

**PORT ARTHUR
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

For the Year Ended August 31, 2020



PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
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CERTIFICATE OF THE BOARD

Port Arthur Independent School District

Name of School District

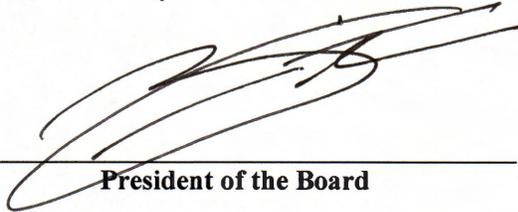
Jefferson

County

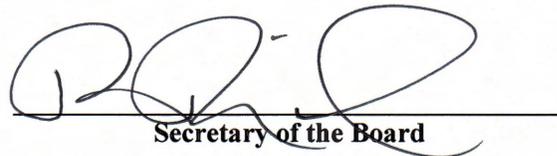
123-907

Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2020, at a meeting of the Board of Trustees of such school district on January 26, 2021.



President of the Board



Secretary of the Board



FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Port Arthur Independent School District
Port Arthur, 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 Port Arthur Independent School District (the "District") as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this included 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 included 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.

To the Board of Trustees
Port Arthur Independent School District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2020, and respective changes in the financial position 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, the budgetary comparison information, the required pension system information, and the required other post-employment benefit 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. 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 the District's basic financial statements. The accompanying supplementary information such as the Texas Education Agency ("TEA") required schedules, as listed in the table of contents, and the schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for additional analysis and are not a required part of the basic financial statements.

The other supplementary information described above is the responsibility of management and was 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

To the Board of Trustees
Port Arthur Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
January 26, 2021



PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Port Arthur Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2020.

Financial Highlights

The liabilities and deferred inflows exceeded the District's assets and deferred outflows at the close of the fiscal year by \$38,809,722 (*net deficit*). Of this amount, negative \$14,674,574 was net investment in capital assets, which represents the debt related to the capital assets that exceeds the carrying value of the capital assets, \$3,072,511 was restricted for debt service and federal and state programs, and the remaining amount was a deficit unrestricted net position of \$27,207,659.

- The District's total net position decreased by \$23,368,154 from current year activities, primarily due to a decrease in property tax revenues and state aid.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$99,074,170, an increase of \$36,885,256 in comparison with the prior year. The increase in governmental fund balances was primarily due to an increase in the capital projects fund of \$43,377,408 due to bonds issued for capital projects in the amount of \$43,190,000. In addition the decrease of \$3,639,087 in the general fund was due to a decrease in property tax revenue, property tax refunds, and state aid.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$14,560,958 or 17 percent of total general fund expenditures.
- The District's total debt increased by \$33,610,000 (10 percent) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net position* presents information on all of the District's assets and deferred outflows of resources, liabilities and deferred inflows, with the difference between the four reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The *government-wide financial statements* of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Extracurricular Activities, General Administration, Facilities Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Repairs and Maintenance, Payments to Juvenile Justice Alternative Education Programs and Payments to Appraisal District.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, special revenue fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. The District adopts an annual appropriated budget for its general fund, debt service fund, and Child Nutrition Program.

Fiduciary Funds

The fiduciary fund is used to account for resources held for the benefit of students. The fiduciary fund is *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

The District also has a private purpose trust fund used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds.

Other Information

The schedules and other supplementary information are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, liabilities and deferred inflows exceeded assets and deferred outflows by \$38,809,722 at the close of the fiscal year caused primarily by the negative effect of the net pension and OPEB liabilities and related deferred inflows and outflows in the amount of \$63,269,773.

The District's net position is its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets amounts to a negative \$14,674,574. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position in the amount of \$3,072,511 is restricted for federal and state programs and debt service. The remaining balance of \$27,207,659 is an *unrestricted net deficit*. The District's net position decreased by \$23,368,154 during fiscal year 2020 due to current year activities.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Port Arthur Independent School District's Net Position

| | Governmental Activities | |
|---|--------------------------------|------------------------|
| | 2020 | 2019 |
| Current and other assets | \$ 104,739,807 | \$ 88,090,307 |
| Capital and non current assets | 329,354,402 | 326,445,877 |
| Total Assets | 434,094,209 | 414,536,184 |
| Deferred Outflows of Resources | | |
| Deferred charge on refunding | 13,649,842 | 14,648,092 |
| Deferred outflows relating to pension/OPEB activities | 12,607,773 | 10,870,466 |
| Total Deferred Outflows of Resources | 26,257,615 | 25,518,558 |
| Current liabilities | | |
| Current liabilities | 11,675,478 | 14,312,401 |
| Long term liabilities | 465,987,874 | 424,982,554 |
| Total Liabilities | 477,663,352 | 439,294,955 |
| Deferred Inflows of Resources | | |
| Deferred inflows relating to pension/OPEB activities | 21,498,194 | 16,201,355 |
| Total Deferred Inflows of Resources | 21,498,194 | 16,201,355 |
| Net Position | | |
| Net investment in capital assets | (14,674,574) | (9,279,041) |
| Restricted | 3,072,511 | 7,513,938 |
| Unrestricted | (27,207,659) | (13,676,465) |
| Total Net Position | \$ (38,809,722) | \$ (15,441,568) |

Governmental Activities

Governmental activities decreased the District's net position by \$23,368,154. Key elements of this are as follows:

Revenues are generated primarily from two sources, program revenues and general revenues. Grants and contributions (\$26,074,138) represent 23 percent of total revenues and property taxes (\$67,073,471) represent 58 percent of total revenues. State aid totaled \$13,583,759 or 12 percent of total revenues. The remaining \$8,774,655 or 8 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$66,784,324), which represents 48 percent of total expenses. Facilities maintenance and operations (\$15,868,269) represents 11 percent of total expenses. Interest on long-term debt (\$14,065,868) represents 10 percent of total expenses. The remaining individual functional categories of expenses are each less than 10 percent of total expenses. Revenues from property taxes decreased by \$29,527,594 or 31 percent.

The dramatic change in total expenses as well as operating grants and contributions revenues from year to year is reflective of a negative adjustment brought about by the implementation of the new OPEB standards promulgated by the Government Accounting Standards Board (GASB) in fiscal year 2018 and significant changes in the benefits provided by the TRS retiree healthcare plan (TRS-Care).

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Port Arthur Independent School District's Changes in Net Position

| | Governmental Activities | |
|---|--------------------------------|------------------------|
| | 2020 | 2019 |
| Program Revenues | | |
| Charges for services | \$ 1,667,578 | \$ 2,521,768 |
| Operating grants | 26,074,138 | 23,662,572 |
| General Revenues | | |
| Property taxes | 67,073,471 | 96,601,065 |
| State aid | 13,583,759 | 32,574,187 |
| Grants and contributions not restricted | - | 1,442,736 |
| Investment earnings | 1,901,596 | 1,209,276 |
| Other | 5,205,481 | 771,308 |
| Total Revenues | 115,506,023 | 158,782,912 |
| Expenses | | |
| Instruction | 66,784,324 | 63,904,514 |
| Instructional resources and media services | 1,020,256 | 1,070,777 |
| Curriculum and staff development | 1,314,553 | 1,570,682 |
| Instructional leadership | 2,768,607 | 2,741,282 |
| School leadership | 7,755,851 | 7,562,147 |
| Guidance, counseling, and evaluation services | 3,939,905 | 3,686,977 |
| Social work services | 1,008,284 | 806,244 |
| Health services | 1,797,027 | 1,953,559 |
| Student transportation | 3,254,993 | 3,162,220 |
| Food services | 6,048,828 | 6,714,833 |
| Extracurricular activities | 2,005,472 | 2,211,084 |
| General administration | 3,932,592 | 4,049,813 |
| Facilities maintenance and operations | 15,868,269 | 14,700,463 |
| Security and monitoring services | 2,021,515 | 1,886,821 |
| Data processing services | 2,686,074 | 2,283,112 |
| Community services | 481,066 | 445,435 |
| Interest on long-term debt | 14,065,868 | 13,259,321 |
| Debt issuance costs and fees | 870,081 | 63,450 |
| Facilities planning | 80,422 | 126,212 |
| Contracted instructional services between schools | 441,960 | - |
| Payments to Juvenile Justice AEP | 108,000 | 108,000 |
| Payments to appraisal district | 620,230 | 954,586 |
| Total Expenses | 138,874,177 | 133,261,532 |
| Increase (Decrease) in Net Position | (23,368,154) | 25,521,380 |
| Beginning Net Position | (15,441,568) | (40,962,948) |
| Ending Net Position | \$ (38,809,722) | \$ (15,441,568) |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$99,074,170, an increase of \$36,885,256 in comparison with the prior year. The increase in ending governmental fund balances is primarily due to an increase of \$43,377,408 in the capital projects fund and the decrease of \$3,639,087 in the general fund.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$14,560,958, while total fund balance reached \$38,285,693. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 17 percent of total general fund expenditures, while total fund balance represents 45 percent of that same amount.

