

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2019**



CHINA SPRING INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019

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CERTIFICATE OF BOARD

China Spring Independent School District
Name of School District

McLennan
County

161920
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved _____ disapproved for the year ended June 30, 2019, at a meeting of the Board of Trustees of such school district on the 28th day of October 2019.

signed copy on file

signed copy on file

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
China Spring Independent School District
China Spring, Texas

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 China Spring Independent School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise China Spring Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

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 China Spring Independent School District, as of June 30, 2019, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise China Spring Independent School District's basic financial statements. The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relates 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 statements, required TEA schedules 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2019, on our consideration of China Spring Independent School 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 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 China Spring Independent School District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
October 10, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of China Spring Independent School District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$18,978,870 (*net position*). Of this amount, (\$3,765,789) (*unrestricted net position*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net position increased by \$925,494.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13,502,900, a decrease of \$637,634 in comparison with the prior year. This change was primarily due to multiple capital purchases made with the intention of using fund balance.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,558,723, or 35% of total General Fund expenditures, a decrease of \$1,063,458 or 11%, from the prior year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 and 13). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 11. Its primary objective 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, deferred outflows/inflows of resources and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U. S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). All of 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, deferred outflows/inflows of resources and liabilities) provide one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

Governmental Activities – The District's services are reported here, including 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 begin on page 14 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I 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. The District has only governmental type funds.

Governmental Funds – The District reports its services in governmental funds. These 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 they 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. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds can be found in reconciliation schedules following each of the governmental fund financial statements.

The District as Trustee

Reporting the District’s Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District’s fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 18. We exclude these resources from the District’s other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District’s governmental activities.

Net position of the District’s governmental activities increased from \$18,053,376 to \$18,978,870. 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 (\$3,765,789) at June 30, 2019.

The net position of governmental activities increased by 5.1%, \$18,978,870 in 2019 from \$18,053,376 in 2018. The District’s increase in net position was \$925,494.

TABLE 1

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

NET POSITION

	Governmental Activities	
	2019	2018
Current and other assets	\$ 16,387,239	\$ 16,808,046
Capital assets	<u>55,701,965</u>	<u>55,127,821</u>
Total assets	72,089,204	71,935,867
Total deferred outflows of resources	<u>6,611,844</u>	<u>3,310,690</u>
Long-term liabilities	53,706,819	51,002,634
Other liabilities	<u>2,943,944</u>	<u>2,747,396</u>
Total liabilities	<u>56,650,763</u>	<u>53,750,030</u>
Total deferred inflows of resources	<u>3,071,415</u>	<u>3,443,151</u>
Net position:		
Net investment in capital assets	18,520,319	16,137,400
Restricted	4,224,340	3,798,820
Unrestricted	<u>(3,765,789)</u>	<u>(1,882,844)</u>
Total net position	<u>\$ 18,978,870</u>	<u>\$ 18,053,376</u>

TABLE 2

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

CHANGES IN NET POSITION

	Governmental Activities	
	2019	2018
REVENUES		
Program revenues:		
Charges for services	\$ 1,155,983	\$ 1,164,464
Operating grants and contributions	3,984,860	(922,787)
General revenues:		
Maintenance and operations taxes	9,496,942	8,449,495
Debt service taxes	2,913,423	2,831,035
Grants and contributions not restricted	12,171,418	12,965,233
Investment earnings	276,810	143,010
Miscellaneous	<u>123,648</u>	<u>26,948</u>
Total revenues	<u>30,123,084</u>	<u>24,657,398</u>
EXPENSES		
Instruction	15,863,299	10,037,660
Instructional resources and media services	229,900	155,976
Curriculum and staff development	113,602	116,665
Instructional leadership	300,865	188,007
School leadership	1,507,429	907,995
Guidance, counseling and evaluation services	1,156,907	677,527
Health services	217,568	151,581
Student (pupil) transportation	1,094,708	882,433
Food services	1,305,270	1,046,445
Co-curricular/extracurricular activities	1,774,603	1,319,290
General administration	1,048,543	663,997
Plant maintenance and operations	2,790,649	2,503,087
Security and monitoring services	207,913	96,297
Data processing services	56,865	55,778
Debt service - interest on long-term debt	1,383,744	1,438,874
Debt service - bond issuance cost and fees	3,900	3,898
Other governmental charges	<u>141,825</u>	<u>144,383</u>
Total expenses	<u>29,197,590</u>	<u>20,389,893</u>
INCREASE IN NET POSITION	925,494	4,267,505
NET POSITION, BEGINNING	<u>18,053,376</u>	<u>25,892,151</u>
PRIOR PERIOD ADJUSTMENT	-	(12,106,280)
NET POSITION, ENDING	<u>\$ 18,978,870</u>	<u>\$ 18,053,376</u>

The cost of all governmental activities this year was \$29,197,590. However, the amount that the taxpayers ultimately financed for these activities through District taxes was \$11,885,329 because some of the cost was paid by those who directly benefited from the programs \$1,155,983, by other governments and organizations that subsidized certain programs with operating grants and contributions \$3,984,860, or by other grants and contributions not restricted \$12,171,418.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$13,502,900, which is less than last year's total of \$14,140,534. Total governmental revenue increased in fiscal year 2019 by \$508,898. This increase in revenue is the result of increased property tax revenue of approximately \$1.036 million due to increased assessed property values netted against a decrease in state funding of \$715,463. As property tax collections go up, state funding decreases.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, total General fund balance was \$8,558,723, all of which was unassigned. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund expenditures. Unassigned General fund balance represents 35% of total General fund expenditures.

The fund balance of the District's General Fund decreased \$1,063,458 during the current year. Key factors in this decrease can be attributed to the purchase of capital assets in the current year.

The Debt Service Fund has a total fund balance of \$4,656,518, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the Debt Service Fund was \$397,102, which was due to an increase in property tax revenue as a result of higher assessed values.

During the year, the Board of Trustees amended the District's budget as needed. Changes in appropriations were made to recognize board approved purchasing actions and to allow the district to appropriately code financial transactions by fund and function.

The District's General Fund balance of \$8,558,723 reported on pages 16 and 41 differs from the General Fund's final budgetary fund balance of \$6,872,181. This is principally due to budgeted uses of fund balance for the construction of new tennis courts that were in progress at the end of 2019, the remainder of the expenditures having been deferred until the 2020 school year. The District also budgets conservatively for revenues due to uncertainty of funds to be received from TEA in current and future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the District had approximately \$55.7 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. More detailed information about the District's capital assets is presented on pages 26 and 27 in the notes to the financial statements.

Major capital asset events during the current fiscal year included the following:

- The purchase of land at a total cost of \$1,402,731.
- New tennis courts (construction in progress as of the close of the fiscal year had reached \$844,425).
- New gym floor at the middle school with costs of \$189,453 was completed and placed in service during the current year.

Debt

The State of Texas backs the District's bonds with its "AAA/stable" rating. This bond rating helps the District by reducing the costs of any debt issued.

At year-end, the District had \$38.5 million in long-term debt outstanding as of June 30, 2019. During the current year, the District made annual debt service payments to reduce bonds and tax notes in the amount of \$1,700,000. More detailed information about the District's long-term debt is presented on pages 27 through 29 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2020 budget and tax rates. These factors included, but were not limited to, the state foundation school program formula, property values, student growth and anticipated district needs. The state legislature made many funding changes with HB 3 which was passed in June 2019. The effects of the changes from HB 3 are an ongoing process with TEA and the District.

