	Primary Government
Control	Governmental
Codes	Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 8,725,725
1220 Property Taxes - Delinquent	213,394
1230 Allowance for Uncollectible Taxes	(10,670)
1240 Due from Other Governments	1,511,398
1300 Inventories	41,197
1410 Prepayments	87,815
Capital Assets:	
1510 Land	7,243
1520 Buildings, Net	30,220,904
1530 Furniture and Equipment, Net	408,404
1560 Library Books and Media, Net	30,573
1000 Total Assets	41,235,983
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	573,642
1705 Deferred Outflow Related to TRS Pension	915,071
1706 Deferred Outflow Related to TRS OPEB	66,409
1700 Total Deferred Outflows of Resources	1,555,122
LIABILITIES	
2110 Accounts Payable	256,490
2140 Interest Payable	47,186
2150 Payroll Deductions and Withholdings	256,782
2160 Accrued Wages Payable	587,815
2180 Due to Other Governments	13,748
2190 Due to Student Groups	710
2300 Unearned Revenue	310,607
Noncurrent Liabilities:	
2501 Due Within One Year	791,200
2502 Due in More Than One Year	19,592,453
2540 Net Pension Liability (District's Share)	2,403,977
2545 Net OPEB Liability (District's Share)	4,280,112
2000 Total Liabilities	28,541,080
DEFERRED INFLOWS OF RESOURCES	
2602 Deferred Gain on Refunding	50,297
2605 Deferred Resource Inflow Related to TRS Pension	604,424
2606 Deferred Resource Inflow Related to TRS OPEB	1,790,379
2600 Total Deferred Inflows of Resources	2,445,100
NET POSITION	
3200 Net Investment in Capital Assets	10,892,656
3820 Restricted for Federal and State Programs	70,868
3850 Restricted for Debt Service	318,319
3870 Restricted for Campus Activities	29,834
3900 Unrestricted	493,248
3000 Total Net Position	\$ 11,804,925

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for	Operating	Primary Gov.
	Expenses	Services	Grants and Contributions	Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 5,058,912	\$ 7,668	\$ (378,440)	\$ (5,429,684)
12 Instructional Resources and Media Services	141,262	-	(25,824)	(167,086)
13 Curriculum and Instructional Staff Development	201,706	-	112,668	(89,038)
21 Instructional Leadership	64,958	-	78,522	13,564
23 School Leadership	468,814	33,039	(143,282)	(579,057)
31 Guidance, Counseling and Evaluation Services	151,387	-	(29,408)	(180,795)
32 Social Work Services	1,142	-	-	(1,142)
33 Health Services	103,406	300	(29,266)	(132,372)
34 Student (Pupil) Transportation	270,824	601	(46,028)	(316,251)
35 Food Services	986,319	100,922	838,790	(46,607)
36 Extracurricular Activities	455,415	18,872	-	(436,543)
41 General Administration	686,139	27,927	(21,617)	(679,829)
51 Facilities Maintenance and Operations	1,284,383	-	(121,739)	(1,406,122)
52 Security and Monitoring Services	204,185	-	(42,228)	(246,413)
53 Data Processing Services	417,136	-	(62,397)	(479,533)
61 Community Services	148,946	-	61,080	(87,866)
72 Debt Service - Interest on Long-Term Debt	496,617	-	965,579	468,962
73 Debt Service - Bond Issuance Cost and Fees	45,614	-	-	(45,614)
99 Other Intergovernmental Charges	14,926	-	-	(14,926)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 11,202,091</u>	<u>\$ 189,329</u>	<u>\$ 1,156,410</u>	<u>(9,856,352)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			787,682
DT	Property Taxes, Levied for Debt Service			210,748
SF	State Aid - Formula Grants			10,563,395
IE	Investment Earnings			170,446
MI	Miscellaneous Local and Intermediate Revenue			80,038
TR	Total General Revenues			<u>11,812,309</u>
CN	Change in Net Position			1,955,957
NB	Net Position - Beginning			17,358,476
PA	Prior Period Adjustment			(7,509,508)
NE	Net Position--Ending			<u>\$ 11,804,925</u>

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

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 8,372,417	\$ 353,308	\$ 8,725,725
1220 Property Taxes - Delinquent	169,650	43,744	213,394
1230 Allowance for Uncollectible Taxes	(8,483)	(2,187)	(10,670)
1240 Due from Other Governments	990,000	521,398	1,511,398
1260 Due from Other Funds	470,746	110,722	581,468
1300 Inventories	41,197	-	41,197
1410 Prepayments	-	87,815	87,815
1000 Total Assets	<u>\$ 10,035,527</u>	<u>\$ 1,114,800</u>	<u>\$ 11,150,327</u>
LIABILITIES			
2110 Accounts Payable	\$ 253,427	\$ 3,063	\$ 256,490
2150 Payroll Deductions and Withholdings Payable	256,782	-	256,782
2160 Accrued Wages Payable	537,791	50,024	587,815
2170 Due to Other Funds	110,722	470,746	581,468
2180 Due to Other Governments	-	13,748	13,748
2190 Due to Student Groups	710	-	710
2300 Unearned Revenue	259,524	51,083	310,607
2000 Total Liabilities	<u>1,418,956</u>	<u>588,664</u>	<u>2,007,620</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	151,232	38,905	190,137
2600 Total Deferred Inflows of Resources	<u>151,232</u>	<u>38,905</u>	<u>190,137</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	32,247	-	32,247
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	25,911	44,957	70,868
3470 Capital Acquisition and Contractual Obligation	-	85,840	85,840
3480 Retirement of Long-Term Debt	-	326,600	326,600
3490 Other Restricted Fund Balance	-	29,834	29,834
Committed Fund Balance:			
3545 Other Committed Fund Balance	228	-	228
Assigned Fund Balance:			
3550 Construction	99,738	-	99,738
3570 Capital Expenditures for Equipment	13,376	-	13,376
3590 Other Assigned Fund Balance	813,691	-	813,691
3600 Unassigned Fund Balance	7,480,148	-	7,480,148
3000 Total Fund Balances	<u>8,465,339</u>	<u>487,231</u>	<u>8,952,570</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 10,035,527</u>	<u>\$ 1,114,800</u>	<u>\$ 11,150,327</u>

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

TORNILLO 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	\$ 8,952,570
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 \$44,458,041 and the accumulated depreciation was (\$13,526,550). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	10,262,254
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to increase net position.	1,341,709
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 \$915,071, a deferred resource inflow in the amount of \$604,424 and a net pension liability in the amount of \$2,403,977. This resulted in an decrease in net position.	(2,093,330)
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-Care included a deferred resource outflow in the amount of \$66,409, a deferred resource inflow in the amount of \$1,790,379, and a net OPEB liability in the amount of \$4,280,112. This resulted in a decrease in net position.	(6,004,082)
5 The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(844,333)
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 net position.	190,137
19 Net Position of Governmental Activities	<u>\$ 11,804,925</u>

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

TORNILLO 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	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 1,167,835	\$ 278,322	\$ 1,446,157
5800 State Program Revenues	11,092,644	965,579	12,058,223
5900 Federal Program Revenues	941,136	906,467	1,847,603
5020 Total Revenues	<u>13,201,615</u>	<u>2,150,368</u>	<u>15,351,983</u>
EXPENDITURES:			
Current:			
0011 Instruction	6,059,454	612,087	6,671,541
0012 Instructional Resources and Media Services	147,461	-	147,461
0013 Curriculum and Instructional Staff Development	166,257	141,318	307,575
0021 Instructional Leadership	24,462	82,313	106,775
0023 School Leadership	725,572	17,134	742,706
0031 Guidance, Counseling and Evaluation Services	224,501	14,140	238,641
0033 Health Services	162,784	-	162,784
0034 Student (Pupil) Transportation	285,880	-	285,880
0035 Food Services	982,794	-	982,794
0036 Extracurricular Activities	487,363	-	487,363
0041 General Administration	925,868	180	926,048
0051 Facilities Maintenance and Operations	1,454,858	-	1,454,858
0052 Security and Monitoring Services	266,806	-	266,806
0053 Data Processing Services	533,764	-	533,764
0061 Community Services	102,717	61,080	163,797
Debt Service:			
0071 Principal on Long-Term Debt	78,000	569,542	647,542
0072 Interest on Long-Term Debt	13,084	690,049	703,133
0073 Bond Issuance Cost and Fees	-	1,752	1,752
Capital Outlay:			
0081 Facilities Acquisition and Construction	111,126	423,312	534,438
Intergovernmental:			
0099 Other Intergovernmental Charges	14,926	-	14,926
6030 Total Expenditures	<u>12,767,677</u>	<u>2,612,907</u>	<u>15,380,584</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	433,938	(462,539)	(28,601)
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	23,970	-	23,970
1200 Net Change in Fund Balances	457,908	(462,539)	(4,631)
0100 Fund Balance - September 1 (Beginning)	<u>8,007,431</u>	<u>949,770</u>	<u>8,957,201</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 8,465,339</u>	<u>\$ 487,231</u>	<u>\$ 8,952,570</u>