The debt service fund has a total fund balance of \$1,830,476, all of which is restricted for the payment of debt service. The decrease in the debt service fund balance during the current year of \$2,011,792 was attributable to scheduled payments on outstanding bonds.

The capital projects fund has a total fund balance of \$58,868,520, all of which is restricted for authorized construction and technology projects/enhancements. The net increase in fund balance of \$43,377,408 during the current year was primarily due to bonds issued for capital projects.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget as considered necessary. Actual expenditures were \$5.4 million below the final budget amendments. The most significant positive variances were in (1) instruction and (2) facilities maintenance and operations.

Actual revenues were \$2.1 million below the final budgeted amounts. This was primarily attributable to the District receiving less property taxes than anticipated.

Other financing sources (uses) were \$579,682 thousand above the final budgeted amounts due to a transfer out to cover the deficit in the child nutrition fund.

The review of the final amended budget versus actual for the general fund reflected a budget variance in the amount of \$3.9 million resulting in a decrease in fund balance of \$3,639,087.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets and Long-term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2020, amounts to \$318,234,887 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment and construction in progress. Major capital asset events during the current fiscal year included the following:

| | Balance September 1, 2019 | Additions | (Retirements) | Transfers | Balance August 31, 2020 |
|---|--|-----------------------|----------------------|---------------------|--|
| Capital assets, not being depreciated | | | | | |
| Land | \$ 6,770,448 | \$ 11,600 | \$ - | \$ - | \$ 6,782,048 |
| Construction in progress | 78,655,953 | 4,472,893 | - | (81,594,047) | 1,534,799 |
| Total Capital Assets, not being depreciated | <u>85,426,401</u> | <u>4,484,493</u> | <u>-</u> | <u>(81,594,047)</u> | <u>8,316,847</u> |
| Capital assets, being depreciated | | | | | |
| Buildings and improvements | 332,753,280 | - | - | 81,594,047 | 414,347,327 |
| Furniture and equipment | 56,081,780 | 4,647,076 | (1,081,891) | - | 59,646,965 |
| Total Capital Assets, being depreciated | <u>388,835,060</u> | <u>4,647,076</u> | <u>(1,081,891)</u> | <u>81,594,047</u> | <u>473,994,292</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (124,456,880) | (13,392,863) | - | - | (137,849,743) |
| Furniture and Equipment | (23,358,704) | (3,949,696) | 1,081,891 | - | (26,226,509) |
| Total Accumulated Depreciation | <u>(147,815,584)</u> | <u>(17,342,559)</u> | <u>1,081,891</u> | <u>-</u> | <u>(164,076,252)</u> |
| Governmental Capital Assets | <u>\$ 326,445,877</u> | <u>\$ (8,210,990)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$318,234,887</u> |

Additional information on the District's capital assets can be found in Note 4 of the notes to the financial statements.

Long-term Liabilities

At the end of the current fiscal year, the District had \$366,340,000 in bonded debt outstanding, an increase of \$33,610,000 over the previous year. Upon approval by the State of Texas, the District's bonds are sold with a "AAA" rating and are guaranteed through Permanent School Fund. The underlying rating of the bonds from Fitch Ratings is "A+" and from Moody's Investors Service is "Aaa" for general obligation debt. Changes to long-term debt, for the year ended August 31, 2020, are as follows:

| | Balance September 1, 2019 | Additions | Retirements | Balance August 31, 2020 | Due Within One Year |
|--|--|----------------------|------------------------|--|--------------------------------|
| General obligation bonds | \$ 332,730,000 | \$ 64,945,000 | \$ (31,335,000) | \$ 366,340,000 | \$ 11,490,000 |
| For issuance premiums/discounts | 33,255,643 | 9,678,356 | (3,846,176) | 39,087,823 | - |
| Accrued compensated absences | 1,976,057 | 726,315 | (863,459) | 1,838,913 | 1,482,321 |
| Property tax lawsuits settlements and refunds due | - | 8,524,732 | (4,262,366) | 4,262,366 | 4,262,366 |
| Other long-term liability | 79,420 | - | - | 79,420 | - |
| | <u>\$ 368,041,120</u> | <u>\$ 83,874,403</u> | <u>\$ (40,307,001)</u> | <u>\$ 411,608,522</u> | <u>\$ 17,234,687</u> |

Additional information on the District's long-term liabilities can be found in Note 6 of the notes to the financial statements.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budgets and Tax Rates

The 2019-20 school year proved to be one of challenges and change in the Port Arthur Independent School District. With each new challenge came the opportunity to further the progress toward accomplishing our goals of greater achievement and operational effectiveness. We welcome those opportunities, along with collaboration of the entire community in successfully preparing students for the future. Public education is a never-ending responsibility, but it is one that holds the greatest opportunity to make the future for thousands of young people the brightest possible. It is the responsibility to which each and every PAISD employee dedicates his or her life. It is clearly a worthwhile task that we undertake, year after year, fully committed to the PAISD community.

The 2020-21 school year has been like no other year. This year's budget remains impacted by Hurricane Harvey, House Bill 3 and, now, increased expenses caused by COVID-19. Due to Hurricane Harvey, our student count was reduced by 500 students, and we expect another reduction due to COVID-19. Additional impacts to this year's budget include:

- MOTIVA Lawsuit (Settlement Agreement Based on 2018 Tax Assessed Values)
- Election Expense
- Insurance – Auto, Property, and Unemployment
- Public Education Employer Contribution
- Health Insurance Employer Contribution

For 2020-21, the maintenance and operations (M&O) tax rate is \$1.0864. The Interest and Sinking fund (I&S) rate is \$0.50. The district continues with a well thought out compensation plan with a starting teacher salary of \$50,000 per year while also adjusting salaries for years of service. It is hoped this will assist with employee retention and recruitment.

Projected revenues for the 2020-21 General Fund are \$89,028,473, excluding TRS contributions. Revenues for the General Fund are generated from the following primary resources:

- Local Funding - \$66,355,623
- State Funding - \$20,919,328
- Federal Funding - \$1,753,522

The 2020-21 state revenue projections are based on an estimated average daily attendance (ADA) of 7,371 students.

In addition to those funds shown above, the district also records recognition for the state's contribution in the amount of 7.5% for teacher retirement on behalf of all TRS employees in the district plus an additional 1.25% for TRS Care totaling to 8.75%.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the District's Business Office, Port Arthur Independent School District, P. O. Box 1388. Port Arthur, Texas 77641-1388.

BASIC FINANCIAL STATEMENTS



PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
August 31, 2020

Exhibit A-1

| <u>Data Control Codes</u> | | <u>Governmental Activities</u> |
|--|---|------------------------------------|
| Assets | | |
| 1110 | Cash and cash equivalents | \$ 36,299,910 |
| 1120 | Investments | 45,610,086 |
| 1225 | Property taxes receivables, net | 6,519,093 |
| 1240 | Due from other governments | 15,230,117 |
| 1250 | Accrued interest | 176,113 |
| 1290 | Other receivables, net | 78,556 |
| 1310 | Inventories | 825,932 |
| Capital assets not subject to depreciation: | | |
| 1510 | Land | 6,782,048 |
| 1580 | Construction in progress | 1,534,799 |
| Capital assets net of depreciation: | | |
| 1520 | Buildings and improvements, net | 276,497,584 |
| 1530 | Furniture and equipment, net | 33,420,456 |
| 1910 | Long-term investments | 11,119,515 |
| 1000 | Total Assets | <u>434,094,209</u> |
| Deferred Outflows of Resources | | |
| | Deferred charge on refunding | 13,649,842 |
| | Deferred outflows - Pension | 8,058,313 |
| | Deferred outflows - OPEB | 4,549,460 |
| 1700 | Total Deferred Outflows of Resources | <u>26,257,615</u> |
| Liabilities | | |
| 2110 | Accounts payable | 2,889,429 |
| 2140 | Interest payable | 667,534 |
| 2150 | Payroll deductions and withholdings | 1,182,975 |
| 2160 | Accrued wages payable | 4,783,787 |
| 2190 | Due to student groups and others | 1,112 |
| 2200 | Accrued expenses | 2,150,641 |
| Noncurrent Liabilities: | | |
| 2501 | Due within one year | 17,234,687 |
| 2502 | Due in more than one year | 394,373,835 |
| 2540 | Net pension liability | 16,247,895 |
| 2545 | Net other post-employment benefits (OPEB) liability | 38,131,457 |
| 2000 | Total Liabilities | <u>477,663,352</u> |
| Deferred Inflows of Resources | | |
| | Deferred inflows - Pension | 4,521,234 |
| | Deferred inflows - OPEB | 16,976,960 |
| 2600 | Total Deferred Inflows of Resources | <u>21,498,194</u> |
| Net Position | | |
| 3200 | Net investment in capital assets | (14,674,574) |
| Restricted for: | | |
| 3850 | Debt service | 3,072,511 |
| 3900 | Unrestricted | (27,207,659) |
| 3000 | Total Net Position | <u>\$ (38,809,722)</u> |



PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
 August 31, 2020

Exhibit B-1

| Data Control Codes | Functions/Programs | Program Revenue | | | Net (Expense) Revenue and Changes in Net Position |
|--------------------|---|-----------------------|----------------------|------------------------------------|---|
| | | Expenses | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| | Governmental activities: | | | | |
| 11 | Instruction | \$ 66,784,324 | \$ 599,415 | \$ 11,850,680 | \$ (54,334,229) |
| 12 | Instructional resources and media services | 1,020,256 | 127 | 239,246 | (780,883) |
| 13 | Curriculum and staff development | 1,314,553 | 16,006 | 466,696 | (831,851) |
| 21 | Instructional leadership | 2,768,607 | 24,073 | 470,015 | (2,274,519) |
| 23 | School leadership | 7,755,851 | 127,922 | 1,083,793 | (6,544,136) |
| 31 | Guidance, counseling, and evaluation services | 3,939,905 | 382 | 634,743 | (3,304,780) |
| 32 | Social work services | 1,008,284 | 47,763 | 296,638 | (663,883) |
| 33 | Health services | 1,797,027 | 23,945 | 2,266,248 | 493,166 |
| 34 | Student transportation | 3,254,993 | 94,561 | 621,801 | (2,538,631) |
| 35 | Food service | 6,048,828 | 305,948 | 4,589,646 | (1,153,234) |
| 36 | Extracurricular activities | 2,005,472 | 128,609 | 102,495 | (1,774,368) |
| 41 | General administration | 3,932,592 | 14,059 | 807,620 | (3,110,913) |
| 51 | Facilities maintenance and operations | 15,868,269 | 26,696 | 1,731,902 | (14,109,671) |
| 52 | Security and monitoring services | 2,021,515 | 255 | 532,104 | (1,489,156) |
| 53 | Data processing services | 2,686,074 | 212,526 | 220,338 | (2,253,210) |
| 61 | Community services | 481,066 | - | 151,358 | (329,708) |
| 72 | Interest on long-term debt | 14,065,868 | - | - | (14,065,868) |
| 73 | Debt issuance costs and fees | 870,081 | - | - | (870,081) |
| 81 | Facilities planning | 80,422 | 45,164 | 8,815 | (26,443) |
| | Contracted instructional services between schools | 441,960 | 127 | - | (441,833) |
| 91 | Payments to Juvenile Justice AEP | 108,000 | - | - | (108,000) |
| 99 | Payments to appraisal district | 620,230 | - | - | (620,230) |
| TG | Total governmental activities | <u>\$ 138,874,177</u> | <u>\$ 1,667,578</u> | <u>\$ 26,074,138</u> | <u>(111,132,461)</u> |

| Data Control Codes | | |
|--------------------|---|------------------------|
| | General revenues: | |
| | Taxes: | |
| MT | Property taxes, levied for general purposes | 47,755,768 |
| DT | Property taxes, levied for debt service | 19,317,703 |
| SF | State-aid formula grants | 13,583,759 |
| IE | Investment earnings | 1,901,596 |
| MI | Miscellaneous | 5,205,481 |
| TR | Total general revenues | <u>87,764,307</u> |
| CN | Change in net position | (23,368,154) |
| NB | Net Position - beginning | <u>(15,441,568)</u> |
| NE | Net Position - ending | <u>\$ (38,809,722)</u> |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
 August 31, 2020

Exhibit C-1

| Data Control Codes | | General Fund | Debt Service Fund | Special Revenue Fund | Capital Projects Fund | Total Governmental Funds |
|--|--|----------------------|--------------------------|-----------------------------|------------------------------|---------------------------------|
| Assets | | | | | | |
| 1110 | Cash and cash equivalents | \$ 28,968,278 | \$ 1,537,137 | \$ 1,510,663 | \$ 4,283,832 | \$ 36,299,910 |
| 1120 | Investments | - | - | - | 45,610,086 | 45,610,086 |
| | Receivables: | | | | | |
| 1220 | Property taxes - delinquent | 4,853,102 | 2,390,334 | - | - | 7,243,436 |
| 1230 | Allowance for uncollectible taxes | (485,310) | (239,033) | - | - | (724,343) |
| 1240 | Due from other governments | 10,879,844 | 51,607 | 4,298,666 | - | 15,230,117 |
| 1250 | Accrued interest | - | - | - | 176,113 | 176,113 |
| 1260 | Due from other funds | 5,291,878 | - | 310,345 | 101,469 | 5,703,692 |
| 1290 | Other receivables | - | - | 78,556 | - | 78,556 |
| 1310 | Inventories | 611,366 | - | 214,566 | - | 825,932 |
| 1910 | Long-term investments | - | - | - | 11,119,515 | 11,119,515 |
| 1000 | Total Assets | \$ 50,119,158 | \$ 3,740,045 | \$ 6,412,796 | \$ 61,291,015 | \$ 121,563,014 |
| Liabilities, Deferred Inflows and Fund Balances | | | | | | |
| Liabilities: | | | | | | |
| 2110 | Accounts payable | \$ 2,123,302 | \$ - | \$ 498,293 | \$ 267,834 | \$ 2,889,429 |
| 2150 | Payroll deductions and withholdings | 1,182,975 | - | - | - | 1,182,975 |
| 2160 | Accrued wages payable | 4,246,768 | - | 532,999 | 4,020 | 4,783,787 |
| 2170 | Due to other funds | 411,814 | - | 5,291,878 | - | 5,703,692 |
| 2190 | Due to student groups and others | 80,387 | - | 145 | - | 80,532 |
| 2200 | Accrued expenditures | - | - | - | 2,150,641 | 2,150,641 |
| 2000 | Total Liabilities | 8,045,246 | - | 6,323,315 | 2,422,495 | 16,791,056 |
| Deferred Inflows of Resources | | | | | | |
| | Unavailable revenue - property taxes | 3,788,219 | 1,909,569 | - | - | 5,697,788 |
| 2600 | Total Deferred Inflows of Resources | 3,788,219 | 1,909,569 | - | - | 5,697,788 |
| Fund Balances | | | | | | |
| Non-Spendable | | | | | | |
| 3410 | Inventories | 611,366 | - | - | - | 611,366 |
| Restricted | | | | | | |
| 3450 | Federal/State grant funds | - | - | - | - | - |
| 3470 | Capital acquisitions and contractual obligations | - | - | - | 58,868,520 | 58,868,520 |
| 3480 | Debt service | - | 1,830,476 | - | - | 1,830,476 |
| Committed | | | | | | |
| 3510 | Construction | 13,696,262 | - | - | - | 13,696,262 |
| 3520 | Claims and judgments | 7,844,045 | - | - | - | 7,844,045 |
| 3545 | Other committed | 1,573,062 | - | 89,481 | - | 1,662,543 |
| 3600 | Unassigned | 14,560,958 | - | - | - | 14,560,958 |
| 3000 | Total Fund Balances | 38,285,693 | 1,830,476 | 89,481 | 58,868,520 | 99,074,170 |
| 4000 | Total Liabilities, Deferred Inflows and Fund Balances | \$ 50,119,158 | \$ 3,740,045 | \$ 6,412,796 | \$ 61,291,015 | \$ 121,563,014 |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
August 31, 2020

Exhibit C-2

| Data Control Codes | | |
|-----------------------------------|--|-------------------------------|
| | Total fund balance, governmental funds | \$ 99,074,170 |
| | Amounts reported for governmental activities in the statement of net position are different because: | |
| 1 | Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable | 318,234,887 |
| 2 | Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts). | 5,697,788 |
| 3 | The deferred charge on refunding is not a current financial resource and is not reported on the fund financial statements | 13,649,842 |
| 4 | Deferred Outflows relating to pension activities | 8,058,313 |
| 5 | Deferred Outflows relating to OPEB activities | 4,549,460 |
| 6 | Interest payable on general obligation bonds are due within a year but are not included in the fund financial statements. | (667,534) |
| | Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: | |
| 7 | General obligation bonds | (366,340,000) |
| 8 | Accrued compensated absences | (1,838,913) |
| 9 | Premium/discount on issuance of bonds | (39,087,823) |
| 10 | Net Pension Liability | (16,247,895) |
| 11 | Net OPEB Liability | (38,131,457) |
| 12 | Property tax lawsuit settlements | (4,262,366) |
| 13 | Deferred Inflows relating to pension activities | (4,521,234) |
| 14 | Deferred Inflows relating to OPEB activities | <u>(16,976,960)</u> |
| 19 | Total net position - governmental activities | <u><u>\$ (38,809,722)</u></u> |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2020