Assessed property values in the District increased by approximately 11%. However, the fiscal year 2020 budget only reflects an increase in M&O tax revenue of approximately \$267,000 because the legislature compressed the District's M&O tax rate from \$1.04 to .97 cents with the changes in HB 3. The District's I&S tax rate increased modestly from .31872 to .32411. With these changes in rates, the District's total tax rate decreased from \$1.35872 (1.04 M&O plus .31872 I&S) in FY 2019 to \$1.29411 (.97 M&O plus .32411 I&S) for FY 2020.

The state legislature also affected the District's state revenue estimates in HB 3. HB 3 increased the Basic Allotment from \$5,140 to \$6,160, which has increased funding to the District. This increased funding has been offset somewhat by the mandated change for TEA to use current year taxable values when calculating the District's "share," or local fund assignment. Because of China Spring's increased assessed property values, the local fund assignment has increased for FY 20, which has decreased some of the expected gain from the changes in HB 3.

On the expenditure side, HB 3 also mandated staff salary increases and included various programs which are still being rolled out to school districts across the state. There is some increased funding, but at the same time, spending requirements are being attached to these dollars. The District expects to amend the FY 20 budget as more information is released from TEA.

With all of the above changes, the District presented a balanced General Fund Budget for current year expenditures with a projected use of fund balance of approximately \$570k to complete the Tennis Court project starting during FY 19. If the District estimates for revenues and expenditures are realized, the District budgetary General Fund balance is expected to remain steady at the close of 2020. More importantly, this will have been accomplished in spite of unfunded state and federal mandates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, at P. O. Box 250, China Spring, Texas 76633.

BASIC FINANCIAL STATEMENTS

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2019

<u>Data Control Codes</u>		<u>1 Primary Government Governmental Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 12,467,613
1220	Delinquent property taxes receivables	597,277
1230	Allowance for uncollectible taxes	(248,233)
1240	Due from other governments	3,339,763
1290	Other receivables	230,819
	Capital assets:	
1510	Land	2,000,222
1520	Buildings and improvements, net	51,701,733
1530	Furniture and equipment, net	1,155,585
1580	Construction in progress	844,425
1000	Total assets	<u>72,089,204</u>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred loss on bond refunding	1,353,128
1705	Deferred outflow related to pensions	3,840,326
1706	Deferred outflow related to other post-employment benefit	1,418,390
1700	Total deferred outflows of resources	<u>6,611,844</u>
LIABILITIES		
2110	Accounts payable	246,946
2140	Interest payable	545,381
2150	Payroll deductions and withholdings	5,378
2160	Accrued wages	1,902,220
2180	Due to other governments	51,474
2200	Accrued expenses	155,089
2300	Unearned revenue	37,456
	Noncurrent liabilities:	
2501	Due within one year	1,404,593
2502	Due in more than one year	37,137,381
2540	Net pension liability	6,594,852
2545	Net other post-employment benefit liability	8,569,993
2000	Total liabilities	<u>56,650,763</u>

<u>Data Control Codes</u>		<u>Primary Government Governmental Activities</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflow related to pensions	361,377
2606	Deferred inflow related to other post-employment benefit	<u>2,710,038</u>
2600	Total deferred inflows of resources	<u>3,071,415</u>
NET POSITION		
3200	Net investment in capital assets	18,520,319
	Restricted for:	
3850	Debt service	4,224,340
3900	Unrestricted	<u>(3,765,789)</u>
3000	Total net position	<u>\$ 18,978,870</u>

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	1	Program Revenues 3	Program Revenues 4	Net (Expenses) Revenue and Changes in Net Position 6	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Primary government:					
Governmental activities:					
11	Instruction	\$ 15,863,299	\$ -	\$ 2,137,192	\$(13,726,107)
12	Instructional resources and media services	229,900	-	18,399	(211,501)
13	Curriculum and staff development	113,602	-	41,993	(71,609)
21	Instructional leadership	300,865	-	23,421	(277,444)
23	School leadership	1,507,429	-	124,449	(1,382,980)
31	Guidance, counseling, and evaluation services	1,156,907	-	257,089	(899,818)
33	Health services	217,568	-	16,677	(200,891)
34	Student transportation	1,094,708	-	50,970	(1,043,738)
35	Food service	1,305,270	654,191	580,636	(70,443)
36	Extracurricular activities	1,774,603	501,792	46,304	(1,226,507)
41	General administration	1,048,543	-	56,979	(991,564)
51	Facilities maintenance and operations	2,790,649	-	110,822	(2,679,827)
52	Security and monitoring services	207,913	-	16,092	(191,821)
53	Data processing services	56,865	-	-	(56,865)
72	Interest on long-term debt	1,383,744	-	503,837	(879,907)
73	Bond issuance costs and fees	3,900	-	-	(3,900)
99	Other governmental changes	141,825	-	-	(141,825)
TG	Total governmental activities	<u>\$ 29,197,590</u>	<u>\$ 1,155,983</u>	<u>\$ 3,984,860</u>	<u>(24,056,747)</u>
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes			9,496,942	
DT	Property taxes, levied for debt service			2,913,423	
GC	Grants and contributions not restricted			12,171,418	
IE	Investment earnings			276,810	
MI	Miscellaneous			123,648	
TR	Total general revenues			<u>24,982,241</u>	
CN	Change in net position			925,494	
NB	Net position--beginning			<u>18,053,376</u>	
NE	Net position--ending			<u>\$ 18,978,870</u>	

The accompanying notes are an integral part of this financial statement.

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-1

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2019

Data Control Codes	10 <u>General</u>	50 <u>Debt Service</u>	Other Governmental	98 Total Governmental Funds	
ASSETS					
1110	Cash and cash equivalents	\$ 7,421,302	\$ 4,688,126	\$ 358,185	\$ 12,467,613
1220	Delinquent property taxes receivable	443,588	153,689	-	597,277
1230	Allowance for uncollectible taxes	(184,359)	(63,874)	-	(248,233)
1240	Due from other governments	3,052,786	-	286,977	3,339,763
1260	Due from other funds	179,270	-	-	179,270
1290	Other receivables	175,973	43,254	11,592	230,819
1000	Total assets	<u>11,088,560</u>	<u>4,821,195</u>	<u>656,754</u>	<u>16,566,509</u>
LIABILITIES					
2110	Accounts payable	224,940	-	22,006	246,946
2150	Payroll deductions and withholdings	5,378	-	-	5,378
2160	Accrued wages	1,780,764	-	121,456	1,902,220
2170	Due to other funds	-	-	179,270	179,270
2180	Due to other governments	-	51,474	-	51,474
2200	Accrued expenditures	136,362	-	18,727	155,089
2300	Unearned revenue	9,820	-	27,636	37,456
2000	Total liabilities	<u>2,157,264</u>	<u>51,474</u>	<u>369,095</u>	<u>2,577,833</u>
DEFERRED INFLOWS OF RESOURCES					
2610	Unavailable revenue	372,573	113,203	-	485,776
2600	Total deferred inflows of resources	<u>372,573</u>	<u>113,203</u>	<u>-</u>	<u>485,776</u>
FUND BALANCES					
Restricted:					
3450	Food service	-	-	53,230	53,230
3480	Debt service	-	4,656,518	-	4,656,518
3545	Committed - campus activity	-	-	234,429	234,429
3600	Unassigned	<u>8,558,723</u>	<u>-</u>	<u>-</u>	<u>8,558,723</u>
3000	Total fund balances	<u>8,558,723</u>	<u>4,656,518</u>	<u>287,659</u>	<u>13,502,900</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,088,560</u>	<u>\$ 4,821,195</u>	<u>\$ 656,754</u>	<u>\$ 16,566,509</u>

The accompanying notes are an integral part of this financial statement.