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

TORNILLO 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	\$ (4,631)
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 net position.	1,390,162
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.	(844,333)
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 decrease net position.	(5,610)
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 \$234,824. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$238,898. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$80,983. The net result is a decrease in the change in net position.	(85,057)
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 \$65,739. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net OPEB liability. This caused a decrease in net position totaling \$46,813. Finally, the proportionate share of the TRS-Care OPEB expense on the plan a a whole had to be recorded. The negative net OPEB expense increased the change in net position by \$1,486,500. The net result is an increase in the change in net position.	1,505,426
Change in Net Position of Governmental Activities	<u><u>\$ 1,955,957</u></u>

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

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FIDUCIARY FUND FINANCIAL STATEMENTS

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 27,325
Total Assets	<u>\$ 27,325</u>
LIABILITIES	
Due to Student Groups	\$ 27,325
Total Liabilities	<u>\$ 27,325</u>

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

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Tornillo Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board 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.

A. Reporting Entity

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. The Board also has primary accountability for fiscal matters; therefore, the District is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board ("GASB").

In accordance with Governmental Accounting Standards Board, a financial reporting entity consists of the primary government and its component units. Component units are legally separate organizations for which the elected officials of the District are financially accountable, or for which the relationship to the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, charges to school districts for services, state funds, grants and other intergovernmental revenues.

In addition to assets, the statement of net financial position may report a separate section of deferred outflows of resources. This separate financial statement category 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 that time. For pensions and OPEB, this outflow results from pension plan and OPEB contributions made after the measurement date of the net pension and OPEB liabilities and the results of differences between expected and actual economic experiences. The deferred outflow of resources related to pensions and OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension and OPEB liabilities in the next fiscal year. The other pension and OPEB related deferred outflows will be amortized over a systematic and rational method over a closed period.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement category represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. For pensions, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. For OPEB, these deferred inflows result primarily from differences between expected and actual experiences as well as changes in actuarial assumptions. These amounts will be amortized over a systematic and rational method over a closed period.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 outflow 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. The Plan's fiduciary net position has been determined on the same basis as that used by the Plan. 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.

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

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

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to or due from on the government-wide Statement of Net Position.

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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, deferred outflows of resources, current liabilities, deferred inflows of resources, 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, other than property tax revenue, available if they are collectible within one year after year end.

Revenues from local sources consist primarily of property taxes. Revenues received from the State are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. The District considers property tax revenue available if they will be collected within 60 days of the end of the fiscal year. 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.

Unavailable revenue from property taxes arises only under modified accrual basis of accounting. The governmental funds report this unavailable revenue as deferred inflow of resources, which is recognized revenue in the period that the amounts become 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.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. Within this measurement focus, assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the fund Statement of Net Position.

D. Fund Accounting

The District reports the following major governmental fund:

1. General Fund - The General Fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

GOVERNMENTAL FUNDS:

1. Special Revenue Funds - The District accounts for resources restricted for specific purposes by the District or a grantor in a special revenue fund. Most federal and state financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances are returned to the grantor at the close of specified project periods.
2. Debt Service Fund - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. Capital Projects Fund - The proceeds from long-term debt financing will be used to construct, renovate, acquire and equip school buildings in the District and pay any associated costs.
4. Permanent Funds - The District has no permanent funds.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

PROPRIETARY FUNDS:

5. Enterprise Funds - The District has no enterprise funds.
6. Internal Service Funds - The District has no internal service funds.

FIDUCIARY FUNDS:

7. Private Purpose Trust Funds - The District has no private purpose trust funds.
8. Pension (and Other Employee Benefit) Trust Funds - The District has no pension trust funds.
9. Investment Trust Fund - The District has no investment trust funds.
10. Agency Funds - The District accounts for resources held for others in a custodial capacity in agency funds. Assets equal liabilities, and this fund does not include measurement or results of operations. The District's agency fund is the Student Activity Account.

E. Other Accounting Policies

1. 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.
2. Investments with an original maturity greater than one year from date of purchase are stated at fair value based on quoted market prices as of year end, except for nonparticipating interest-earning investment contracts which are reported at cost. Investments with an original maturity of less than one year are reported at amortized cost.
3. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

4. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities which are received at no cost are recorded as revenue and expenditures at market values supplied by the Texas Department of Agriculture when received. At year end, the commodities inventory is recorded to inventory and unearned revenue.

Prepaid items on the balance sheet are accounting for using the consumption method and are recognized as expenditures over the periods in which the service is provided.

5. 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.
6. 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, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. Management assets that the district is in substantial compliance with the requirements of the Act and with local policies.
7. Additional policies and contractual provisions governing deposits and investments for the District are specified below:

Credit Risk:

Deposits - The District is not exposed to credit risk.

Temporary Investments - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in public funds investment pools to those that have received top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2018, the District's investments in Lone Star investment pool was rated AAAm by Standard & Poors.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Custodial Credit Risk:

Deposits - State law required governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. Since the District complies with this law, it has minimal custodial credit risk for deposits.

Temporary Investments - To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This includes securities in securities lending transactions. Investment pools are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book-entry form.

Concentration of Credit Risk:

Deposits - The District is not exposed to concentration of credit risk.

Temporary Investments - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District's policy states that the portfolio must be diversified. Concentration of Credit Risk is not applicable to investment pools since the purpose of these pools is to diversify the District's investment portfolio.

Interest Rate Risk:

Deposits - The District is not exposed to interest rate risk.

Temporary Investments - To limit the risk that changes in interest rates will adversely affect the fair value of the investments, the District requires its investment portfolio to have maturities of less than one year on a weighted average maturity (WAM) basis. All of the District's investment pools use amortized cost and therefore the interest rate disclosure is not applicable.

Foreign Currency Risk:

Deposits - The District attempts to limit the risk that changes in exchange rates will adversely affect a deposit by avoiding deposits denominated in a foreign currency.

Temporary Investments - The District attempts to limit the risk that changes in exchange rates will adversely affect the fair value of an investment by avoiding investment pools which are denominated in a foreign currency.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

8. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. When applicable, premiums and discounts are presented as a component of liabilities while deferred losses on refundings are presented as deferred outflows of resources. Both items are deferred and amortized over the life of the related debt using the straight line method. Long-term debt is reported net of the applicable bond premium or discount.

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

9. It is the District's policy to permit some employees to accumulate earned but unused vacation, sick leave, and local days. There is no liability for unpaid accumulated vacation, sick leave, and local days since the District does not have a policy to pay any amounts when employees separate from service with the District.

10. Capital assets, which include land, buildings, furniture and equipment, are reported 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of the receipt.

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 is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20 to 50
Vehicles	7 to 10
Other Equipment	5 to 15
Computer Equipment	5

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

11. Net Position on the Statement of Net Position include the following:

Net investment in capital assets - this component of net position consists of capital assets, net accumulated depreciation, reduced by the outstanding balances of bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt will be included in this component of net position.

Restricted for federal and state programs - this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, which are restricted by federal and state granting agency(s).

Restricted for Debt Service - this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The assets arise from bond issuance which have constraints placed on them by the bond covenant(s) for the purpose of future debt service payments.

Restricted for Campus Activities - this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, which are restricted transactions related to a principal's activity fund.

Unrestricted - this component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

12. The District reports the following fund balance categories which describe the nature and the relative strength of the spending constraints:

Nonspendable Fund Balance - Represents amounts that are not in spendable form or are legally or contractually required to be maintained intact, such as inventories.

Restricted Fund Balance - Represents amounts that are restricted to specific purposes, with constraints placed on the use of resources by (a) external creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or (c) enabling legislation

Committed Fund Balance - Represents amounts that are restricted for purposes which the Board of Trustees, the District's highest level of decision-making authority, has designated their use. These amounts are committed through a formal resolution, requiring funds to be used only for specific purposes. These amounts can only be re-allocated by the same formal action that was take to originally commit those amounts. The Board of Trustees shall take action to commit funds for a specific purpose prior to the end of the fiscal year.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Assigned Fund Balance - Represents amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The governing body has delegated authority to the Superintendent or designated managers. Should the Board opt not to commit any balances, it will implicitly defer to the designees to make appropriate assignments.

Unassigned Fund Balance - Represents amounts that are available for any purpose and have not been restricted, committed, or assigned for specific purposes. Positive amounts are reported only in the general fund.