Exhibit C-3

| Data Control Codes | General Fund | Debt Service Fund | Special Revenue Fund | Capital Projects Fund | Total Governmental Funds |
|--|----------------------|---------------------|----------------------|-----------------------|--------------------------|
| Revenues | | | | | |
| 5700 Local, intermediate, and out-of-state | \$ 64,589,115 | \$ 23,325,058 | \$ 1,570,972 | \$ 1,310,628 | \$ 90,795,773 |
| 5800 State program revenues | 18,039,949 | 360,047 | 852,092 | - | 19,252,088 |
| 5900 Federal program revenues | 2,260,968 | - | 15,373,531 | - | 17,634,499 |
| 5020 Total revenues | 84,890,032 | 23,685,105 | 17,796,595 | 1,310,628 | 127,682,360 |
| Expenditures | | | | | |
| Current: | | | | | |
| 0011 Instruction | 47,716,697 | - | 7,669,877 | - | 55,386,574 |
| 0012 Instructional resources and media services | 654,017 | - | 178,358 | - | 832,375 |
| 0013 Curriculum and instructional staff development | 687,326 | - | 404,056 | - | 1,091,382 |
| 0021 Instructional leadership | 1,997,789 | - | 271,556 | - | 2,269,345 |
| 0023 School leadership | 5,801,410 | - | 578,382 | - | 6,379,792 |
| 0031 Guidance, counseling and evaluation services | 2,893,922 | - | 315,500 | - | 3,209,422 |
| 0032 Social work services | 523,389 | - | 298,508 | - | 821,897 |
| 0033 Health services | 1,009,542 | - | 437,691 | - | 1,447,233 |
| 0034 Student transportation | 2,151,349 | - | 533,995 | 2,219,430 | 4,904,774 |
| 0035 Food services | 53,540 | - | 5,024,595 | - | 5,078,135 |
| 0036 Extracurricular activities | 1,578,259 | - | 88,333 | - | 1,666,592 |
| 0041 General administration | 3,295,124 | - | 58,916 | 1,770 | 3,355,810 |
| 0051 Facilities maintenance and operations | 12,292,897 | - | 1,172,256 | - | 13,465,153 |
| 0052 Security and monitoring services | 1,764,274 | - | 391,543 | - | 2,155,817 |
| 0053 Data processing services | 1,815,472 | - | 445,775 | - | 2,261,247 |
| 0061 Community services | 272,934 | - | 119,042 | - | 391,976 |
| Debt service | | | | | |
| 0071 Principal on long-term debt | - | 9,445,000 | - | - | 9,445,000 |
| 0072 Interest on long-term debt | - | 15,295,602 | - | - | 15,295,602 |
| 0073 Bond issuance costs and fees | - | 310,232 | - | 559,849 | 870,081 |
| Capital outlay | | | | | |
| 0081 Facilities acquisition and construction | 63,401 | - | 81,559 | 5,712,021 | 5,856,981 |
| Intergovernmental | | | | | |
| Contracted instructional services between | | | | | |
| 0091 public schools | 441,960 | - | - | - | 441,960 |
| 0095 Payments to Juvenile Justice AEP | 108,000 | - | - | - | 108,000 |
| 0099 Payments to appraisal district | 620,230 | - | - | - | 620,230 |
| 6030 Total expenditures | 85,741,532 | 25,050,834 | 18,069,942 | 8,493,070 | 137,355,378 |
| 1100 Excess (deficiency) of revenues over expenditures | (851,500) | (1,365,729) | (273,347) | (7,182,442) | (9,673,018) |
| Other Financing Sources (Uses) | | | | | |
| 7911 Issuance of bonds | - | - | - | 43,190,000 | 43,190,000 |
| 7911 Issuance of refunding bonds | - | 21,755,000 | - | - | 21,755,000 |
| 7912 Sale of real and personal property | 11,756 | - | - | - | 11,756 |
| 7915 Operating transfers in | 698,453 | - | 130,527 | - | 828,980 |
| 7916 Premium on bonds issued | - | 2,308,506 | - | 7,369,850 | 9,678,356 |
| 8911 Operating transfers out | (130,527) | - | (698,453) | - | (828,980) |
| 8949 Other uses - property tax refunds | (3,367,269) | (895,097) | - | - | (4,262,366) |
| 8949 Other uses - payment to escrow agent | - | (23,814,472) | - | - | (23,814,472) |
| 7080 Total other financing sources (uses) | (2,787,587) | (646,063) | (567,926) | 50,559,850 | 46,558,274 |
| 1200 Net change in fund balance | (3,639,087) | (2,011,792) | (841,273) | 43,377,408 | 36,885,256 |
| 0100 Fund balance - September 1 (beginning) | 41,924,780 | 3,842,268 | 930,754 | 15,491,112 | 62,188,914 |
| 3000 Fund balance - August 31 (ending) | \$ 38,285,693 | \$ 1,830,476 | \$ 89,481 | \$ 58,868,520 | \$ 99,074,170 |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2020

Exhibit C-4

**Data
Control
Codes**

| | | |
|-----------|---|--------------------------------------|
| | Net change in fund balances - total governmental funds (from C-3) | \$ 36,885,256 |
| | Amounts reported for governmental activities in the statement of activities (B-1) 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. | |
| 1 | Governmental funds capital outlay | 9,131,569 |
| 2 | Governmental activities depreciation expense | (17,342,559) |
| 3 | Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | (6,425,551) |
| 4 | Pension contributions made after the net pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position. | 1,948,173 |
| 5 | OPEB contributions made after the net OPEB liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position. | 565,033 |
| 6 | Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position. | 9,445,000 |
| | Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities and amounts paid to refunding agents are treated as a decrease in long-term liabilities. | |
| 7 | Proceeds from issuance of bonds | (64,945,000) |
| 8 | Premium on issuance of regular bonds | (9,678,356) |
| 9 | Payments to refunding agent | 23,814,472 |
| 10 | Current period gain on refunding transaction | (163,355) |
| | Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds: | |
| 11 | Change in interest payable | (53,767) |
| 12 | Amortization of deferred loss on refunding | (998,250) |
| 13 | Amortization of premium/discount | 2,085,059 |
| 14 | Change in compensated absences | 137,144 |
| 15 | Pension expense for the plan measurement year | (2,536,012) |
| 16 | OPEB expense for the plan measurement year | (974,644) |
| | The property tax lawsuits settlements and property tax refunds are recorded when due and payable. If not due and payable within the fiscal year, the liability and related expenditure is recorded in the government-wide statements. | <u>(4,262,366)</u> |
| | Change in net position of governmental activities (see B-1) | <u><u>\$ (23,368,154)</u></u> |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
August 31, 2020

Exhibit E-1

| | Private Purpose Trust Funds | Agency Funds |
|----------------------------------|--|-------------------------|
| | <u> </u> | <u> </u> |
| Assets | | |
| Cash and cash equivalents | \$ 33,814 | \$ 251,086 |
| Receivables: | | |
| Other receivables | - | 1,112 |
| Total Assets | <u>33,814</u> | <u>252,198</u> |
| Liabilities | | |
| Accounts payable | 1,000 | 4,435 |
| Due to others | - | 247,763 |
| Total Liabilities | <u>1,000</u> | <u>252,198</u> |
| Net Position | | |
| Held in trust for other purposes | <u>\$ 32,814</u> | |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2020

Exhibit E-2

| | Private Purpose Trust Funds |
|---------------------------------------|--|
| Additions | |
| Gifts and contributions | \$ 16,698 |
| Total Additions | <u>16,698</u> |
| Deductions | |
| Scholarships awarded | <u>7,485</u> |
| Total deductions | <u>7,485</u> |
| Change in net position | 9,213 |
| Net Position beginning of year | <u>23,601</u> |
| Net Position end of year | <u><u>\$ 32,814</u></u> |



Note 1 - Summary of Significant Accounting Policies

The Port Arthur Independent School District (the “District”) is an independent public educational agency operating under applicable laws and regulations of the State of Texas. The District is autonomously governed by a seven-member Board of Trustees elected by the District’s residents.

The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

Reporting Entity

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these general-purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District’s financial reporting entity. Based on these considerations, the District’s general-purpose financial statements do not include any other entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District’s financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

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 non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or users 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. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Note 1 - Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements (continued)

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

The fiduciary fund financial statements reflect the District's agency fund, reporting only assets and liabilities, and do not have a measurement focus. The District also has a private purpose trust fund used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students. The private purpose trust funds are reported using the economic resources measurement focus and the accrual basis of accounting.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected 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 service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

- The *general fund* is the District'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.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction and technology projects/enhancements.
- The *special revenue fund* is used to account for resources restricted to, or designated, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of the specified project periods. With respect to the food service program, funds are rolled over from year to year for use in the program.

Note 1 - Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Additionally, the District reports the following fiduciary fund types:

- The *private-purpose trust fund* is used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students for post-secondary education purposes.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to students or users for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and investment income.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, (TexPool and Lone Star), and money market funds.