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

JUNE 30, 2019

Total fund balances - governmental funds	\$ 13,502,900
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	55,701,965
Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	446,912
Uncollected SHARS settlements are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	38,864
Long-term liabilities, including compensated absences, bonds and tax notes payable, are not due and payable in the current period and therefore are not reported in the funds. Also, the loss on refunding of bonds and the premium on issuance of bonds payable are not reported in the funds.	(37,188,846)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(545,381)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability. The net position related to pensions included a deferred resource outflow in the amount of \$3,840,326, a deferred resource inflow in the amount of \$361,377, and a net pension liability in the amount of \$6,594,852.	(3,115,903)
Included in the items related to debt is the recognition of the District's proportionate share of the net other post-employment benefit (OPEB) liability. The net position related to the OPEB included a deferred resource outflow in the amount of \$1,418,390, a deferred resource inflow in the amount of \$2,710,038, and a net OPEB liability in the amount of \$8,569,993.	(<u>9,861,641</u>)
Net position of governmental activities	\$ <u>18,978,870</u>

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes	10 General	50 Debt Service	Other Governmental	98 Total Governmental Funds	
REVENUES					
5700	Local and intermediate sources	\$ 9,967,898	\$ 2,990,040	\$ 1,067,910	\$ 14,025,848
5800	State programs	13,003,560	503,837	258,445	13,765,842
5900	Federal programs	<u>297,822</u>	-	<u>1,297,318</u>	<u>1,595,140</u>
5020	Total revenues	<u>23,269,280</u>	<u>3,493,877</u>	<u>2,623,673</u>	<u>29,386,830</u>
EXPENDITURES					
Current:					
0011	Instruction	13,097,926	-	780,743	13,878,669
0012	Instructional resources and media services	188,303	-	-	188,303
0013	Curriculum and staff development	69,437	-	41,993	111,430
0021	Instructional leadership	279,421	-	-	279,421
0023	School leadership	1,324,443	-	5,042	1,329,485
0031	Guidance, counseling, and evaluation services	874,788	-	163,708	1,038,496
0033	Health services	189,093	-	-	189,093
0034	Student transportation	708,822	-	-	708,822
0035	Food service	-	-	1,218,046	1,218,046
0036	Extracurricular activities	1,134,066	-	385,019	1,519,085
0041	General administration	902,191	-	-	902,191
0051	Facilities maintenance and operations	2,808,485	-	400	2,808,885
0052	Security and monitoring services	207,042	-	-	207,042
0053	Data processing services	56,865	-	-	56,865
Debt service:					
0071	Principal on long-term debt	90,000	1,610,000	-	1,700,000
0072	Interest on long-term debt	12,875	1,482,875	-	1,495,750
0073	Bond issuance costs and fees	-	3,900	-	3,900
0081	Capital outlay	2,247,156	-	-	2,247,156
Intergovernmental:					
0099	Other intergovernmental charges	<u>141,825</u>	-	-	<u>141,825</u>
6030	Total expenditures	<u>24,332,738</u>	<u>3,096,775</u>	<u>2,594,951</u>	<u>30,024,464</u>
1200	NET CHANGE IN FUND BALANCES	(1,063,458)	397,102	28,722	(637,634)
0100	FUND BALANCES, BEGINNING	<u>9,622,181</u>	<u>4,259,416</u>	<u>258,937</u>	<u>14,140,534</u>
3000	FUND BALANCES, ENDING	<u>\$ 8,558,723</u>	<u>\$ 4,656,518</u>	<u>\$ 287,659</u>	<u>\$ 13,502,900</u>

The accompanying notes are an integral part of this financial statement.

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-4

RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

Net change in fund balances - total governmental funds	\$(637,634)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	574,144
Property tax and SHARS settlement revenues that do not provide current financial resources are not reported as revenues in the funds.	2,061
Bond and tax note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and tax note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments exceeded proceeds.	1,700,000
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	104,806
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 \$357,643. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$340,975. Finally, the proportionate share of pension expense on the plans as a whole had to be recorded. The net pension expense decreased the change in net position by \$653,292.	<u>(636,624)</u>
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 \$103,544. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$99,585. Finally, the proportionate share of OPEB expense on the plans as a whole had to be recorded. The net OPEB expense increased the change in net position by \$185,218.	<u>(181,259)</u>
Change in net position of governmental activities	\$ <u>925,494</u>

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2019

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>80,261</u>
Total assets	\$ <u>80,261</u>
LIABILITIES	
Due to student groups	\$ <u>80,261</u>
Total liabilities	\$ <u>80,261</u>

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

China Spring 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 financial statements in conformity with generally accepted accounting principles and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide").

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

The China Spring Education Foundation (the "Foundation"), a not-for-profit entity, was organized to provide scholarship funds, is a "related organization" of the District.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, state foundation funds and intergovernmental revenue.

The fund financial statements provide 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 major and reports their financial condition and results of operations in a separate column.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Property taxes, state foundation funds, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting assets and liabilities.

The District reports the following major governmental funds:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The **Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund type:

The **Agency Fund** accounts for resources held for others in a custodial capacity. The District's Agency Fund is Student Activities.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value, except for the position in investment pools. The District's investments in Pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

Lone Star, LOGIC, Texas Term Texas Daily and Texas Class have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All interfund transactions between governmental funds are eliminated on the government-wide financial statements.

The property tax receivable allowance is equal to 42% of outstanding property taxes at June 30, 2019.

3. Capital Assets

Capital assets, which include land, buildings, furniture and equipment, are reported in the governmental activities column in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

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

Assets	Years
Buildings and improvements	20-50
Portable buildings	20
Vehicles	5
Furniture and equipment	5-10

4. Compensated Absences

The District's policy states that employees hired on a 12-month contract shall earn 12 days of vacation leave per year in accordance with administrative regulations. Vacation leave shall accrue at the rate of one day per month, beginning on July 1 and ending on June 30. Employees hired on July 1, 2012 and thereafter shall be permitted to accrue a maximum of 24 days. If the employee separates from the District, the employee shall be paid at his or her daily rate up to a maximum of ten days. Employees hired prior to July 1, 2012 that exceed the 24-day maximum accrual rate, shall not exceed that accrual amount. If the employee separates from the District, the employee shall be paid at his or her daily rate up to a maximum of 20 days.

5. Long-term Obligations

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

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

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are a deferred charge on refunding and deferred outflow related to TRS reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension and other post-employment benefit (OPEB) liabilities.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of inflows that qualify for reporting in this category. The governmental funds report unavailable revenues from two sources: property taxes and School Health and Related Services (SHARS). These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension and OPEB liabilities. These items are reported in the government-wide statement of net position.