The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a formal resolution. Assigned fund balance is established by the Superintendent or designated managers through adoption or amendment of the budget as intended for specific purpose.

When an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, followed by assigned amounts, and then unassigned amounts when balance classifications could be used, unless the Board of Trustees or designee's have provided otherwise in its commitment or assignment actions.

13. 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 state-wide data base for policy development and funding plans.
14. The District receives substantial amounts of funding from special revenue sources. The majority of this money is cost reimbursement to the District by the federal government or Texas Education Agency. The portion of revenue allowable for indirect cost is credited as revenue to the General Fund and as a reduction to revenue in the Special Revenue Fund, as appropriate. The indirect cost revenue is fully allocated to function 41, General Administration, in the Government-wide Statement of Activities as operating grants and contributions.
15. In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements presented by the Texas State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Resource Guide. Mandatory codes are recorded in the order provided in the Resource Guide.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.
17. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas legislature.

- F. The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. As a result, the District's financial statements as of August 31, 2018 are presented in accordance with the guidance provided by this statement. See Notes III.J, Defined Benefit Other Posts Employment Benefit Plan, and III.U, Prior Period Adjustments, for more information regarding implementation of this new pronouncement.

The District also implemented GASB Statement No. 85 *Omnibus 2017*, which addresses certain issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and post employment benefits. The District's financial statements as of August 31, 2018, are presented in accordance with the guidance provided by this Statement.

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 bond payable, and the District's proportionate share of the net pension and OPEB liabilities are not due and payable in the current period and are not reported as liabilities in the funds.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

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 position balance and the change in net position.

Another element of the reconciliation on the Exhibit C-4 include recognizing property tax revenue considered available and recognizing accruals of interest on long-term debt. In addition, certain pension and OPEB expenditures are de-expended and the District recorded its proportionate share of the pension and OPEB expense. These adjustments are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At August 31, 2018, the carrying amount of the District's deposits (cash, and interest-bearing savings accounts including fiduciary funds cash) was \$337,969 and the bank balance was \$613,206. The District's cash deposits at August 31, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: WestStar Bank.
- b. The market value of bonds and securities pledged as of the date of the highest combined balance on deposit was \$3,607,067.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$1,694,361 and occurred during the month of January 2018.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$250,000.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

Due to the immediate availability of the funds, the District's temporary investments are presented as cash and cash equivalents as of August 31, 2018 and, include the following:

	<u>Account Balance</u>
Lone Star:	
Corporate Overnight Fund (amortized cost)	<u>\$ 8,415,081</u>
	<u><u>\$ 8,415,081</u></u>

The Lone Star Investment Pool is a member owned, member-governed public funds investment pool. It is managed by an eleven member Board of Trustees and the Board is authorized to adopt and maintain bylaws. There is also an Advisory Board composed of participants that gathers and exchanges information from participants relating to the operation of the Pool. Each fund within the Pool has received the highest rating, that of AAAM, from Standard & Poor's as required by the Public Fund's Investment Act. Lone Star Investment Pool issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by calling Lone Star at 1-800-558-8875. Management is not aware of the presence of any limitations or restrictions on withdrawals such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool's authority to impose liquidity fees or redemption gates.

B. Receivable 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. A majority of the federal grants are passed through the TEA.

Amounts due from federal and state governments as of August 31, 2018 are summarized below.

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Federal Grants	\$ 105,707	\$ 521,398	\$ 627,105
State Support	882,413	-	882,413
Other	1,880	-	1,880
Total	<u>\$ 990,000</u>	<u>\$ 521,398</u>	<u>\$ 1,511,398</u>

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

C. Interfund Receivables and Payables

Interfund balances are a result of normal operations and are eliminated periodically. Management intends to pay out these balances within one year.

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

	Due From Other Funds	Due To Other Funds
General Fund		
Nonmajor Governmental Funds	\$ 470,746	\$ 110,722
Total General Fund	470,746	110,722
Non Major Governmental Funds		
General Fund	110,722	470,746
Total	\$ 581,468	\$ 581,468

D. Capital Asset Activity

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

	Primary Governments			
	Beginning Balance	Additions	Deletion, Reclassification and Adjustment	Ending Balance
<u>Governmental activities:</u>				
Land	\$ 7,243	\$ -	\$ -	\$ 7,243
Buildings and Improvements	31,711,173	111,126	10,383,130	42,205,429
Furniture and Equipment	2,545,084	68,791	(49,426)	2,564,449
Construction in Progress	10,091,818	423,312	(10,515,130)	-
Library Books & Media	102,723	-	-	102,723
Totals at Historic Cost	44,458,041	603,229	(181,426)	44,879,844
Less Accumulated Depreciation for:				
Buildings and Improvements	11,425,095	668,167	(108,737)	11,984,525
Furniture and Equipment	2,049,850	155,621	(49,426)	2,156,045
Library Books and Media	51,605	20,545	-	72,150
Total Accumulated Depreciation	13,526,550	844,333	(158,163)	14,212,720
Governmental Activities Capital Assets, net	\$ 30,931,491	\$ (241,104)	\$ (23,263)	\$ 30,667,124

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

A portion of the buildings are located on leased land. See Note Q.

Depreciation expense was charged to governmental functions as follows:

Instruction	\$	538,929
Instructional resources and media services		32,529
Instructional leadership		-
School leadership		11,030
Guidance, counseling and evaluation services		1,465
Social work services		1,142
Health services		1,398
Student (pupil) transportation		62,397
Food services		136,835
Cocurricular/extracurricular activities		5,668
General administration		9,940
Facilities maintenance and operations		16,052
Security and monitoring services		5,367
Data processing services		18,621
Community services		2,960
Total depreciation expense	\$	<u>844,333</u>

E. Unearned Revenue

Unearned revenue at year end consisted of the following:

	General Fund	Non Major Governmental Funds	Total
Foundation	\$ 250,574	\$ -	\$ 250,574
EDA and IFA	-	28,900	28,900
Federal, State, and Local Grants	-	22,183	22,183
USDA Commodities	8,950	-	8,950
Total Unearned Revenue	\$ 259,524	\$ 51,083	\$ 310,607

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

F. Deferred Outflows and Inflows of Resources

Deferred losses on refunding of bonds for the year ended August 31, 2018, presented as deferred outflows of resources, were as follows:

	Beginning Balance	New Issues	Amortization	Ending Balance
Series 2012	\$ 246,439	\$ -	\$ 19,823	\$ 226,616
Series 2013	371,065	-	24,039	347,026
	<u>\$ 617,504</u>	<u>\$ -</u>	<u>\$ 43,862</u>	<u>\$ 573,642</u>

Deferred gain on refunding of bonds for the year ended August 31, 2018, presented as deferred inflows of resources, was as follow:

	Beginning Balance	New Issues	Amortization	Ending Balance
Series 2015	\$ 54,341	\$ -	\$ 4,044	\$ 50,297

G. Changes in Long-Term Liabilities

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

	Funded by:	Beginning Balance	Addition	Reductions	Ending Balance	Due Within One Year
Governmental Activities:						
<u>Bonds Payable:</u>						
Refunding Series	Debt Service Fund	\$ 8,934,540	\$ -	\$ 499,542	\$ 8,434,998	\$ 630,000
Unlimited Tax Building Bonds	Debt Service Fund	9,775,000	-	70,000	9,705,000	81,200
Limited Tax Refunding Bond	General Fund	509,000	-	78,000	431,000	80,000
Accretion Payable	Debt Service Fund	494,795	13,996	125,458	383,333	-
Unamortized Premium/ Discount on Debt		<u>1,519,065</u>	<u>-</u>	<u>89,743</u>	<u>1,429,322</u>	<u>-</u>
Total Governmental Long-term Liabilities		<u>\$21,232,400</u>	<u>\$ 13,996</u>	<u>\$ 862,743</u>	<u>\$20,383,653</u>	<u>\$ 791,200</u>