The District reports all investments at fair value, except for investment pools. The District's investment pools are valued and reported at amortized cost, which approximates fair value.

The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

Receivables and Payables

Activity between funds that are 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."

Note 1 - Summary of Significant Accounting Policies (continued)

Receivables and Payables (continued)

Property tax receivables include unpaid property taxes at year-end and are shown net of an allowance for uncollectibles. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Jefferson County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Inventories

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations. A portion of fund balance is classified as nonspendable to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment are reported in the governmental column in the government-wide financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings and improvements, and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|-----------------------------------|--------------|
| Buildings and Improvements | 15-60 |
| Furniture, fixtures and equipment | 7-25 |

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

In the government-wide financial statements, a liability is recorded for all accumulated carryover days as of August 31, 2020. A liability is recorded in the governmental funds for only those employees with carryover days that had retired, but had not yet been paid as of August 31, 2020.

Per the District's policy (DEC Local), all employees, except those who are dismissed for misconduct or whose contracts are non-renewed or terminated, who have worked for the District for at least three years will be reimbursed for each of the first 30 days of accrued sick leave upon retirement. Professional employees will be paid \$20 per day and other employees will be paid \$15 per day. For each day of accrued sick leave beyond the first 30 days, professional employees shall be paid \$10 and other employees shall be paid \$7.50. Only days earned in the District will be eligible for reimbursement. At the aforementioned rates, professional employees will be paid for accrued sick leave in an amount not to exceed \$1,500 and other employees shall be paid for accrued sick leave in an amount not to exceed \$900. Upon payment of the retiree's accumulated sick leave days, the sick leave balance shall be reduced to zero.

Long-term Obligations

The District's long-term obligations consist of bonded indebtedness, property tax lawsuit settlements, and compensated absences. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

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

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for workers' compensation and compensated absences are accounted for in the general fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position, deferred amounts related to pension, and deferred amounts related to OPEB. The deferred charge on refunding resulted from the difference between 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 deferred amounts related to pension and OPEB relate differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension and OPEB related changes.

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources (continued)

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. Unavailable revenue is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: property taxes and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the government-wide financial statements the District reports deferred amounts related to pension and deferred amounts related to OPEB.

Pensions and Other Post-Employment Benefits

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.

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.

Fund Balance

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).
- Restricted fund balance - amounts that can be spent only for specific purposes because of local, state, or federal laws, or externally imposed conditions by grantors or creditors. The fund balances for the Child Nutrition program, other grant programs, debt service, and capital projects are classified as restricted.
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The general fund has committed funds consisting of \$13,696,262 for capital replacement expenditures and/or major maintenance expenditures. In addition the general fund has committed \$7,844,045 for claims and judgments and \$1,573,062 for other operational expenditures such as Management Information System operational expenditures incurred and for extraordinary and/or other emergency events. The special revenue fund has committed the \$89,481 fund balance of the campus activity fund for use at the campuses per board policy.

Note 1 - Summary of Significant Accounting Policies (continued)

Fund Balance (continued)

- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose. Positive numbers are reported only in the general fund.

The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated the budget document as a commitment of the fund. Per Policy CE local, assigned fund balance amounts are established by Assistant Superintendent for Business and Finance.

In circumstances where an expenditure is to be made for a purpose for which amounts are available on multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Net Position

Net Position on the Statement of Net Position includes the following:

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

- Restricted for federal and state programs - this component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets, which are restricted by federal and state granting agencies.
- Restricted for Debt Service - this component of net position consists of restricted assets reduced by liabilities related to those assets. The assets arise from bond issuances which have constraints placed on them by the bond covenants for the purpose of future debt service payments.
- Unrestricted net position - this component of net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

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 database for policy development and funding plans.

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the Texas State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Resource Guide. Mandatory codes are recorded in the order provided in the Resource Guide.

Note 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

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

Current and Future GASB Pronouncements

The following GASB pronouncements have been implemented by the District in the current fiscal year:

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. This Statement was issued in March 2020. The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. The requirements of this Statement are effective immediately.

The effective dates of the following pronouncements are postponed by 12 months:

- Statement No. 83, *Certain Asset Retirement Obligations*
- Statement No. 84, *Fiduciary Activities*
- Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement No. 90, *Majority Equity Interests*
- Statement No. 91, *Conduit Debt Obligations*
- Statement No. 92, *Omnibus 2020*
- Statement No. 93, *Replacement of Interbank Offered Rates*
- Implementation Guide No. 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide No. 2018-1, *Implementation Guidance Update—2018*
- Implementation Guide No. 2019-1, *Implementation Guidance Update—2019*
- Implementation Guide No. 2019-2, *Fiduciary Activities*.

The effective dates of the following pronouncements are postponed by 18 months:

- Statement No. 87, *Leases*
- Implementation Guide No. 2019-3, *Leases*.

The District implemented GASB No. 83 *Certain Asset Retirement Obligations* and GASB No. 88 *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in fiscal year 2019. The District plans on implementing GASB No. 84 *Fiduciary Activities* in fiscal year 2021 and GASB No. 87 *Leases* in fiscal year 2022.

Note 1 - Summary of Significant Accounting Policies (continued)

Current and Future GASB Pronouncements (continued)

The following GASB pronouncements have been issued but not yet implemented by the District:

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32. It was issued in June 2020, but the requirements in (1) paragraph 4 of this Statement as it applies to defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans and (2) paragraph 5 of this Statement are effective immediately. The requirements in paragraphs 6–9 of this Statement are effective for fiscal years beginning after June 15, 2021. Implementation of this Statement is planned for fiscal year 2022.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement was issued in May 2020 and provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. This statement is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Implementation of this Statement is planned for fiscal year 2023.

Note 2 - Cash and Investments

Bank Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At August 31, 2020, the carrying amount of the District's cash deposits was \$21,577,054 and the bank balance was \$22,268,253. The District's cash deposits were entirely covered by the FDIC or by pledged collateral as of August 31, 2020.

Local Government Investment Pools and Money Market Funds (Cash Equivalents)

For the year ended August 31, 2020, the District invested in the State of Texas TexPool and Texas Association of School Boards Lone Star Investment Pool. TexPool is duly chartered and overseen by the State Comptroller's Office. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon and American Beacon Advisors.

Note 2 - Deposits and Investments (continued)

Local Government Investment Pools and Money Market Funds (Cash Equivalents) (continued)

The Bank of New York is the custodial bank. Lone Star Investment Pool is restricted to invest in obligations of the United States or its agencies and instrumentalities; other obligations insured by the United States; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; and SEC-registered no-load money market mutual funds, the assets which consist exclusively of the obligations described above.

Lone Star Corporate Overnight Plus Fund and Lone Star Government Overnight Fund, mutual funds, are duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC, and managed by Bank of New York Mellon and American Beacon Advisors. The Bank of New York is the custodial bank. These mutual funds may invest in all securities authorized under the Investment Act. However, it is the Board's policy not to invest its assets in any one nongovernmental issuer in an amount that exceeds 5 percent of the total fund assets cost. The District also invests in money market mutual funds which are liquid and are therefore classified as cash equivalents. The District reports its local government investment pools at amortized cost as permitted by GASB Statement No. 79 *Certain External Investment Pools and Pool Participants*. In addition, the investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

Note 2 - Deposits and Investments (continued)

Investment Securities

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, collateralized mortgage obligations, no-load money market mutual funds, certain municipal securities, repurchase agreements, or investment pools.

At year-end, the District's cash and investments balances and their respective weighted average maturity, fair value methodology, and credit quality rating were as follows:

| | <u>Amount</u> | <u>Percentage of Portfolio</u> | <u>Fair Value Methodology</u> | <u>Weighted Average Maturity (Days)</u> | <u>Credit Quality Rating</u> |
|---|----------------------|--|---------------------------------------|---|--------------------------------------|
| Governmental activities | | | | | |
| Cash and cash equivalents: | | | | | |
| Demand deposits | \$ 21,292,154 | 22.9% | N/A | N/A | N/A |
| Money market funds | 3,578,539 | 3.8% | Level 2 | 42 | N/A |
| Local government investment pools: | | | | | |
| TexPool | 721,815 | 0.8% | Amortized Cost | 27 | AAAm |
| Lone Star Government Overnight Fund | 1,696,522 | 1.8% | Amortized Cost | 24 | AAAm |
| Lone Star Corporate Overnight Plus Fund | 9,010,880 | 9.7% | Amortized Cost | 65 | AAAf/S1+ |
| Total government investment pools | <u>11,429,217</u> | <u>12.3%</u> | | | |
| Total cash and cash equivalents | <u>36,299,910</u> | <u>39.0%</u> | | | |
| Investment securities: | | | | | |
| Federal National Mortgage Assoc. | 14,706,646 | 15.8% | Level 2 | 184 | Aaa/AA+ |
| Federal Home Loan Mortgage Corp. | 8,618,912 | 9.3% | Level 2 | 287 | Aaa/AA+ |
| Federal Home Loan Bank | 9,105,619 | 9.8% | Level 2 | 74 | Aaa/AA+ |
| Federal Farm Credit Bank | 1,880,700 | 2.0% | Level 2 | 625 | Aaa/AA+ |
| Collateralized Mortgage Obligation | 456,896 | 0.5% | Level 2 | 385 | N/A |
| US Treasury Securities | 8,057,355 | 8.7% | Level 2 | 251 | Aaa |
| Municipal Bonds | 13,903,473 | 14.9% | Level 2 | 270 | AA- to AAA |
| Total investment securities | <u>56,729,601</u> | <u>61.0%</u> | | | |
| Total Cash and Investments | <u>\$ 93,029,511</u> | <u>100.0%</u> | | | |

The District also held \$284,900 of bank deposits in the fiduciary funds.