7. *Pensions*

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

8. *Other Post-Employment Benefits*

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

9. *Net Position*

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

10. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered applied. It is the District’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

11. Fund Balance Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Fund Balance Policies

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The Board of Trustees is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Trustees has not delegated the authority to assign fund balance. The Board of Trustees may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

13. Program Revenue

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

14. Property Taxes

Property taxes are levied as of October 1 on property values assessed 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 following year. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

15. Data Control Codes

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

16. Estimates

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of June 30, 2019, will change.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. 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, and (10) 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. The District is in substantial compliance with the requirements of the Act and with local policies.

Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than one year from the purchase date. As of June 30, 2019, the District managed its interest rate risk as follows:

<u>Investment Type</u>	<u>Net Asset Value</u>	<u>Weighted Average Maturity (Days)</u>
Lone Star	\$ 2,240,751	26
LOGIC	1,777,551	52
Texas Term Texas Daily	4,284,712	34
Texas CLASS	2,264,956	51

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2019, the District’s deposit balance was collateralized with securities held by the pledging financial institution in the District’s name or covered by FDIC insurance.

Investment Credit Risk

It is the District’s policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The District’s investment pools are rated as follows by Standard and Poor’s Investors Service.

Lone Star	AAAm
LOGIC	AAAm
Texas Term	AAAm
Texas CLASS	AAAm

Public Funds Investment Pools

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from local, federal and state governments as of June 30, 2019, are summarized below.

	<u>Grants</u>	<u>State Entitlements</u>
General fund	\$ -	\$ 3,052,786
Nonmajor governmental funds	<u>286,977</u>	<u>-</u>
	<u>\$ 286,977</u>	<u>\$ 3,052,786</u>

C. Interfund Balances

The composition of interfund balances as of June 30, 2019, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental	<u>\$ 179,270</u>
		<u>\$ 179,270</u>

Balances resulted from the lag between the dates that payments for expenditures are made and the date a granting agency reimbursed the District.

D. Other Receivables

Other receivables consisted of the following balances as of June 30, 2019:

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total</u>
Property tax penalties and interest	\$ 234,618	\$ 74,015	\$ -	\$ 308,633
SHARS	38,864	-	-	38,864
Food service - Sodexo	-	-	11,592	11,592
Allowance for uncollectibles	<u>(97,509)</u>	<u>(30,761)</u>	<u>-</u>	<u>(128,270)</u>
Total, net	<u>\$ 175,973</u>	<u>\$ 43,254</u>	<u>\$ 11,592</u>	<u>\$ 230,819</u>

E. Capital Assets

Capital asset activity for the year ended June 30, 2019, was as follows:

	<u>Beginning Balance 06/30/18</u>	<u>Increases/ Reclassifications</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance 06/30/19</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 597,491	\$ 1,402,731	\$ -	\$ 2,000,222
Construction in progress	<u>11,898</u>	<u>844,425</u>	<u>(11,898)</u>	<u>844,425</u>
Total capital assets, not being depreciated	<u>609,389</u>	<u>2,247,156</u>	<u>(11,898)</u>	<u>2,844,647</u>
Capital assets, being depreciated:				
Buildings and improvements	71,619,206	265,671	-	71,884,877
Machinery and equipment	<u>4,355,274</u>	<u>37,749</u>	<u>-</u>	<u>4,393,023</u>
Total capital assets, being depreciated	<u>75,974,480</u>	<u>303,420</u>	<u>-</u>	<u>76,277,900</u>
Less accumulated depreciation for:				
Buildings and improvements	(18,638,227)	(1,544,917)	-	(20,183,144)
Machinery and equipment	<u>(2,817,821)</u>	<u>(419,617)</u>	<u>-</u>	<u>(3,237,438)</u>
Total accumulated depreciation	<u>(21,456,048)</u>	<u>(1,964,534)</u>	<u>-</u>	<u>(23,420,582)</u>
Total capital assets, being depreciated, net	<u>54,518,432</u>	<u>(1,661,114)</u>	<u>-</u>	<u>52,857,318</u>
Total capital assets, net	<u>\$ 55,127,821</u>	<u>\$ 586,042</u>	<u>\$ (11,898)</u>	<u>\$ 55,701,965</u>

Depreciation expense was charged to governmental functions of the government as follows:

Governmental activities:

Instruction	\$ 953,776
Instructional resources media services	28,251
Curriculum and staff development	2,172
Instructional leadership	2,172
School leadership	67,377
Guidance counseling and evaluation services	28,251
Health services	15,213
Student pupil transportation	351,920
Food services	55,005
Co-curricular/extracurricular	208,397
General administration	83,639
Plant maintenance and operations	161,598
Security and monitoring services	<u>6,763</u>
 Total depreciation expense - governmental activities	 \$ <u>1,964,534</u>

F. Deferred Inflows of Resources – Unavailable Revenue

At year-end the District reported deferred inflows for the following:

	General Fund	Debt Service Fund
	<u> </u>	<u> </u>
Unavailable - property taxes	\$ 333,709	\$ 113,203
Unavailable - SHARS	<u>38,864</u>	<u>-</u>
Totals	<u>\$ 372,573</u>	<u>\$ 113,203</u>

G. Long-term Debt

Governmental long-term debt activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:					
Bonds payable	\$ 37,145,000	\$ -	\$ 1,610,000	\$ 35,535,000	\$ 1,290,000
Premium on bonds	2,644,306	-	220,296	2,424,010	-
Tax notes	550,000	-	90,000	460,000	90,000
Compensated absences	<u>115,764</u>	<u>142,168</u>	<u>134,968</u>	<u>122,964</u>	<u>24,593</u>
Total	<u>\$ 40,455,070</u>	<u>\$ 142,168</u>	<u>\$ 2,055,264</u>	<u>\$ 38,541,974</u>	<u>\$ 1,404,593</u>

The compensated absences are generally paid from the General Fund and appropriate Special Revenue Funds.

The District's outstanding bonds payable contain a provision that in an event of default, outstanding amounts will be paid from the corpus of the Texas Permanent School Fund. The District's outstanding tax notes contain a provision that in an event of default, outstanding amounts become immediately due.

A summary of bonds, tax notes and capital leases that are outstanding at year-end are as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Balance Outstanding at Year-End	Amounts Due in One Year
Bonds:					
Building Bonds Series 2007	4.0% to 5.0%	\$ 21,999,939	\$ 11,288	\$ -	\$ -
Unlimited Tax Refunding Bonds Series 2011	1.0% to 3.0%	3,605,000	9,750	-	-
Unlimited Tax School Building Bonds Series 2013	2.0% to 5.0%	15,210,000	696,938	14,565,000	135,000
Unlimited Tax Refunding Bonds Series 2015	2.0% to 4.0%	7,910,000	298,900	7,800,000	-
Unlimited Tax Refunding Bonds Series 2016	3.0% to 4.0%	8,545,000	321,350	8,545,000	510,000
Unlimited Tax Refunding Bonds Series 2016A	2.0% to 4.0%	5,560,000	144,650	4,625,000	645,000
Limited Maintenance					
Tax Notes:					
Series 2015	2.0%	565,000	9,095	355,000	55,000
Series 2017	2.7%	170,000	<u>3,780</u>	<u>105,000</u>	<u>35,000</u>
Totals			\$ <u>1,495,751</u>	\$ <u>35,995,000</u>	\$ <u>1,380,000</u>

During each year while bonds are outstanding, the District is required to levy and collect sufficient property taxes to provide for the payment of principal and interest as it becomes due. The revenue and bond payments are accounted for in the Debt Service Fund.