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

H. General Long-Term Debt

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

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Outstanding 08/31/17	Issued	Retired	Outstanding 8/31/18	Due Within One Year
Limited Tax Refunding Bond Series 2011	1.750%	\$ 918,000	\$ 9,564	\$ 509,000	\$ -	\$ 78,000	\$ 431,000	\$ 80,000
Refunding Series 2012								
Current interest bonds	2% - 3.75%	1,940,000	-	1,940,000	-	255,000	1,685,000	260,000
Current interest term bonds	2% - 3.75%	860,000	76,819	610,000	-	-	610,000	-
Capital appreciation bonds		114,998	-	114,998	-	-	114,998	-
Refunding Series 2013								
Current interest bonds	2% - 3.5%	2,740,000	115,875	2,605,000	-	-	2,605,000	185,000
Current interest term bonds	2% - 3.5%	910,000	-	910,000	-	-	910,000	-
Capital appreciation bonds		134,998	-	59,542	-	59,542	-	-
Refunding Series 2015								
Current interest serial bonds	2% - 3%	1,850,000	93,350	1,620,000	-	185,000	1,435,000	185,000
Current interest term bonds	4.0%	1,075,000	-	1,075,000	-	-	1,075,000	-
Unlimited Tax Building Bond Series 2016								
Current interest serial bonds	3.0%	5,715,000	262,640	5,715,000	-	70,000	5,645,000	80,000
Current interest term bonds	3.0%	3,665,000	-	3,665,000	-	-	3,665,000	-
Unlimited Tax Building Bond Series 2017	2.46%	395,000	-	395,000	-	-	395,000	1,200
		<u>\$20,317,996</u>	<u>\$ 558,248</u>	<u>\$ 19,218,540</u>	<u>\$ -</u>	<u>\$ 647,542</u>	<u>\$ 18,570,998</u>	<u>\$ 791,200</u>

Accretion payable for the year ended August 31, 2018 is as follows:

Description	Accretion Outstanding 08/31/17	Accrual of Accretion	Accretion Retired	Accretion Outstanding 8/31/18	Due Within One Year
Refunding Series 2012	\$ 370,627	\$ 12,706	\$ -	\$ 383,333	\$ -
Refunding Series 2013	124,168	1,290	125,458	-	-
	<u>\$ 494,795</u>	<u>\$ 13,996</u>	<u>\$ 125,458</u>	<u>\$ 383,333</u>	<u>\$ -</u>

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

Unamortized Premiums/Discounts on Debt for the year ended August 31, 2018 are as follows:

Description	Beginning Balance	Premiums and Discounts on New Issues	Net Amortization Recognized	Outstanding 8/31/18
Refunding Series 2012	\$ 265,674	\$ -	\$ 21,367	\$ 244,307
Refunding Series 2013	421,743	-	27,324	394,419
Refunding Series 2015	237,773	-	17,706	220,067
Unlimited Tax Building Bond Series 2016	593,875	-	23,346	570,529
	<u>\$ 1,519,065</u>	<u>-</u>	<u>\$ 89,743</u>	<u>\$ 1,429,322</u>

Debt service requirements are as follows:

<u>GENERAL OBLIGATIONS</u>			
Year Ended August 31,	Principal	Interest	Total Requirements
2019	\$ 791,200	\$ 559,689	\$ 1,350,889
2020	660,858	738,634	1,399,492
2021	664,640	737,097	1,401,737
2022	896,300	503,486	1,399,786
2023	926,500	478,046	1,404,546
2024 - 2028	4,511,500	1,974,109	6,485,609
2029 - 2033	5,105,000	1,173,131	6,278,131
2034 - 2038	2,320,000	582,450	2,902,450
2039-2043	2,695,000	206,925	2,901,925
	<u>\$ 18,570,998</u>	<u>\$ 6,953,567</u>	<u>\$ 25,524,565</u>

For the year ended August 31, 2018 the District paid \$703,132 in interest costs.

The Board of Trustees and the sole registered bond holder of the Limited Tax and Revenue Refunding Bond, 2011, agreed to an amendment to reduce the interest rate of the Bond pursuant to Section 16 of the Original Order on June 23, 2016. The amendment is effective on August 15, 2016 and reduces the interest rate from 3.610% to 1.750% beginning with the February 15, 2017 interest payment through 2023.

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.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

Rebatable Arbitrage - The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least five years. Arbitrage is evaluated and estimated on an annual basis by a third party. The company has estimated no liability for the District as of August 31, 2018.

I. Defined Benefit Pension Plan

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

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

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

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

Contributions: Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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. Actuarial implications of the funding provided in this manner are determined by the system's actuary.

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 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	<u>Contribution Rates</u>	
	<u>Plan Fiscal Year</u>	
	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

<u>Contributions Required and Made</u>	
2018 Employer Contributions	\$ 234,824
2018 Member Contributions	559,707
2017 Plan Year NECE On-Behalf Contributions (State)	396,704

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies, including TRS. In each respective role, 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 and junior colleges, 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 (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Included in the employer contributions amount listed above for fiscal year 2018, the District paid \$8,031 in retiree surcharges and \$87,238 for non-OASDI employees. These two additional surcharges an employer is subject to are summarized as follows:

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

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Municipal Bond Rate	N/A*
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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 with no cross-over point to a municipal bond rate. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation*	Long-Term Expected Geometric Real Return 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%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

*Target allocations are based on the FY2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in FY 2017, but the reallocation does not affect the long-term expected geometric real rate of return or expected contribution to long-term portfolio returns.

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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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

	1% Decrease in Discount Rate 7%	Current Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 4,052,630	\$ 2,403,977	\$ 1,031,205

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 \$2,403,977 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

The District's proportionate share of the collective net pension liability	\$ 2,403,977
State's proportionate share that is associated with the District	<u>3,878,395</u>
Total	<u>\$ 6,282,372</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 District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0075183916% which was an decrease of 0.0007902003% 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 \$295,829 and revenue of \$295,829 for support provided by the State.

The amount of pension expense recognized by the District in the reporting period was \$615,710.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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	\$ 35,171	\$ 129,643
Changes in actuarial assumptions	109,505	62,689
Net difference between projected and actual investment earnings	-	175,196
Changes in proportion and difference between District's contributions and proportionate share of contributions	535,571	236,896
District contributions to TRS subsequent to the measurement date	234,824	-
Total	<u>\$ 915,071</u>	<u>\$ 604,424</u>

The \$234,824 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2019.

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	Amount
2019	\$ 7,422
2020	160,874
2021	(4,371)
2022	(48,780)
2023	(6,220)
Thereafter	(33,102)

Payable to the Pension Plan: At August 31, 2018, the District reported a payable of \$195,298 to the pension plan for the outstanding amount of contractually required contributions related to past service costs. Of this amount, \$139,773 represents member's contributions.

Changes in Net Pension liability:

	Beginning Balance	Additions	Reductions	Ending Balance
Net Pension Liability	<u>\$ 3,139,693</u>	<u>\$ 476</u>	<u>\$ 736,192</u>	<u>\$ 2,403,977</u>

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

J. Defined Benefit Other Post-Employment Benefit Plans

Plan Description

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

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at:

<http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

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

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

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

TRS-Care Plan Premium Rates					
Effective Sept. 1, 2016 - Dec. 31, 2017					
	TRS-Care 1		TRS-Care 2		TRS-Care 3
	Basic Plan		Optional Plan		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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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 was 1.0% and increased to 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contributions Rates</u>	
	<u>Plan Fiscal Years</u>	
	<u>2017</u>	<u>2018</u>
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%
2018 Employer Contributions	\$	65,739
2018 Member Contributions		46,987
2017 Plan Year NECE On-behalf Contributions (State)		70,767

Included in 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. For the year ended August 31, 2018, the District paid TRS-Care retiree surcharges of \$4,951.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$212 million in fiscal year 2018.

Actuarial Assumptions

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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the actuarial assumptions below. Those assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate*	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases**	3.50% to 9.50%
Healthcare Trend Rates***	4.50% to 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

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

**Includes inflation of 2.50%

***Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescriptions for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 10 year.

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.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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. 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 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:	\$ 5,051,594	\$ 4,280,112	\$ 3,660,014

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 1% less than and 1% greater than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Trend Rate	1% Increase
District’s proportionate share of the Net OPEB Liability:	\$ 3,563,621	\$ 4,280,112	\$ 5,220,238

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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

At August 31, 2018, the District reported a liability of \$4,280,112 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

The District's proportionate share of the collective Net OPEB Liability	\$ 4,280,112
State's proportionate share that is associated with the District	<u>5,919,200</u>
Total	<u><u>\$ 10,199,312</u></u>

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

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was 0.0098424486%. 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, 2017 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:

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

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

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

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

For the year ended August 31, 2018, the District recognized OPEB expense of \$(1,980,722) and revenue of \$(1,980,722) for support provided by the State.

The amount of OPEB expense recognized by the District in the reporting period was \$(3,420,409).