Note 2 - Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 360 days, with the exception of bond proceeds that are matched to a specific cash flow; diversification; and by holding securities to maturity.

Credit Risk

State law and the District’s investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations.

Custodial credit risk for investments is the risk that, in event of the failure of the counterparty (e.g. broker dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District’s policy requires that a third-party bank trust department hold all securities owned by the District.

The District generally holds all U.S. government securities to maturity. The District did not purchase any derivative investment products during the current year nor participate in any reverse repurchase agreements or security lending agreements during the fiscal year 2020.

Concentration of Credit Risk

The District’s investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Note 3 - Receivables

Receivables as of year-end for the District's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Debt Service Fund | Special Revenue Fund | Capital Projects Fund | Total |
|---|-------------------------|------------------------------|---------------------------------|----------------------------------|----------------------|
| Property Taxes | \$ 4,853,102 | \$ 2,390,334 | \$ - | \$ - | \$ 7,243,436 |
| Due from other governments | 10,879,844 | 51,607 | 4,298,666 | - | 15,230,117 |
| Accrued interest | - | - | - | 176,113 | 176,113 |
| Gross Receivables | 15,732,946 | 2,441,941 | 4,298,666 | 176,113 | 22,649,666 |
| Less allowance for doubtful accounts | (485,310) | (239,033) | - | - | (724,343) |
| Net Total Receivables | \$ 15,247,636 | \$ 2,202,908 | \$ 4,298,666 | \$ 176,113 | \$ 21,925,323 |

Note 4 - Capital Assets

Capital asset activity for the year ended August 31, 2020, was as follows:

| | Balance September 1, 2019 | Additions | (Retirements) | Transfers | Balance August 31, 2020 |
|---|--|------------------------------|----------------------|---------------------|--|
| Capital assets, not being depreciated | | | | | |
| Land | \$ 6,770,448 | \$ 11,600 | \$ - | \$ - | \$ 6,782,048 |
| Construction in progress | 78,655,953 | 4,472,893 | - | (81,594,047) | 1,534,799 |
| Total Capital Assets, not being depreciated | <u>85,426,401</u> | <u>4,484,493</u> | <u>-</u> | <u>(81,594,047)</u> | <u>8,316,847</u> |
| Capital assets, being depreciated | | | | | |
| Buildings and improvements | 332,753,280 | - | - | 81,594,047 | 414,347,327 |
| Furniture and equipment | 56,081,780 | 4,647,076 | (1,081,891) | - | 59,646,965 |
| Total Capital Assets, being depreciated | <u>388,835,060</u> | <u>4,647,076</u> | <u>(1,081,891)</u> | <u>81,594,047</u> | <u>473,994,292</u> |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (124,456,880) | (13,392,863) | - | - | (137,849,743) |
| Furniture and Equipment | (23,358,704) | (3,949,696) | 1,081,891 | - | (26,226,509) |
| Total Accumulated Depreciation | <u>(147,815,584)</u> | <u>(17,342,559)</u> | <u>1,081,891</u> | <u>-</u> | <u>(164,076,252)</u> |
| Governmental Capital Assets | <u><u>\$ 326,445,877</u></u> | <u><u>\$ (8,210,990)</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$318,234,887</u></u> |

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

| | Function | Depreciation Expense |
|----|--|---------------------------------|
| 11 | Instruction | \$ 9,091,762 |
| 12 | Instructional resources and media services | 140,527 |
| 13 | Curriculum and staff development | 183,952 |
| 21 | Instructional leadership | 380,144 |
| 23 | School leadership | 1,044,217 |
| 31 | Guidance, counseling and evaluation services | 533,911 |
| 32 | Social work services | 137,535 |
| 33 | Health services | 241,595 |
| 34 | Student transportation | 822,405 |
| 35 | Food Services | 850,864 |
| 36 | Extracurricular activities | 299,676 |
| 41 | General administration | 560,251 |
| 51 | Facilities maintenance and operations | 2,255,862 |
| 52 | Security and monitoring services | 359,905 |
| 53 | Data processing services | 374,599 |
| 61 | Community services | 65,354 |
| | | <u><u>\$ 17,342,559</u></u> |

Note 4 - Capital Assets (continued)

Construction Commitments

The District has active construction projects as of August 31, 2020. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

| Project | Approved Construction Budget | Construction in Progress | Remaining Commitment |
|------------------|---|-------------------------------------|---------------------------------|
| School Buildings | \$62,427,015 | \$ 1,437,636 | \$ 60,989,379 |
| Other-admin | 11,951,453 | 97,163 | 11,854,290 |
| | <u>\$74,378,468</u> | <u>\$ 1,534,799</u> | <u>\$72,843,669</u> |

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, warehouse ordering and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Activity between the debt service fund and the capital projects fund results primarily from the capital projects fund interest earnings that are used for debt service payments. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

The composition of interfund balances as of August 31, 2020, is as follows:

| | Interfund Receivable | Interfund Payable |
|-----------------------|---------------------------------|------------------------------|
| General Fund | \$ 5,291,878 | \$ 411,814 |
| Special Revenue Fund | 310,345 | 5,291,878 |
| Capital Projects Fund | 101,469 | - |
| | <u>\$ 5,703,692</u> | <u>\$ 5,703,692</u> |

Transfers that occurred during the fiscal year ending August 31, 2020 are as follows:

| Transfer Out | Transfer In | Amount |
|---------------------|----------------------|-------------------|
| General Fund | Special Revenue Fund | \$ 130,527 |
| | | <u>\$ 130,527</u> |

During the fiscal year, the General Fund transferred \$125,755 into the Special Revenue Fund to cover the District's Child Nutrition Operations.

Note 6 - Long-term Liabilities

Changes in Long-term Liabilities

Long-term liability activity for the year ended August 31, 2020, was as follows:

| | Balance September 1, 2019 | Additions | Retirements | Balance August 31, 2020 | Due Within One Year |
|--|--|----------------------|------------------------|--|--------------------------------|
| General obligation bonds | \$ 332,730,000 | \$ 64,945,000 | \$ (31,335,000) | \$ 366,340,000 | \$ 11,490,000 |
| For issuance premiums/discounts | 33,255,643 | 9,678,356 | (3,846,176) | 39,087,823 | - |
| Accrued compensated absences | 1,976,057 | 726,315 | (863,459) | 1,838,913 | 1,482,321 |
| Property tax lawsuits settlements and refunds due | - | 8,524,732 | (4,262,366) | 4,262,366 | 4,262,366 |
| Other long-term liability | 79,420 | - | - | 79,420 | - |
| | <u>\$ 368,041,120</u> | <u>\$ 83,874,403</u> | <u>\$ (40,307,001)</u> | <u>\$ 411,608,522</u> | <u>\$ 17,234,687</u> |

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities, buses, and to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Bonded long-term debt at August 31, 2020, is comprised of the following individual issues:

| Issue | Original Issuance Amount | Interest Rate (%) | Maturity Date | Debt Outstanding |
|---|---|------------------------------|--------------------------|-----------------------------|
| Unlimited Tax Refunding Bonds, Series 2012 | \$ 46,480,000 | 3.50% to 5.00% | 2035 | \$ 18,105,000 |
| Unlimited Tax School Building Bonds, Series 2015A | 89,855,000 | 1.75% to 5.00% | 2045 | 84,215,000 |
| Unlimited Tax Refunding Bonds, Series 2015B | 34,115,000 | 2.00% to 5.00% | 2034 | 27,160,000 |
| Unlimited Tax School Building Bonds, Series 2016A | 41,460,000 | 2.00% to 5.00% | 2045 | 39,685,000 |
| Unlimited Tax Refunding Bonds, Series 2016B | 39,000,000 | 2.00% to 5.00% | 2034 | 39,000,000 |
| Unlimited Tax Refunding Bonds, Series 2016C | 14,050,000 | 2.00% to 5.00% | 2031 | 14,050,000 |
| Unlimited Tax Refunding Bonds, Series 2016D | 27,350,000 | 4.00% to 5.00% | 2039 | 25,195,000 |
| Unlimited Tax Refunding Bonds, Series 2016E | 55,840,000 | 3.00% to 5.00% | 2038 | 53,985,000 |
| Unlimited Tax School Building Bonds, Series 2019A | 43,190,000 | 3.00% to 5.00% | 2049 | 43,190,000 |
| Unlimited Tax Refunding Bonds, Series 2019B | 21,755,000 | 3.56% to 5.00% | 2032 | 21,755,000 |
| | | | | <u>\$ 366,340,000</u> |