Bond service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2020	\$ 1,290,000	\$ 1,438,788	\$ 2,728,788
2021	1,550,000	1,400,088	2,950,088
2022	1,595,000	1,352,913	2,947,913
2023	1,640,000	1,300,438	2,940,438
2024	1,705,000	1,242,213	2,947,213
2025-2029	8,575,000	5,253,491	13,828,491
2030-2034	7,430,000	3,656,609	11,086,609
2035-2039	5,160,000	2,317,500	7,477,500
2040-2044	<u>6,590,000</u>	<u>855,750</u>	<u>7,445,750</u>
Total	\$ <u>35,535,000</u>	\$ <u>18,817,790</u>	\$ <u>54,352,790</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2019.

Tax note debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2020	\$ 90,000	\$ 10,716	\$ 100,716
2021	90,000	8,550	98,550
2022	95,000	6,384	101,384
2023	60,000	4,107	64,107
2024	60,000	2,775	62,775
2025	65,000	1,443	66,443
Total	<u>\$ 460,000</u>	<u>\$ 33,975</u>	<u>\$ 493,975</u>

H. **Fund Balance**

As of June 30, 2019, governmental fund balance is composed of the following:

Fund Balance Classification	General	Debt Service	Other Governmental	Totals
Restricted:				
Retirement of long-term debt	\$ -	\$ 4,656,518	\$ -	\$ 4,656,518
Food Service	-	-	53,230	53,230
Committed - student activity	-	-	234,429	234,429
Unassigned	<u>8,558,723</u>	<u>-</u>	<u>-</u>	<u>8,558,723</u>
Total governmental fund balance	<u>\$ 8,558,723</u>	<u>\$ 4,656,518</u>	<u>\$ 287,659</u>	<u>\$ 13,502,900</u>

I. **Defined Benefit Pension Plan**

Plan Description. The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS) and is 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. Detail 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 TRS website at www.trs.state.tx.us; 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 in (A) above.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

	Contribution Rates	
	2018	2019
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contributions		\$ 419,783
Current fiscal year member contributions		1,181,017
2018 measurement year NECE on-behalf contributions		783,553

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

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, 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 rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.91%
Long-term expected Investment Rate of Return	7.25%
Inflation	2.30%
Salary Increases including Inflation	3.05% to 9.05%
Payroll Growth Rate	2.50%
Ad Hoc Post-Employment Benefit Changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the three-year period ending August 31, 2017 and adopted in July 2018.

Discount Rate. The single discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent and a municipal bond rate of 3.69 percent. 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 sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. 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 arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018 are summarized below:

Asset Class	Target Allocation ¹	Long-Term Expected Geometric Real Rate of Return ²	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	5.70%	1.04%
Non-U.S. Developed	13.00%	6.90%	0.90%
Emerging Markets	9.00%	8.95%	0.80%
Directional Hedge Funds	4.00%	3.53%	0.14%
Private Equity	13.00%	10.18%	1.32%
Stable Value			
U.S. Treasuries	11.00%	1.11%	0.12%
Absolute Return	0.00%	0.00%	0.00%
Stable Value Hedge Funds	4.00%	3.09%	0.12%
Cash	1.00%	-0.30%	0.00%
Real Return			
Global Inflation Linked Bonds	3.00%	0.70%	0.02%
Real Assets	14.00%	5.21%	0.73%
Energy and Natural Resources	5.00%	7.48%	0.37%
Commodities	0.00%	0.00%	0.00%
Risk Parity			
Risk Parity	5.00%	3.70%	0.18%
Inflation Expectation			2.30%
Volatility Drag ³			-0.79%
Total	100.00%		7.25%

¹ Target allocations are based on the FY2016 policy model.

² Capital market assumptions come from Aon Hewitt (2017 Q4).

³ The volatility drag results from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the net pension liability.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability	\$ 9,953,214	\$ 6,594,852	\$ 3,876,060

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2019, the District reported a liability of \$6,594,852 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 6,594,852
State's proportionate share that is associated with the District	<u>12,810,558</u>
Total	<u>\$ 19,405,410</u>

The net pension liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2017 rolled forward to August 31, 2018. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 thru August 31, 2018.

At August 31, 2018 the employer's proportion of the collective net pension liability was 0.0119813984% which was an increase of .0005621598% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation. The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

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

For the year ended June 30, 2019, the District's pension expense was \$2,262,171 and revenue of \$1,267,904 for support provided by the State.

At June 30, 2019, the District's 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	\$ 41,107	\$ 161,812
Changes in actuarial assumptions	2,377,762	74,305
Differences between projected and actual investment earnings	-	125,132
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	1,063,814	128
Contributions paid to TRS subsequent to the measurement date	<u>357,643</u>	<u>-</u>
Total as of year-end	<u>\$ 3,840,326</u>	<u>\$ 361,377</u>

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:

For the Year Ended June 30,	Pension Expense
2020	\$ 826,578
2021	563,243
2022	486,001
2023	504,879
2024	460,651
Thereafter	279,954

J. Health Care Coverage

During the period ended June 30, 2019, employees of the District were covered by a state-wide health care plan, TRS Active Care. The District's participation in this plan is renewable annually. The District paid into the Plan \$325 per month per employee. Employees, at their option, pay premiums for any coverage above these amounts as well as for dependent coverage.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by Blue Cross and Blue Shield of Texas, FIRSTCARE and Scott and White HMO. Medco Health administers the prescription drug plan. The latest financial information on the state-wide plan may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS website, www.trs.state.tx.us.

K. Defined Other Post-Employment Benefit Plans

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

OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the TRS website at www.trs.state.tx.us; 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 a retiree with and without Medicare coverage.

	TRS-Care Monthly for Retirees	
	January 1, 2018 thru December 31, 2018	
	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999

* or surviving spouse

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	Contribution Rates	
	2018	2019
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 122,364
Current fiscal year member contributions		99,698
2018 measurement year NECE on-behalf contributions		179,923

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether or not they participate in the TRS Care OPEB program*). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the FY 2018-2019 biennium to continue to support the program. This was also received in FY 2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

Actuarial Assumptions. The total OPEB liability in the August 31, 2017 was rolled forward to August 31, 2018. The actuarial valuation determined using the following actuarial assumptions:

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation that was rolled forward to August 31, 2018:

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

Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	3.69%. Sourced from fixed income municipal bonds with 20 yearsto maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.
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	3.05% to 9.05%
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

Other Information. The total OPEB liability as of August 31, 2018 was developed using the roll forward method of the August 31, 2017 valuation. Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. The discount rate changed from 3.42 percent as of August 31, 2017 to 3.69 percent, as of August 31, 2018. This change lowered the total OPEB liability \$2.3 billion.

Discount Rate. A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of .27 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.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than the discount rate that was used (3.69%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.69%)	Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
Proportionate share of net OPEB liability	\$ 10,201,236	\$ 8,569,993	\$ 7,279,574

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2019, the District reported a liability of \$8,569,993 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 8,569,993
State's proportionate share that is associated with the District	<u>13,041,163</u>
Total	<u>\$ 21,611,156</u>

The Net OPEB Liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to OPEB relative to the contributions of all employers to the plan for the period September 1, 2017 thru August 31, 2018.