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 (OPEB) from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 89,351
Changes in actuarial assumptions	-	1,701,028
Difference between projected and actual investment earnings	650	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	20	-
Contributions paid to TRS subsequent to the measurement date	65,739	-
Total	\$ 66,409	\$ 1,790,379

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

The \$65,739 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2019. 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 June 30:	OPEB Expense Amount
2019	\$ (236,154)
2020	(236,154)
2021	(236,154)
2022	(236,154)
2023	(236,316)
Thereafter	(608,777)
	<u><u>\$ (1,789,709)</u></u>

Changes in Net OPEB liability:

	Beginning Balance	Additions	Reductions	Ending Balance
Net OPEB Liability	\$ 7,556,321	\$ 54	\$ 3,276,263	\$ 4,280,112

Payable to the OPEB Plan: At August 31, 2018, the District reported a payable of \$29,697 to the OPEB plan for the outstanding amount of contractually required contributions related to past service costs. Of this amount, \$11,783 represent member's contributions.

Negative Operating Grants and Contributions - Statement of Activities

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

During the year under audit, the NECE expense was negative due to changes in actuarial assumptions within the TRS-care plan. The effect of recording the on-behalf amounts for the District's proportionate share of that expense resulted in negative on-behalf revenue and expense amounts. As such, the Statement of Activities includes several functions with negative amounts in operating grants and contributions. However, the net effect on governmental activities was zero for the year ended August 31, 2018.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

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

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11 - Instruction	\$ (378,440)	\$ (1,174,854)	\$ 796,414
12 - Instructional Resources and Media Services	(25,824)	(30,726)	4,902
13 - Curriculum and Instructional Staff Development	112,668	(34,089)	146,757
21 - Instructional Leadership	78,522	(4,510)	83,032
23 - School Leadership	(143,282)	(172,418)	29,136
31 - Guidance, Counseling and Evaluation Services	(29,408)	(51,814)	22,406
32 - Social Work Services	-	-	-
33 - Health Services	(29,266)	(34,822)	5,556
34 - Student (Pupil) Transportation	(46,028)	(54,764)	8,736
35 - Food Services	838,790	-	838,790
36 - Extracurricular Activities	-	-	-
41 - General Administration	(21,617)	(153,396)	131,779
51 - Facilities Maintenance and Operations	(121,739)	(144,846)	23,107
52 - Security and Monitoring Services	(42,228)	(50,244)	8,016
53 - Data Processing Services	(62,397)	(74,239)	11,842
61 - Community Services	61,080		61,080
72 - Interest on Long Term Debt	965,579		965,579
	<u>\$ 1,156,410</u>	<u>\$ (1,980,722)</u>	<u>\$ 3,137,132</u>

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provision of 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.

Medicare Part D contributions made on behalf of the District's employees for the years ended August 31, 2016, 2017, and 2018 were \$29,519, \$23,980 and \$24,693, respectively. These amounts are recorded as equal revenues and expenditures in the governmental fund financial statements of the District.

K. Health Care Coverage

During the year ended August 31, 2018, Tornillo Independent School District participated in the TRS - Active Care Health Insurance Program. During the year ended August 31, 2018, employees of the District were covered by the District's insurance Plan (the "Plan"). Under this plan, the District and State (Teacher Retirement System of Texas) contribute approximately \$225 and \$75, respectively to the employee's premium. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement. There were no other liabilities associated with the Plan.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

L. Unemployment Compensation Pool

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

The fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2018, the Fund anticipates that Tornillo ISD has no additional liability beyond the contractual obligation for payment of contribution.

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

M. Worker's Compensation Program

As required by law the District has acquired adequate worker's compensation insurance coverage contracted through Claims Administrative Services, Inc. The District has chosen to participate in a political subdivision risk pool, which means that the District shares its exposure with other school districts and public entities with similar employee populations. Currently, the District employs more than 190 full-time and part-time employees. The District paid \$53,790 in worker's compensation premium for the plan year 2017-2018. This premium is considered sufficient by Claims Administrative Services, Inc. and no contingent liability is required to be reported. This total amount paid for worker's compensation costs is less than 1% of annual payroll.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

N. Fund Balance

As of August 31, 2018, fund balances are composed of the following:

	General Fund	Non Major Governmental Funds	Total
Nonspendable:			
Inventories	\$ 32,247	\$ -	\$ 32,247
Restricted:			
Food Service	25,911	-	25,911
Capital Acquisition and Contractual Obligation	-	85,840	85,840
Summer Feeding Program	-	43,357	43,357
Advanced Placement Incentives	-	1,600	1,600
Debt Service	-	326,600	326,600
Campus Activities	-	29,834	29,834
Assigned:			
Construction	99,738	-	99,738
Capital Expenditures for Equipment	13,376	-	13,376
Other Assigned	813,691	-	813,691
Committed:			
Other Committed	228	-	228
Unassigned	7,480,148	-	7,480,148
Total	\$ 8,465,339	\$ 487,231	\$ 8,952,570

There were no significant or material encumbrances at year end.

O. Revenue from Local and Intermediate Sources

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

	General Fund	Non Major Governmental Funds	Total
Property Taxes	\$ 778,311	\$ 220,574	\$ 998,885
Penalties and Interest on Taxes	23,902	6,075	29,977
Investment Income	160,212	10,234	170,446
Food Sales	100,622	-	100,622
Insurance Recovery	54,510	-	54,510
Co-curricular Student Activities	18,872	-	18,872
Other	31,406	41,439	72,845
Total	\$ 1,167,835	\$ 278,322	\$ 1,446,157

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

P. Litigation

During the normal course of business the District is subject to various legal claims. As of August 31, 2018, management is not aware of any such claim which would have a material adverse effect on the financial statements.

Q. Other Significant Commitments and Contingencies

Federal and State Funding - Tornillo Independent School District participates in numerous state and federal grant programs that are subject to audit by the Texas Education Agency and various Federal and/or State audit agencies. These programs have complex compliance requirements, and should State or Federal auditors discover areas of material noncompliance, those District funds may be subject to refund if so determined by administrative audit review. An investigation is currently underway regarding the possible misappropriation of federal grant funds. Since the investigation is on-going, the District has not made any adjustments related to the possible misappropriation. If any funds are determined to be misappropriated, the general fund will repay all amounts. Management does not believe any repayment of monies would have a material adverse effect on the general fund. In the opinion of administration, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Commitments Under Lease - Tornillo Independent School District leases 300 acres (13,068,000 square feet) of land in El Paso County, Texas from the University of Texas System Board of Regents. The term of this lease agreement is for a period of ten years which commenced October 1, 2006. The lease was renewed on June 24, 2015 for an additional ten year period commencing on October 1, 2016. This lease provides for rent of \$5,000 for the entire lease term. The land is only permitted to be used for the purpose of public education facilities and for necessary and desirable purposes incidental thereto, and for no other purpose. The District constructed a new high school facility on this land.

The District entered into an interlocal agreement with County of El Paso on December 14, 2009 for the improvement of facilities and services at Coyote Park playground and baseball park located within the bounds of the Tornillo Independent School District. The County will design, purchase, and install all playground equipment, canopies, basketball equipment and grass for the park and softball field. The District will be responsible for the management, maintenance and security of said park areas including maintenance of all County provided equipment. The agreement remains in effect until September 30, 2029.

The District entered into a commercial lease with The University of Texas System Board of Regents for approximately 8.81 acres of land. The term of this lease agreement is for a period of ten years commenced August 11, 2015 through June 30, 2025. This lease provided for rent of \$4,000 for the entire lease term. The land is permitted to be used for the purpose of public education facilities and for purposes incidental thereto, and for no other purpose. The District uses the land as a baseball/softball dirt field.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

R. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board maintains insurance policies acquired from independent insurance carriers covering all structural property, automobiles, dishonesty, errors and omissions, boiler and machinery, personal property, and general liability. There have been no significant reductions in insurance coverage from prior years and settlements have not exceeded insurance coverage.

For the year ended August 31, 2018, Tornillo Independent School District carried insurance for building and contents in the amount of \$48,579,739 with a deductible for property of \$5,000 for direct physical loss and \$10,000 for wind, hurricane, and hail.

During the year ended August 31, 2018, Tornillo ISD participated in TASB Risk Management Fund (the Fund) auto liability and auto physical damage programs. The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2018, the Fund anticipates that Tornillo ISD has no additional liability beyond the contractual obligations for payment of contributions.

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

S. Related Party Transactions

From time to time, the District may enter into transactions with related parties through the normal course of business. If a Board member has a conflict of interest, proper documentation is completed and he/she is required to abstain from any discussion or voting regarding the matter.

Management is not aware of any material related party transactions that occurred during the 2017-2018 fiscal year.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2018

III. DETAILED NOTES ON ALL FUNDS (Continued)

T. New Accounting Pronouncements

The District has not completed the process of evaluating the impact on its financial position that will result from adopting the following Governmental Accounting Standards Board (GASB) Statements:

- GASB No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. GASB No. 83 addresses accounting and financial reporting for certain asset retirement obligations (AROs).
- GASB No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. GASB No. 84 establishes criteria for identifying fiduciary activities of all state and local governments.
- GASB No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. GASB No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases.