Note 6 - Long-term Liabilities (continued)

Changes in Long-term Liabilities (continued)

Annual debt service requirements to maturity for all bonded long-term debt outstanding as of August 31, 2020 as follows:

| Year Ending | Principal | Interest | Totals |
|--------------------|-----------------------|-----------------------|-----------------------|
| August 31, | | | |
| 2021 | \$ 11,490,000 | \$ 15,149,551 | \$ 26,639,551 |
| 2022 | 11,915,000 | 14,722,826 | 26,637,826 |
| 2023 | 12,370,000 | 14,265,926 | 26,635,926 |
| 2024 | 12,895,000 | 13,744,326 | 26,639,326 |
| 2025 | 13,680,000 | 13,132,151 | 26,812,151 |
| 2026 - 2030 | 78,540,000 | 55,494,417 | 134,034,417 |
| 2031-2035 | 96,115,000 | 38,018,743 | 134,133,743 |
| 2036-2040 | 72,245,000 | 19,398,200 | 91,643,200 |
| 2041-2045 | 47,440,000 | 7,506,625 | 54,946,625 |
| 2046-2049 | 9,650,000 | 791,400 | 10,441,400 |
| | <u>\$ 366,340,000</u> | <u>\$ 192,224,165</u> | <u>\$ 558,564,165</u> |

In prior years and during the current years, the District defeased, certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust, to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2020, \$21,890,000 of the defeased debt remains outstanding.

Motiva Refinery Refund

In fiscal year 2020, the District and Motiva Refinery entered into a settlement agreement on appraised values and agreed to a two-year repayment agreement in the amount of \$8,524,732. The first installment was made in fiscal year 2020 and the final payment will be made in October 2020.

Note 7 - Revenues from Local, Intermediate, and Out-of-State Sources

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

| | General | Special | Debt | Capital | Totals |
|----------------------------------|----------------------|---------------------|----------------------|----------------------|----------------------|
| | Fund | Revenue Fund | Service Fund | Projects Fund | |
| Property Taxes | \$ 58,782,115 | \$ - | \$ 23,241,639 | \$ - | \$ 82,023,754 |
| Payments in Lieu of Taxes | 5,205,481 | - | - | - | 5,205,481 |
| Investment Income | 497,225 | 342 | 83,419 | 1,310,628 | 1,891,614 |
| Co-curricular Student Activities | 78,674 | 439,111 | - | - | 517,785 |
| Food Sales | - | 305,948 | - | - | 305,948 |
| Other | 25,620 | 825,571 | - | - | 851,191 |
| | <u>\$ 64,589,115</u> | <u>\$ 1,570,972</u> | <u>\$ 23,325,058</u> | <u>\$ 1,310,628</u> | <u>\$ 90,795,773</u> |

Note 8 - Defined Benefit Pension Plan

A. 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). TRS's defined benefit pension plan 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 workload and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

B. 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 at <https://trs.texas.gov/TRS%20Documents/cafr2019.pdf>, selecting About TRS then Publications then *Financial Reports* or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

C. 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 postemployment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan description above.

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.

In May 2019, the 86th Texas Legislature approved the TRS Pension Reform Bill (Senate Bill 12) that provides for gradual contribution increases from the state, participating employers, and active employees to make the pension fund actuarially sound. This action causing the pension fund to be actuarially sound, allowed the legislature to approve funding for a 13th check in September 2019. All eligible members retired as of December 31, 2018 received an extra annuity check in either the matching amount of their monthly annuity or \$2,000, whichever was less.

Note 8 - Defined Benefit Pension Plan (continued)

D. 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

| | Contribution Rates | |
|----------------------------------|---------------------------|-------------|
| | 2020 | 2019 |
| Member | 7.70% | 7.70% |
| Non-Employer Contributing Entity | 7.50% | 6.80% |
| Employers | 7.50% | 6.80% |

| | Fiscal Year |
|---|----------------------|
| | 2020 |
| | Contributions |
| Employer (District) | \$ 1,850,743 |
| Employee (Member) | 4,300,418 |
| Non-Employer Contributing Entity On-Behalf Contributions (State) | 3,335,659 |

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.

Note 8 - Defined Benefit Pension Plan (continued)

D. Contributions (continued)

- When the employing district is a public or charter school, the employer shall contribute 1.5% of covered payroll to the pension fund beginning in fiscal year 2020. This contribution rate called the Public Education Employer Contribution will replace the Non (OASDI) surcharge that was in effect in fiscal year 2019.

In addition to the employer contributions listed above, there is an additional surcharge 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. This surcharge was in effect through fiscal year 2019 and was replaced with the Public Education Employer Contribution explained above.

E. Actuarial Assumptions

The total pension liability in the August 31, 2018 actuarial valuation rolled forward to August 31, 2019 was determined using the following actuarial assumptions:

| | |
|--|---|
| Valuation Date | August 31, 2018, rolled forward to August 31, 2019 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Asset Valuation Method | Market Value |
| Single Discount Rate | 7.25% |
| Long-term Expected Investment Rate of Return | 7.25% |
| Municipal Bond Rate as of August 2019 | 2.63%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index." |
| Inflation | 2.30% |
| Salary Increases | 3.05% to 9.05% including inflation |
| Benefit Changes During the Year | None |
| Ad Hoc Post-Employment Benefit Changes | None |

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2018. For a full description of these assumptions please see the actuarial valuation report dated November 9, 2018.

Note 8 - Defined Benefit Pension Plan (continued)

F. Discount Rate

A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.25 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

Note 8 - Defined Benefit Pension Plan (continued)

F. Discount Rate (continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

| <u>Asset Class</u> | <u>Target Allocation¹</u> | <u>New Target Allocation²</u> | <u>Long-Term Expected Geometric Real Rate of Return³</u> |
|--|--------------------------------------|--|---|
| Global Equity | | | |
| USA | 18.00% | 18.00% | 6.40% |
| Non-U.S. Developed | 13.00% | 13.00% | 6.30% |
| Emerging Markets | 9.00% | 9.00% | 7.30% |
| Directional Hedge Funds | 4.00% | 0.00% | 0.00% |
| Private Equity | 13.00% | 14.00% | 8.40% |
| Stable Value | | | |
| U.S. Treasuries ⁴ | 11.00% | 16.00% | 3.10% |
| Stable Value Hedge Funds | 4.00% | 5.00% | 4.50% |
| Absolute Return | 0.00% | 0.00% | 0.00% |
| Real Return | | | |
| Global Inflation Linked Bonds ⁴ | 3.00% | 0.00% | 0.00% |
| Real Estate | 14.00% | 15.00% | 8.50% |
| Energy, Natural Resources and Infrastructure | 5.00% | 6.00% | 7.30% |
| Commodities | 0.00% | 0.00% | 0.00% |
| Risk Parity | | | |
| Risk Parity | 5.00% | 8.00% | 5.8%/6.5% ⁵ |
| Leverage | | | |
| Cash | 1.00% | 2.00% | 2.50% |
| Asset Allocation Leverage | 0.00% | -6.00% | 2.70% |
| Expected Return | <u>100.00%</u> | <u>100.00%</u> | <u>7.23%</u> |

¹ Target allocations are based on the Strategic Asset Allocation as of FY2019.

² New allocations are based on the Strategic Asset Allocation to be implemented in FY2020.

³ 10-Year annualized geometric nominal returns include the real rate of return and inflation of 2.1%.

⁴ New Target Allocation groups Government Bonds within the stable value allocation.

This includes global sovereign nominal and inflation-linked bonds.

⁵ 5.8% (6.5%) return expectation corresponds to Risk Parity with a 10% (12%) volatility.

Note 8 - Defined Benefit Pension Plan (continued)

G. 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 (7.25%) in measuring the Net Pension Liability.

| | Discount Rate | | |
|--|--------------------------------|---------------------------------|--------------------------------|
| | 1% Decrease (6.25%) | Current Rate (7.25%) | 1% Increase (8.25%) |
| District's proportional share of the net pension liability | \$ 24,975,376 | 16,247,895 | \$ 9,176,952 |

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2020, the District reported a liability of \$16,247,895 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 | \$ 16,247,895 |
| State's proportionate share that is associated with the District | 39,635,983 |
| | <u>\$ 55,883,878</u> |

The net pension liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019, the employer's proportion of the collective net pension liability was 0.03130% which was an increase of 0.00175% from its proportion measured as of August 31, 2018 of 0.02955%.