At August 31, 2018 the employer's proportion of the collective Net OPEB Liability was 0.0171637004%, which was an increase of .0013051078% from its proportion measured as of August 31, 2017.

Healthcare Cost Trend Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 8.5% rate used.

	1% Decrease in Healthcare Trend Rate (7.5%)	Current Single Healthcare Trend Rate (8.5%)	1% Increase in Healthcare Trend Rate (9.5%)
Proportionate share of the net OPEB liability:	\$ 7,117,519	\$ 8,569,993	\$ 10,482,933

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:

- Adjustments were made for retirees that were known to have discontinued their health care coverage in fiscal year 2018. This change increased the total OPEB liability.
- The health care trend rate assumption was updated to reflect the anticipated return of the Health Insurer Fee (HIF) in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This changed increased the total OPEB liability.
- The discount rate changed from 3.42 percent as of August 31, 2017 to 3.69 percent as of August 31, 2018. This change lowered the total OPEB liability \$2.3 billion.

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 a 25-basis point addition to the long-term trend rate assumption.

Change of Benefit Terms Since the Prior Measurement Date. The 85th Legislature, Regular Session, passed the following changes in House Bill 3976 which became effective on September 1, 2017:

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$759,162 and revenue of \$474,359 for support provided by the State.

At June 30, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 454,778	\$ 135,247
Changes in actuarial assumptions	143,010	2,574,791
Differences between projected and actual investment earnings	1,499	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	715,559	-
Contributions paid to TRS subsequent to the measurement date	<u>103,544</u>	<u>-</u>
Total as of year-end	<u>\$ 1,418,390</u>	<u>\$ 2,710,038</u>

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

For the Year Ended June 30,	OPEB Expense
2020	\$(248,278)
2021	(248,278)
2022	(248,278)
2023	(248,561)
2024	(248,723)
Thereafter	(153,074)

L. Medicare Part D – On-behalf Payments

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the 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. These on-behalf payments of \$47,783, \$65,727, and \$69,444 were recognized for the years ended June 30, 2019, 2018, and 2017, respectively, as equal revenues and expenditures.

M. Commitments and Contingencies

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

N. Shared Service Arrangements – Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement (“SSA”) which provides career and technical program services to the member districts below. All services are provided by the fiscal agent. The District has accounted for the activities of the SSA using Model 3 according to the Resource Guide. Expenditures for the fiscal year the District was the fiscal agent for the SSA are summarized below:

Member District	Expenditures
China Spring Independent School District	\$ 20,552
Lorena Independent School District	14,039
West Independent School District	<u>12,949</u>
	<u>\$ 47,540</u>

O. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal 2019, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the current fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Unemployment Compensation Pool

During the school year ended June 30, 2019, China Spring ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended June 30, 2019, the Fund anticipates that China Spring ISD had no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

P. Related Party Transactions

The District purchased land in the current fiscal year. The District paid \$1,395,457 to Home Abstract & Title for the purchase of the land. \$48,841 was paid to Brentwood Realty, LLC directly from Home Abstract & Title. Two Board Members have ownership stakes in Brentwood Realty, LLC and both Board Members abstained from all votes affiliated with this transaction.

REQUIRED SUPPLEMENTARY INFORMATION

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2019

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 9,605,957	\$ 9,741,957	\$ 9,967,898	\$ 225,941
5800	State programs	12,437,760	12,767,581	13,003,560	235,979
5900	Federal program	237,300	237,300	297,822	60,522
5020	Total revenues	<u>22,281,017</u>	<u>22,746,838</u>	<u>23,269,280</u>	<u>522,442</u>
EXPENDITURES					
Current:					
0011	Instruction	13,366,257	13,356,121	13,097,926	258,195
0012	Instructional resources and media sources	208,192	201,272	188,303	12,969
0013	Curriculum and staff development	91,875	92,912	69,437	23,475
0021	Instructional leadership	298,655	298,655	279,421	19,234
0023	School leadership	1,334,059	1,334,046	1,324,443	9,603
0031	Guidance, counseling, and evaluation services	884,369	883,401	874,788	8,613
0033	Health services	212,180	210,180	189,093	21,087
0034	Student transportation	676,779	752,779	708,822	43,957
0036	Extracurricular activities	982,117	1,189,938	1,134,066	55,872
0041	General administration	891,367	966,367	902,191	64,176
0051	Facilities maintenance and operations	2,847,108	3,002,108	2,808,485	193,623
0052	Security and monitoring services	174,677	216,677	207,042	9,635
0053	Data processing services	58,000	77,000	56,865	20,135
Debt service:					
0071	Principal on long-term debt	90,000	90,000	90,000	-
0072	Interest on long-term debt	12,882	12,882	12,875	7
0073	Bond issuance costs and fees	1,000	1,000	-	1,000
0081	Capital outlay	-	2,660,000	2,247,156	412,844
Intergovernmental:					
0099	Other governmental charges	151,500	151,500	141,825	9,675
6030	Total expenditures	<u>22,281,017</u>	<u>25,496,838</u>	<u>24,332,738</u>	<u>1,164,100</u>
1200	NET CHANGE IN FUND BALANCES	-	(2,750,000)	(1,063,458)	1,686,542
0100	FUND BALANCES, BEGINNING	<u>9,622,181</u>	<u>9,622,181</u>	<u>9,622,181</u>	-
3000	FUND BALANCES, ENDING	<u>\$ 9,622,181</u>	<u>\$ 6,872,181</u>	<u>\$ 8,558,723</u>	<u>\$ 1,686,542</u>

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2019

Measurement period ended August 31,	<u>2018</u>	<u>2017</u>
District's proportion of the net pension liability (asset)	0.0119814%	0.0114192%
District's proportionate share of the net pension liability (asset)	\$ 6,594,852	\$ 3,651,257
State's proportionate share of the net pension liability (asset) associated with the District	<u>12,810,558</u>	<u>7,436,781</u>
Total	\$ <u>19,405,410</u>	\$ <u>11,088,038</u>
District's covered-employee payroll	\$ 14,911,658	\$ 14,033,698
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	44.23%	26.02%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	82.17%

Note: The information for all periods for this 10-year schedule is not available.

<u>2016</u>	<u>2015</u>	<u>2014</u>
0.0104610%	0.0106381%	0.0055406%
\$ 3,953,051	\$ 3,760,427	\$ 1,479,971
<u>8,607,503</u>	<u>8,191,666</u>	<u>6,980,672</u>
\$ <u>12,560,554</u>	\$ <u>11,952,093</u>	\$ <u>8,460,643</u>
\$ 12,889,359	\$ 12,280,369	\$ 11,664,510
30.67%	30.62%	12.69%
78.00%	78.43%	83.25%

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2019

Fiscal year ended June 30,	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 419,783	\$ 400,528
Contributions in relation to the contractually required contribution	<u>(419,783)</u>	<u>(400,528)</u>
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>
District's covered-employee payroll	\$ 15,337,896	\$ 14,822,569
Contribution as a percentage of covered-employee payroll	2.74%	2.70%

Note: The information for all periods for this 10-year schedule is not available.