U. Prior Period Adjustment

During fiscal year 2018, the District adopted GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. With GASB 75, the District must assume its 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 \$7,509,508 which resulted in a restated beginning net position balance of \$9,848,968. For more detailed information regarding the implementation of GASB 75, see Note J.

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REQUIRED SUPPLEMENTARY INFORMATION

TORNILLO 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	\$ 871,300	\$ 925,810	\$ 1,167,835	\$ 242,025
5800	State Program Revenues	9,615,712	10,585,112	11,092,644	507,532
5900	Federal Program Revenues	862,314	862,314	941,136	78,822
5020	Total Revenues	11,349,326	12,373,236	13,201,615	828,379
	EXPENDITURES:				
	Current:				
0011	Instruction	5,606,310	6,200,410	6,059,454	140,956
0012	Instructional Resources and Media Services	149,076	179,376	147,461	31,915
0013	Curriculum and Instructional Staff Development	25,800	195,299	166,257	29,042
0021	Instructional Leadership	7,870	41,570	24,462	17,108
0023	School Leadership	758,941	795,491	725,572	69,919
0031	Guidance, Counseling and Evaluation Services	214,606	238,506	224,501	14,005
0033	Health Services	146,431	173,221	162,784	10,437
0034	Student (Pupil) Transportation	245,245	289,445	285,880	3,565
0035	Food Services	918,114	918,114	982,794	(64,680)
0036	Extracurricular Activities	398,887	498,169	487,363	10,806
0041	General Administration	955,457	1,025,650	925,868	99,782
0051	Facilities Maintenance and Operations	1,237,568	1,448,689	1,454,858	(6,169)
0052	Security and Monitoring Services	239,586	283,586	266,806	16,780
0053	Data Processing Services	544,615	588,423	533,764	54,659
0061	Community Services	103,000	108,000	102,717	5,283
	Debt Service:				
0071	Principal on Long-Term Debt	78,000	78,000	78,000	-
0072	Interest on Long-Term Debt	-	8,225	13,084	(4,859)
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	189,386	111,126	78,260
	Intergovernmental:				
0099	Other Intergovernmental Charges	13,000	15,500	14,926	574
6030	Total Expenditures	11,642,506	13,275,060	12,767,677	507,383
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(293,180)	(901,824)	433,938	1,335,762
	OTHER FINANCING SOURCES (USES):				
7912	Sale of Real and Personal Property	-	-	23,970	23,970
7915	Transfers In	455,112	531,004	-	(531,004)
8911	Transfers Out (Use)	(368,887)	(531,004)	-	531,004
7080	Total Other Financing Sources (Uses)	86,225	-	23,970	23,970
1200	Net Change in Fund Balances	(206,955)	(901,824)	457,908	1,359,732
0100	Fund Balance - September 1 (Beginning)	8,007,431	8,007,431	8,007,431	-
3000	Fund Balance - August 31 (Ending)	\$ 7,800,476	\$ 7,105,607	\$ 8,465,339	\$ 1,359,732

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED AUGUST 31, 2018

Budgets and Budgetary Accounting

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General, National School Breakfast and Lunch Program, and Debt Service funds before the beginning of the fiscal year. For fiscal years beginning September 1, the Texas Education Code requires the budget to be adopted by August 31st of each year. The District's administration determines budgetary funding priorities and the budgets are prepared on the same basis of accounting that is used for reporting in accordance with generally accepted accounting principles. Final budget allocations are determined by the Board, which subsequently establishes a tax rate sufficient to support the approved budget. The annual budget, which is prepared on the modified accrual basis of accounting, must be adopted by the Board at a scheduled meeting after giving ten days public notice of the meeting. The District annually adopts legally authorized appropriated budgets for the General, National School Breakfast and Lunch Program, and Debt Service funds. On August 30, 2017, the 2017-2018 budget was legally adopted by the Board.

The District's administration performs budget reviews during the year in which budget requirements are re-evaluated and revisions are recommended to the Board. The Board must approve amendments to the budget at the fund and functional expenditure categories or revenue object accounts as defined by the TEA. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Several amendments were necessary during the year. Significant budget amendments approved by the Board were related to the use of the re-assigned fund balance, the 1:1 student laptop initiative, TRS on-behalf and the District of Innovation related expenditures.

Expenditures may not legally exceed budgeted appropriations, as amended, at the function level by fund. Unexpended appropriations lapse at year-end.

Budget Overages

Exhibit G-1 presents small unfavorable budget variance in function 51 (Facilities Maintenance and Operations) as a result of the increase in utility consumption due to the conversion to HVAC units. A small unfavorable budget variance in function 72 (Interest on Long-Term Debt) is also presented as a result of interest payment for Bond Series 2017 not being included in the budget.

Both Exhibit G-1 and Exhibit J-2 present unfavorable budget variances in function 35 (Food Service) as a result of an increase in personnel and food costs due to the District adopting an earlier start date for the 2018-2019 school year. In addition, the District elected the Seamless Summer Option program which contributed to the negative budget variance.

Although the budget variances are small, management has already implemented procedures to avoid unfavorable budget variances in any of the budget categories at the end of the fiscal year. Overall, the general fund reports a favorable budget variance in the amount of \$507,383.

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

	Measurement Year Ended August 31,			
	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0075183916%	0.0083085919%	0.0076823000%	0.0055566000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,403,977	\$ 3,139,693	\$ 2,715,591	\$ 1,484,245
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	3,878,395	4,232,506	4,208,755	3,644,005
Total	<u>\$ 6,282,372</u>	<u>\$ 7,372,199</u>	<u>\$ 6,924,346</u>	<u>\$ 5,128,250</u>
District's Covered Payroll	\$ 7,891,834	\$ 7,563,210	\$ 7,198,540	\$ 6,956,232
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	30.46%	41.51%	37.72%	21.34%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, paragraph 82 requires that the information on this schedule be presented for the Plan's measurement year (September 1st - August 31st) as opposed to the District's fiscal year.

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

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

	Fiscal Year Ended August 31,			
	2018	2017	2016	2015
Contractually Required Contribution	\$ 234,824	\$ 238,898	\$ 233,325	\$ 181,259
Contribution in Relation to the Contractually Required Contribution	(234,824)	(238,898)	(233,325)	(181,259)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 7,815,556	\$ 7,891,834	\$ 7,563,210	\$ 7,198,540
Contributions as a percentage of Covered Payroll	3.00%	3.03%	3.08%	2.52%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the Center's current fiscal year as opposed to the time period covered by the measurement date of September 1st - August 31st.

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

TORNILLO INDEPENDENT SCHOOL DISTRICT

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR PENSION
TEACHER RETIREMENT SYSTEM**

FOR THE YEAR ENDED AUGUST 31, 2018

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 assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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

	Measurement Year Ended August 31, 2017
District's Proportion of the Net OPEB Liability (Asset)	0.0098424486%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 4,280,112
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	5,919,200
Total	<u>\$ 10,199,312</u>
District's Covered Payroll	\$ 7,891,834
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	54.23%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.91%

Note: GASB 75, paragraph 97 requires that the information on this schedule be presented for the Plan's measurement year (September 1st - August 31st) as opposed to the Center's fiscal year.

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

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

	Fiscal Year Ended August 31, 2018
Contractually Required Contribution	\$ 65,739
Contribution in Relation to the Contractually Required Contribution	<u>(65,739)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
District's Covered Payroll	\$ 7,815,556
Contributions as a percentage of Covered Payroll	0.84%

Note: GASB 75, paragraph 97 requires that the information on this schedule be presented for the District's fiscal year as opposed to the time period covered by the measurement date of September 1st - August 31st.

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

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR OPEB TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED AUGUST 31, 2018

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

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

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

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

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

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

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SUPPLEMENTARY INFORMATION

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

Data Control Codes		211 Title I, Part A - Improving Basic Program	212 Title I, Part C - Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes	-	-	-	-
1240	Due from Other Governments	270,426	81,061	104,769	478
1260	Due from Other Funds	-	-	-	-
1410	Prepayments	-	-	-	-
1000	Total Assets	<u>\$ 270,426</u>	<u>\$ 81,061</u>	<u>\$ 104,769</u>	<u>\$ 478</u>
LIABILITIES					
2110	Accounts Payable	\$ 790	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	30,078	6,078	11,299	-
2170	Due to Other Funds	239,558	74,983	93,470	478
2180	Due to Other Governments	-	-	-	-
2300	Unearned Revenue	-	-	-	-
2000	Total Liabilities	<u>270,426</u>	<u>81,061</u>	<u>104,769</u>	<u>478</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3470	Capital Acquisition and Contractual Obligation	-	-	-	-
3480	Retirement of Long-Term Debt	-	-	-	-
3490	Other Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 270,426</u>	<u>\$ 81,061</u>	<u>\$ 104,769</u>	<u>\$ 478</u>

242 Summer Food Service Program	244 Carl D. Perkins Basic Formula Grant	255 Title II, A Supporting Effective Ins	263 Title III, Part A - LEP ELA	270 Title V, B SP 2 - Rural & Low Income	289 Title IV, A Subpart 1 & LEP Summer	397 Advanced Placement Incentives	404 Student Success Initiative
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	5,431	10,485	34,596	14,152	-	-	-
43,357	-	-	-	-	875	1,600	13,748
-	-	-	-	-	-	-	-
<u>\$ 43,357</u>	<u>\$ 5,431</u>	<u>\$ 10,485</u>	<u>\$ 34,596</u>	<u>\$ 14,152</u>	<u>\$ 875</u>	<u>\$ 1,600</u>	<u>\$ 13,748</u>
\$ -	\$ 2,273	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	2,569	-	-	-	-
-	3,158	10,485	32,027	14,152	-	-	-
-	-	-	-	-	-	-	13,748
-	-	-	-	-	875	-	-
-	5,431	10,485	34,596	14,152	875	-	13,748
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
43,357	-	-	-	-	-	1,600	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
43,357	-	-	-	-	-	1,600	-
<u>\$ 43,357</u>	<u>\$ 5,431</u>	<u>\$ 10,485</u>	<u>\$ 34,596</u>	<u>\$ 14,152</u>	<u>\$ 875</u>	<u>\$ 1,600</u>	<u>\$ 13,748</u>

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

Data Control Codes		410 State Textbook Fund	461 Campus Activity Funds	480 Project Lead the Way	Total Nonmajor Special Revenue Funds
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes	-	-	-	-
1240	Due from Other Governments	-	-	-	521,398
1260	Due from Other Funds	14,319	29,834	6,989	110,722
1410	Prepayments	-	-	-	-
1000	Total Assets	<u>\$ 14,319</u>	<u>\$ 29,834</u>	<u>\$ 6,989</u>	<u>\$ 632,120</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ 3,063
2160	Accrued Wages Payable	-	-	-	50,024
2170	Due to Other Funds	-	-	-	468,311
2180	Due to Other Governments	-	-	-	13,748
2300	Unearned Revenue	14,319	-	6,989	22,183
2000	Total Liabilities	<u>14,319</u>	<u>-</u>	<u>6,989</u>	<u>557,329</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	44,957
3470	Capital Acquisition and Contractual Obligation	-	-	-	-
3480	Retirement of Long-Term Debt	-	-	-	-
3490	Other Restricted Fund Balance	-	29,834	-	29,834
3000	Total Fund Balances	<u>-</u>	<u>29,834</u>	<u>-</u>	<u>74,791</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 14,319</u>	<u>\$ 29,834</u>	<u>\$ 6,989</u>	<u>\$ 632,120</u>

599 Debt Service Fund	698 Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 352,848	\$ 460	\$ 353,308
43,744	-	43,744
(2,187)	-	(2,187)
-	-	521,398
-	-	110,722
-	87,815	87,815
<u>\$ 394,405</u>	<u>\$ 88,275</u>	<u>\$ 1,114,800</u>
\$ -	\$ -	\$ 3,063
-	-	50,024
-	2,435	470,746
-	-	13,748
28,900	-	51,083
<u>28,900</u>	<u>2,435</u>	<u>588,664</u>
38,905	-	38,905
<u>38,905</u>	<u>-</u>	<u>38,905</u>
-	-	44,957
-	85,840	85,840
326,600	-	326,600
-	-	29,834
<u>326,600</u>	<u>85,840</u>	<u>487,231</u>
<u>\$ 394,405</u>	<u>\$ 88,275</u>	<u>\$ 1,114,800</u>

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

Data Control Codes	211 Title I, Part A - Improving Basic Program	212 Title I, Part C - Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	485,246	110,006	175,813	506
5020 Total Revenues	485,246	110,006	175,813	506
EXPENDITURES:				
Current:				
0011 Instruction	340,416	59,025	125,050	506
0013 Curriculum and Instructional Staff Development	95,808	-	1,500	-
0021 Instructional Leadership	239	46,951	35,123	-
0023 School Leadership	1,630	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	14,140	-
0041 General Administration	-	-	-	-
0061 Community Services	47,153	4,030	-	-
Debt Service:				
0071 Principal on Long-Term Debt	-	-	-	-
0072 Interest on Long-Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	485,246	110,006	175,813	506
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

242 Summer Food Service Program	244 Carl D. Perkins Basic Formula Grant	255 Title II, A Supporting Effective Ins	263 Title III, Part A - LEP ELA	270 Title V, B SP 2 - Rural & Low Income	289 Title IV, A Subpart 1 & LEP Summer	397 Advanced Placement Incentives	404 Student Success Initiative
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-	-	-	-
-	15,633	38,971	50,864	14,152	15,276	-	-
-	15,633	38,971	50,864	14,152	15,276	-	-
-	14,595	-	49,874	4,255	15,276	-	-
-	1,038	38,971	990	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	9,897	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	15,633	38,971	50,864	14,152	15,276	-	-
-	-	-	-	-	-	-	-
43,357	-	-	-	-	-	1,600	-
\$ 43,357	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,600	\$ -

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

Data Control Codes	410 State Textbook Fund	461 Campus Activity Funds	480 Project Lead the Way	Total Nonmajor Special Revenue Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 38,428	\$ 3,011	\$ 41,439
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	-	-	-	906,467
5020 Total Revenues	-	38,428	3,011	947,906
EXPENDITURES:				
Current:				
0011 Instruction	-	3,090	-	612,087
0013 Curriculum and Instructional Staff Development	-	-	3,011	141,318
0021 Instructional Leadership	-	-	-	82,313
0023 School Leadership	-	15,504	-	17,134
0031 Guidance, Counseling and Evaluation Services	-	-	-	14,140
0041 General Administration	-	180	-	180
0061 Community Services	-	-	-	61,080
Debt Service:				
0071 Principal on Long-Term Debt	-	-	-	-
0072 Interest on Long-Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	-	18,774	3,011	928,252
1200 Net Change in Fund Balance	-	19,654	-	19,654
0100 Fund Balance - September 1 (Beginning)	-	10,180	-	55,137
3000 Fund Balance - August 31 (Ending)	\$ -	\$ 29,834	\$ -	\$ 74,791

599 Debt Service Fund	698 Capital Projects Fund	Total Nonmajor Governmental Funds
\$ 228,994	\$ 7,889	\$ 278,322
965,579	-	965,579
-	-	906,467
1,194,573	7,889	2,150,368
-	-	612,087
-	-	141,318
-	-	82,313
-	-	17,134
-	-	14,140
-	-	180
-	-	61,080
569,542	-	569,542
690,049	-	690,049
1,752	-	1,752
-	423,312	423,312
1,261,343	423,312	2,612,907
(66,770)	(415,423)	(462,539)
393,370	501,263	949,770
\$ 326,600	\$ 85,840	\$ 487,231

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OTHER INFORMATION - REQUIRED TEA SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
2010	1.090000	0.249000	47,183,284
2011	1.090100	0.246000	51,720,943
2012	1.090100	0.218700	52,230,579
2013	1.090100	0.213600	55,057,509
2014	1.090100	0.213600	57,985,327
2015	1.090100	0.213600	62,229,604
2016	1.090100	0.213600	61,401,358
2017	1.090100	0.310700	66,480,248
2018 (School year under audit)	1.090100	0.310700	72,774,713
1000 TOTALS			

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 91,001	\$ -	\$ 1,137	\$ 205	\$ (19,989)	\$ 69,670
6,582	-	92	21	-	6,469
6,761	-	260	59	(4)	6,438
7,954	-	540	108	(38)	7,268
9,078	-	1,098	215	(38)	7,727
12,602	-	1,489	292	(38)	10,783
16,604	-	3,622	710	(38)	12,234
24,948	-	8,997	1,763	(38)	14,150
50,773	-	16,588	4,728	(8,113)	21,344
-	1,019,428	748,718	213,399	-	57,311
<u>\$ 226,303</u>	<u>\$ 1,019,428</u>	<u>\$ 782,541</u>	<u>\$ 221,500</u>	<u>\$ (28,296)</u>	<u>\$ 213,394</u>