<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 364,995	\$ 330,314	\$ 297,483
(364,995)	(330,314)	(297,483)
\$ -	\$ -	\$ -
\$ 13,786,416	\$ 12,845,256	\$ 12,183,559
2.65%	2.57%	2.44%

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2019

Measurement period ended August 31,	<u>2018</u>	<u>2017</u>
District's proportion of the net OPEB liability (asset)	0.0171637%	0.0158586%
District's proportionate share of the net OPEB liability (asset)	\$ 8,569,993	\$ 6,896,307
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>13,041,163</u>	<u>11,236,494</u>
Total	\$ <u>21,611,156</u>	\$ <u>18,132,801</u>
District's covered-employee payroll	\$ 14,911,658	\$ 14,033,698
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	57.47%	49.14%
Plan fiduciary net position as a percentage of the total OPEB liability	1.57%	0.91%

Note: The information for all periods for this 10-year schedule is not available.

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED JUNE 30, 2019

Fiscal year ended June 30,	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 122,364	\$ 112,964
Contributions in relation to the contractually required contribution	(<u>122,364</u>)	(<u>112,964</u>)
Contribution deficiency (excess)	\$ <u>-</u>	\$ <u>-</u>
District's covered-employee payroll	\$ 15,337,896	\$ 14,822,569
Contribution as a percentage of covered-employee payroll	0.80%	0.76%

Note: The information for all periods for this 10-year schedule is not available.

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2019

Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the National School Breakfast and Lunch Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The District compares the final amended budget to actual revenue and expenditures. The District presented the General Fund budgetary comparison schedule as required supplementary information. The National School Breakfast and Lunch Fund and Debt Service Fund budgetary comparison schedules are presented as required TEA schedules.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to June 20, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days' public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. The most significant budget amendment was \$2,600,000 to budget for the purchase of land and construction of tennis courts.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The District had no outstanding end-of-year encumbrances.

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COMBINING STATEMENTS

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2019

	Special Revenue Funds			
	211	224	225	240
	ESEA Title I, A Improving Basic Program	IDEA Part B Formula	IDEA Part B Preschool	National Breakfast and Lunch Program
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 123,756
Due from other governments	58,181	144,117	6,057	-
Receivables, net	-	-	-	11,592
Total assets	<u>58,181</u>	<u>144,117</u>	<u>6,057</u>	<u>135,348</u>
LIABILITIES				
Accounts payable	850	-	-	710
Accrued wages	24,060	51,918	-	45,478
Due to other funds	30,138	84,899	6,057	-
Accrued expenditures	3,133	7,300	-	8,294
Unearned revenue	-	-	-	27,636
Total liabilities	<u>58,181</u>	<u>144,117</u>	<u>6,057</u>	<u>82,118</u>
FUND BALANCES				
Restricted for food service	-	-	-	53,230
Committed - campus activity	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,230</u>
Total liabilities and fund balances	<u>\$ 58,181</u>	<u>\$ 144,117</u>	<u>\$ 6,057</u>	<u>\$ 135,348</u>

Special Revenue Funds					
255	289	331	410	461	Total Nonmajor Governmental Funds
ESEA Title II, A Training and Recruiting	ESEA Title IV, A SSAE Program	SSA CATE Carl Perkins	State Textbook	Campus Activity	
\$ -	\$ -	\$ -	\$ -	\$ 234,429	\$ 358,185
5,067	13,029	38,528	21,998	-	286,977
-	-	-	-	-	11,592
<u>5,067</u>	<u>13,029</u>	<u>38,528</u>	<u>21,998</u>	<u>234,429</u>	<u>656,754</u>
800	-	19,646	-	-	22,006
-	-	-	-	-	121,456
4,267	13,029	18,882	21,998	-	179,270
-	-	-	-	-	18,727
-	-	-	-	-	27,636
<u>5,067</u>	<u>13,029</u>	<u>38,528</u>	<u>21,998</u>	<u>-</u>	<u>369,095</u>
-	-	-	-	-	53,230
-	-	-	-	234,429	234,429
-	-	-	-	234,429	287,659
<u>\$ 5,067</u>	<u>\$ 13,029</u>	<u>\$ 38,528</u>	<u>\$ 21,998</u>	<u>\$ 234,429</u>	<u>\$ 656,754</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

	Special Revenue Funds			
	211	224	225	240
	ESEA Title I, A Improving Basic Program	IDEA Part B Formula	IDEA Part B Preschool	National Breakfast and Lunch Program
REVENUES				
Local and intermediate sources	\$ -	\$ -	\$ -	\$ 662,801
State programs	-	-	-	29,524
Federal programs	<u>200,721</u>	<u>457,908</u>	<u>6,057</u>	<u>534,353</u>
Total revenues	<u>200,721</u>	<u>457,908</u>	<u>6,057</u>	<u>1,226,678</u>
EXPENDITURES				
Current:				
Instruction	150,066	333,189	6,057	-
Curriculum and instructional staff development	11,560	-	-	-
School leadership	1,077	-	-	-
Guidance, counseling, and evaluating services	38,018	124,719	-	-
Facilities maintenance and operations	-	-	-	-
Food services	-	-	-	1,218,046
Extracurricular activities	-	-	-	-
Total expenditures	<u>200,721</u>	<u>457,908</u>	<u>6,057</u>	<u>1,218,046</u>
NET CHANGE IN FUND BALANCES	-	-	-	8,632
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,598</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53,230</u>

Special Revenue Funds					
255	289	331	410	461	
ESEA Title II, A Training and Recruiting	ESEA Title IV,A SSAE Program	SSA CATE Carl Perkins	State Textbook Fund	Campus Activity	Total Nonmajor Governmental
\$ -	\$ -	\$ -	\$ -	\$ 405,109	\$ 1,067,910
-	-	-	228,921	-	258,445
<u>35,729</u>	<u>15,010</u>	<u>47,540</u>	<u>-</u>	<u>-</u>	<u>1,297,318</u>
<u>35,729</u>	<u>15,010</u>	<u>47,540</u>	<u>228,921</u>	<u>405,109</u>	<u>2,623,673</u>
-	14,970	47,540	228,921	-	780,743
30,433	-	-	-	-	41,993
3,925	40	-	-	-	5,042
971	-	-	-	-	163,708
400	-	-	-	-	400
-	-	-	-	-	1,218,046
-	-	-	-	<u>385,019</u>	<u>385,019</u>
<u>35,729</u>	<u>15,010</u>	<u>47,540</u>	<u>228,921</u>	<u>385,019</u>	<u>2,594,951</u>
-	-	-	-	20,090	28,722
-	-	-	-	<u>214,339</u>	<u>258,937</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 234,429</u>	<u>\$ 287,659</u>

REQUIRED TEA SCHEDULES

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED JUNE 30, 2019

Last Ten Years Ended June 30,	1	2	3	10
	Tax Rates		Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 07/01/18
	Maintenance	Debt Service		
2010 and prior years	various	various	various	\$ 76,990
2011	1.040000	0.367000	553,420,185	17,215
2012	1.040000	0.371400	571,453,592	22,168
2013	1.040000	0.334402	599,892,390	19,969
2014	1.040000	0.500000	624,769,481	23,720
2015	1.040000	0.498834	641,169,223	24,688
2016	1.040000	0.476070	656,528,590	33,293
2017	1.040000	0.381381	725,827,910	56,952
2018	1.040000	0.347194	797,050,881	219,009
2019 (School year under audit)	1.040000	0.318720	916,344,722	-
1000 Totals				\$ <u>494,004</u>