TORNILLO 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	\$ 83,700	\$ 83,700	\$ 100,622	\$ 16,922
5800	State Program Revenues	5,100	5,100	4,961	(139)
5900	Federal Program Revenues	829,314	829,314	833,829	4,515
5020	Total Revenues	918,114	918,114	939,412	21,298
EXPENDITURES:					
0035	Food Services	918,114	918,114	982,794	(64,680)
6030	Total Expenditures	918,114	918,114	982,794	(64,680)
1200	Net Change in Fund Balances	-	-	(43,382)	(43,382)
0100	Fund Balance - September 1 (Beginning)	101,540	101,540	101,540	-
3000	Fund Balance - August 31 (Ending)	\$ 101,540	\$ 101,540	\$ 58,158	\$ (43,382)

TORNILLO 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	\$ 216,700	\$ 216,700	\$ 228,994	\$ 12,294
5800	State Program Revenues	1,048,249	1,048,249	965,579	(82,670)
5020	Total Revenues	1,264,949	1,264,949	1,194,573	(70,376)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	569,542	569,542	569,542	-
0072	Interest on Long-Term Debt	694,907	690,907	690,049	858
0073	Bond Issuance Cost and Fees	500	4,500	1,752	2,748
6030	Total Expenditures	1,264,949	1,264,949	1,261,343	3,606
1200	Net Change in Fund Balances	-	-	(66,770)	(66,770)
0100	Fund Balance - September 1 (Beginning)	393,370	393,370	393,370	-
3000	Fund Balance - August 31 (Ending)	\$ 393,370	\$ 393,370	\$ 326,600	\$ (66,770)

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FEDERAL AWARDS SECTION

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Tornillo Independent School District

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 Tornillo Independent School District as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise Tornillo Independent School District's basic financial statements, and have issued our report thereon dated January 16, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Tornillo Independent School 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.

Gibson Ruddock Patterson LLC

Gibson Ruddock Patterson LLC

El Paso, Texas

January 16, 2019

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees
Tornillo Independent School District

Report on Compliance for Each Major Federal Program

We have audited Tornillo Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Tornillo Independent School District's major federal programs for the year ended August 31, 2018. Tornillo Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Tornillo Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Tornillo Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Tornillo Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Tornillo Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

Report on Internal Control over Compliance

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

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

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

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

Gibson Ruddock Patterson LLC

Gibson Ruddock Patterson LLC
El Paso, Texas
January 16, 2019

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

SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of Auditor's Report issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Were significant deficiencies in internal control disclosed?

None reported

Were material weaknesses in internal control disclosed?

No

Was any noncompliance disclosed that is material to the financial statements of the auditee, which would be required to be reported in accordance with Government Auditing Standards?

No

Federal Awards

Internal control over major federal award programs:

Were significant deficiencies in internal control over major programs disclosed?

None reported

Were material weaknesses in internal control over major programs disclosed?

No

Type of auditor's report issued on compliance for the major federal award programs:

Unmodified

Were there any audit findings that the auditor is required to disclosed under Title 2 CFR 200.516 Audit findings paragraph (a)?

No

Major Federal Programs:

**Child Nutrition Cluster Program,
CFDA 10.553, 10.555, and 10.559**

Dollar threshold used to distinguish between type A and type B programs:

\$750,000

Did auditee qualified as low-risk auditee under 2 CFR 200.520 Criteria for a low-risk auditee?

Yes

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

FINANCIAL STATEMENT FINDINGS

There were no current year findings.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no current year findings or questioned costs.

TORNILLO INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF **PRIOR AUDIT FINDINGS**
FOR THE YEAR ENDED AUGUST 31, 2018

FINANCIAL STATEMENT FINDINGS

There were no prior year findings.

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no prior year findings or questioned costs.

TORNILLO 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>			
Title I, Part A - Improving Basic Programs	84.010A	17610101071908	\$ 12,193
Title I, Part A - Improving Basic Programs	84.010A	18610101071908	491,336
Total CFDA Number 84.010A			<u>503,529</u>
Title I, Part C - Migrant	84.011A	17615001071908	7,213
Title I, Part C - Migrant	84.011A	18615001071908	106,672
Total CFDA Number 84.011A			<u>113,885</u>
*IDEA - Part B, Formula	84.027A	176600010719086600	18,261
*IDEA - Part B, Formula	84.027A	186600010719086600	163,550
Total CFDA Number 84.027A			<u>181,811</u>
*IDEA - Part B, Preschool	84.173A	186610010719086610	527
Total Special Education Cluster (IDEA)			<u>182,338</u>
Carl D. Perkins Basic Formula Grant	84.048A	18420006071908	16,257
Title II, Part A, Supporting Effective Instruction	84.367A	18694501071908	40,524
Title III, Part A - LEP	84.365A	17671001071908	3,103
Title III, Part A - ELA	84.365A	18671001071908	48,671
Total CFDA Number 84.365A			<u>51,774</u>
Title V, B, SP 2 - Rural & Low Income School	84.358B	18696001071908	14,716
Title IV, Part A, Subpart 1	84.424A	18680101071908	12,983
LEP Summer School	84.369A	69551702	2,686
Total Passed Through State Department of Education			<u>938,692</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>938,692</u>
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
**School Breakfast Program	10.553	71401701 & 71401801	135,936
**National School Lunch Program - Cash Assistance	10.555	71301701 & 71301801	635,077
**National School Lunch Prog.- Non-Cash Assistance	10.555	71301701 & 71301801	34,808
Total CFDA Number 10.555			<u>669,885</u>
Total Child Nutrition Cluster			<u>805,821</u>
Fresh Fruit and Vegetable Program	10.582	00352	21,821
Child & Adult Care Food Program - Cash Assistance	10.558	00352	81,269
Total Passed Through the State Department of Agriculture			<u>908,911</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>908,911</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,847,603</u>
* and ** Clustered Programs			

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

TORNILLO INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED AUGUST 31, 2018

1. GENERAL

For all Federal programs, the District uses the fund types specified in the Texas Education Agency's *Financial Accountability System Resource Guide*.

Special Revenue Funds are used to account for resources restricted or committed for specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. 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 accompanying schedule of expenditures of federal awards (the "schedule") includes the federal activity of the District under programs of the federal government for the year ended August 31, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position, or cash flows of the District.

2. BASIS OF ACCOUNTING

Accounting and Financial Reporting - 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. Predominately, federal grant funds were accounted for in a Special Revenue Fund, a component of the Governmental Fund type, with the exception of the National School Lunch and Breakfast Program, Child and Adult Care Food Program, and the Fresh Fruit and Vegetable Program, which were accounted for in the General Fund. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in fund balance.

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, 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. When grant funds are received, before expenditures are made, they are recorded as unearned revenues until earned. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Period of performance - The period of performance 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 90 days beyond the federal project period ending date, in accordance with provisions in Section H. Period of Performance of Federal Funds, Part 3, OMB Compliance Supplement - April 2018.

Matching - Matching contributions were not required for any of the federal awards.

(Continued)

TORNILLO INDEPENDENT SCHOOL DISTRICT**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS****YEAR ENDED AUGUST 31, 2018****3. INDIRECT COST RATE**

The District did not elect to use the 10% de minimis indirect cost rate but used the indirect cost rate assigned by Texas Education Agency.

The District accounted for federally funded indirect costs in the General Fund as follows:

Program Title	Federal CFDA	
	Number	Amount
School Breakfast Program	10.553	\$ 11,975
National School Lunch Program	10.555	55,947
Child & Adult Care Food Program	10.558	7,159
Total Indirect Cost - Child Nutrition Program		75,081
Title I, Part A - Improving Basic Programs	84.010A	18,283
Title I, Part C - Migrant	84.011A	3,880
IDEA - Part B, Formula	84.027A	5,999
IDEA - Part B, Preschool	84.173A	20
Carl D. Perkins Basic Formula Grant	84.048A	623
Title II, Part A, Supporting Effective Instruction	84.367A	1,554
Title III, Part A - LEP/LEA	84.365A	909
Title V. B SP 2 - Rural & Low Income School	84.358B	564
Title IV, Part A, Subpart 1	84.424A	393
Total Indirect Costs - Other		32,225
Total Indirect Costs		\$ 107,306

4. RECONCILIATIONS

Of the federal expenditures presented in schedule K-1, the District accounted for certain funds in the General Fund as follows:

Program Title	Federal CFDA	
	Number	Amount
School Breakfast Program	10.553	\$ 135,936
National School Lunch Program - Cash Assistance	10.555	635,077
National School Lunch Program - Non-Cash Assistance	10.555	34,808
Child & Adult Care Food Program	10.558	81,269
Fresh Fruit and Vegetable Program	10.582	21,821
Indirect Costs - Other	84.XXX	32,225
Total General Fund federal revenue per Exhibit C-3		\$ 941,136

5. PROGRAM INCOME

The Child Nutrition Cluster generated program income in the amount of \$100,622 for the year ended August 31, 2018.