20	31	32	40	50
<u>Current Year's Total Levy</u>	<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 06/30/19</u>
\$ -	\$ 191	\$ 53	\$ (5,609)	\$ 71,137
-	305	108	-	16,802
-	831	297	-	21,040
-	922	297	-	18,750
-	2,258	1,086	1,375	21,751
-	3,073	1,474	1,585	21,726
-	5,687	2,603	3,524	28,527
-	6,864	2,517	(8,040)	39,531
-	97,860	32,670	(24,120)	64,359
<u>12,450,559</u>	<u>9,283,785</u>	<u>2,845,123</u>	<u>(27,997)</u>	<u>293,654</u>
<u>\$ 12,450,559</u>	<u>\$ 9,401,776</u>	<u>\$ 2,886,228</u>	<u>\$ (59,282)</u>	<u>\$ 597,277</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM FUND
FOR THE YEAR ENDED JUNE 30, 2019

		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 660,500	\$ 673,600	\$ 662,801	\$ (10,799)
5800	State programs	28,472	28,472	29,524	1,052
5900	Federal programs	440,000	534,400	534,353	(47)
5020	Total revenues	<u>1,128,972</u>	<u>1,236,472</u>	<u>1,226,678</u>	<u>(9,794)</u>
EXPENDITURES					
Current:					
0035	Food service	<u>1,128,972</u>	<u>1,236,472</u>	<u>1,218,046</u>	<u>18,426</u>
6030	Total expenditures	<u>1,128,972</u>	<u>1,236,472</u>	<u>1,218,046</u>	<u>18,426</u>
1200	NET CHANGE IN FUND BALANCES	-	-	8,632	8,632
0100	FUND BALANCES, BEGINNING	<u>44,598</u>	<u>44,598</u>	<u>44,598</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 44,598</u>	<u>\$ 44,598</u>	<u>\$ 53,230</u>	<u>\$ 8,632</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-5

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2019

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
					<u>Positive</u>
					<u>(Negative)</u>
REVENUES					
5700	Local and intermediate sources	\$ 2,871,805	\$ 2,871,805	\$ 2,990,040	\$ 118,235
5800	State programs	<u>504,958</u>	<u>504,958</u>	<u>503,837</u>	<u>(1,121)</u>
5020	Total revenues	<u>3,376,763</u>	<u>3,376,763</u>	<u>3,493,877</u>	<u>117,114</u>
EXPENDITURES					
Debt service:					
0071	Principal on long-term debt	1,610,000	1,610,000	1,610,000	-
0072	Interest on long-term debt	1,482,875	1,482,875	1,482,875	-
0073	Bond issuance costs and fees	<u>5,000</u>	<u>5,000</u>	<u>3,900</u>	<u>1,100</u>
6030	Total expenditures	<u>3,097,875</u>	<u>3,097,875</u>	<u>3,096,775</u>	<u>1,100</u>
1200	NET CHANGE IN FUND BALANCES	<u>278,888</u>	<u>278,888</u>	<u>397,102</u>	<u>118,214</u>
0100	FUND BALANCES, BEGINNING	<u>4,259,416</u>	<u>4,259,416</u>	<u>4,259,416</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 4,538,304</u>	<u>\$ 4,538,304</u>	<u>\$ 4,656,518</u>	<u>\$ 118,214</u>

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**

Board of Trustees of
China Spring Independent School District
China Spring, Texas

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 China Spring Independent School District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise China Spring Independent School District's basic financial statements, and have issued our report thereon dated October 10, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered China Spring 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 China Spring Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of China Spring 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.

OFFICE LOCATIONS

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NEW MEXICO | Albuquerque

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether China Spring 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
October 10, 2019

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Board of Trustees of
China Spring Independent School District
China Spring, Texas

Report on Compliance for Each Major Federal Program

We have audited China Spring Independent School District’s compliance with the types of compliance requirements described in the *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of China Spring Independent School District’s major federal programs for the year ended June 30, 2019. China Spring 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 China Spring 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 (CFR) 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 China Spring Independent School District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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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 China Spring Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, China Spring 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 June 30, 2019.

Report on Internal Control over Compliance

Management of China Spring 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 China Spring 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 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 China Spring 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that were not 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.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
October 10, 2019

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2019

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE			
<u>Passed through the Texas Education Agency</u>			
School Breakfast Program (SBP)	10.553	714018	\$ 15,263
School Breakfast Program (SBP)	10.553	714019	83,888
National School Lunch Program (NSLP)	10.555	713018	57,386
National School Lunch Program (NSLP)	10.555	713019	<u>302,635</u>
Total Passed through the Texas Education Agency			<u>459,172</u>
<u>Passed through the Texas Department of Agriculture</u>			
National School Lunch Program			
NSLP - Commodities - Noncash Assistance	10.555	161007A	<u>75,181</u>
Total Passed through the Texas Department of Agriculture			<u>75,181</u>
Total Child Nutrition Cluster			<u>534,353</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>534,353</u>
U. S. DEPARTMENT OF EDUCATION			
<u>Passed through the Texas Education Agency</u>			
Title I, Part A - Grants to Local Educational Agencies	84.010	18610101161920	27,055
Title I, Part A - Grants to Local Educational Agencies	84.010	19610101161920	<u>173,666</u>
Total Title I, Part A			<u>200,721</u>
IDEA B Formula - Special Education Grants to States	84.027	186600011619206000	74,276
IDEA B Formula - Special Education Grants to States	84.027	196600011619206000	383,632
IDEA Preschool - Special Education Preschool Grants	84.173	186610011619206000	5,871
IDEA Preschool - Special Education Preschool Grants	84.173	196610011619206000	<u>186</u>
Total IDEA Cluster			<u>463,965</u>
Perkins IV - Career and Technical Education	84.048A	184200006161920	1,462
Perkins IV - Career and Technical Education	84.048A	194200006161920	<u>46,078</u>
Total Perkins IV			<u>47,540</u>
Title II, Part A - Supporting Effective Instruction State Grants	84.367A	18694501161920	236
Title II, Part A - Supporting Effective Instruction State Grants	84.367A	19694501161920	<u>35,493</u>
Total Title II, Part A			<u>35,729</u>
Title IV, Part A, Subpart 1	84.424A	19680101161920	<u>15,010</u>
Total Passed through the Texas Education Agency			<u>762,965</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>762,965</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>1,297,318</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2019

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of China Spring Independent School District. The District's reporting entity is defined in Note I of the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. 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). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. PASS-THROUGH EXPENDITURES

None of the federal programs expended by the District were provided to subrecipients.

4. INDIRECT COSTS

The District did not elect to apply the 10% de minimis indirect cost rate.

5. RECONCILIATION OF FEDERAL REVENUES AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 1,595,140
School health and related services revenue	<u>(297,822)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	<u>\$ 1,297,318</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2019

Summary of Auditor's Results

Financial Statements

Type of report on financial statements	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified, that were not considered a material weakness?	None reported
Material noncompliance to the financial statements noted?	No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified, that were not considered a material weakness?	None reported
Type of auditors' report on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs: CFDA Numbers: 10.553 and 10.555	Name of Federal Program or Cluster: Child Nutrition Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

None

Findings and Questioned Costs for Federal Awards

None

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2019

None.