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 single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected in the actuarial assumptions.
- The Texas legislature approved funding for a 13th check. All eligible members retired as of December 31, 2018 will receive an extra annuity check in September 2019 in either the matching amount of their monthly annuity payment or \$2,000, whichever is less.

Note 8 - Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended August 31, 2020, the District recognized pension expense of \$2,536,012, which includes on-behalf revenue and expense of \$6,226,255 representing support provided by the State on behalf of the District.

At August 31, 2020, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 68,256 | \$ (564,153) |
| Changes of assumption | 5,040,895 | (2,083,136) |
| Net difference between projected and actual earnings on plan investments | 163,147 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 935,272 | (1,873,945) |
| District contributions subsequent to the measurement date | 1,850,743 | - |
| Total | <u>\$ 8,058,313</u> | <u>\$ (4,521,234)</u> |

The \$1,850,743 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended August 31, 2021. 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:

| <u>Fiscal Year</u> | <u>Pension Expense Amount</u> |
|--------------------|-----------------------------------|
| 2021 | \$ 140,751 |
| 2022 | 11,819 |
| 2023 | 754,132 |
| 2024 | 715,108 |
| 2025 | 177,458 |
| Thereafter | (112,932) |
| | <u>\$ 1,686,336</u> |

Note 9 - Defined Other Post-Employment Benefit Plan

A. Plan Description

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

B. OPEB 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 at <https://trs.texas.gov/TRS%20Documents/cafr2019.pdf>, selecting About TRS then Publications then *Financial Reports* or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

C. Benefits Provided

TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. 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 postemployment benefit changes; including automatic COLAs.

The premium rates for retirees are reflected in the following table:

| TRS-Care Monthly for Retirees | | | | |
|--|-----------------|-------|---------------------|-----|
| | Medicare | | Non-Medicare | |
| Retiree or Surviving Spouse | \$ | 135 | \$ | 200 |
| Retiree and Spouse | | 529 | | 689 |
| Retiree or Surviving Spouse and Children | | 468 | | 408 |
| Retiree and Family | | 1,020 | | 999 |

Note 9 - Defined Other Post-Employment Benefit Plan (continued)

D. 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 0.75% 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 | |
|---|---------------------------|-------------|
| | 2020 | 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% |

| | Fiscal Year 2020 Contributions |
|--|---|
| Employer (District) | \$ 556,649 |
| Employee (Member) | 1,008,223 |
| Non-Employer Contributing Entity On-Behalf Contributions (State) | 1,103,768 |

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 hiring a TRS retiree, employers are required to pay 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 \$73.6 million in fiscal year 2019.

In addition, \$230,756,971 was transferred to TRS to pay for TRS-Care during the 86th Legislative Session, House Bill 1. GASB Statement No. 85 requires that an on-behalf payment is recorded for the districts proportionate share. The proportionate share was determined using the GASB Statement No. 75 TRS-Care proportionate share allocation. For the year ended August 31, 2020, the District recorded an expenditure for their proportionate share of the funds along with the corresponding revenue of \$186,062.

Note 9 - Defined Other Post-Employment Benefit Plan (continued)

E. Actuarial Assumptions

The total OPEB liability in the August 31, 2018 was rolled forward to August 31, 2019. The actuarial valuation was determined using the following actuarial assumptions:

| | |
|--|--|
| Valuation Date | August 31, 2018, rolled forward to August 31, 2019 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Inflation | 2.30% |
| Single Discount Rate | 2.63% as of August 31, 2019 |
| Aging Factors | Based on plan specific experience |
| Election Rates | Normal Retirement: 65% participation prior to age 65 and 50% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65 |
| Expenses | Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs. |
| Salary Increases | 3.05% to 9.05%, including inflation |
| Healthcare Trend Rates | Initial medical trend rates were 10.25% for Medicare retirees and 7.50% for non-Medicare retirees. Initial prescription drug trend rate of 10.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 13 years. |
| Ad hoc post-employment benefit changes | None |

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions used for members of TRS are identical to the assumptions employed in the August 31, 2019 TRS annual pension actuarial valuation: (a) Rates of Mortality, (b) Rates of Retirement, (c) Rates of Termination, (d) Rates of Disability, (e) General Inflation, (f) Wage Inflation, and (g) Salary Increases.

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP).

Note 9 - Defined Other Post-Employment Benefit Plan (continued)

F. Discount Rate

A single discount rate of 2.63% was used to measure the total OPEB liability. There was a change of 1.06% 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.

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (2.63%) in measuring the Net OPEB Liability:

| | Discount Rate | | |
|---|--------------------------------|---------------------------------|--------------------------------|
| | 1% Decrease (1.63%) | Current Rate (2.63%) | 1% Increase (3.63%) |
| District's proportionate share of the Net OPEB Liability: | \$ 46,036,908 | \$ 38,131,457 | \$ 31,947,022 |

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

At August 31, 2019, the District reported a liability of \$38,131,457 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 | \$ 38,131,457 |
| State's proportionate share that is associated with District | <u>50,668,182</u> |
| Total | <u><u>\$ 88,799,639</u></u> |

The Net OPEB Liability was measured as of August 31, 2018 and rolled forward to August 31, 2019 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, 2018 thru August 31, 2019.

At August 31, 2019 the employer’s proportion of the collective Net OPEB Liability was 0.0806% which was a decrease of 0.0009% from the proportional share measured as of August 31, 2018 in the amount of 0.0815%.

Note 9 - Defined Other Post-Employment Benefit Plan (continued)

H. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (continued)

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 healthcare cost trend rate:

| | Healthcare Cost Trend Rate | | |
|---|-----------------------------------|----------------|--------------------|
| | 1% Decrease | Current | 1% Increase |
| District's proportionate share of the Net OPEB Liability: | \$ 31,106,308 | \$ 38,131,457 | \$ 47,541,939 |

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 (TOL) since the prior measurement period:

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the TOL.
- The health care trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.
- Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2020, the District recognized OPEB expense of \$974,647 which includes on-behalf revenue and expense of \$1,335,405 representing support provided by the State on behalf of the District.

At August 31, 2020, 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:

Note 9 - Defined Other Post-Employment Benefit Plan (continued)

H. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (continued)

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 1,870,672 | \$ (6,239,809) |
| Changes of assumption | 2,117,905 | (10,256,427) |
| Net difference between projected and actual earnings on plan investments | 4,114 | - |
| Changes in proportion and differences between District contributions and proportionate share of contributions | 120 | (480,724) |
| District contributions subsequent to the measurement date | 556,649 | - |
| Total | \$ 4,549,460 | \$ (16,976,960) |

The \$556,649 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending August 31, 2021. The remaining 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:

| Fiscal Year | OPEB Expense Amount |
|--------------------|--------------------------------|
| 2021 | \$ (2,164,118) |
| 2022 | (2,164,118) |
| 2023 | (2,165,450) |
| 2024 | (2,166,211) |
| 2025 | (2,166,003) |
| Thereafter | (2,158,249) |
| | \$ (12,984,149) |

I. Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2020, 2019, and 2018, the subsidy payments received by TRS-Care on-behalf of the District were \$270,675, \$202,632, and \$156,930, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds' financial statements of the District.

Note 10 - Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance. In addition, the District participates in the Interlocal Purchasing System (TIPS/TAPS), which provides general liability, auto liability auto physical damage and Crime insurance. The District is also a member of the Texas Association of School Boards Joint Self-Insurance Fund (Fund), which provides Worker’s Compensation Insurance. Illinois National provides Educators Legal Liability Insurance. There were no reductions in coverage in the current fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 11 - Contingencies

The District receives financial assistance from federal, state and local governmental agencies in the form of grants. The disbursement of funds received under these programs generally require compliance with the terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, such disallowed claims, if any, will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at August 31, 2020.

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and the District’s counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

Note 12 - Arbitrage

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five-year anniversary date of the bond issue. The District does not have an arbitrage liability as of August 31, 2020.

Note 13 - Operating Leases

The District leases copiers under non-cancelable operating leases. Total costs for operating leases were \$552,335 for the year ended August 31, 2020. From this amount only \$12,890 was paid related to the non-cancelable operating leases, the remaining amount of \$539,445 was paid related to annual operating lease agreements. Operating lease obligations are payable from all funds. The future minimum lease payments for the non-cancelable operating leases are as follows:

| Year Ending | Amount |
|--------------------|------------------|
| August 31 | |
| 2021 | \$ 12,890 |
| 2022 | 12,890 |
| 2023 | 10,740 |
| Total | \$ 36,520 |

Note 14 - Tax Abatements

Currently, the District has four (4) active Chapter 313 Agreements with corporations for Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to the Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Two of the projects are in the Maintain Viable Presence Period of the Agreements, beginning in Tax Year 2018.

Value limitation agreements are a part of a state program, originally created in 2001 which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The project(s) under the Chapter 313 agreement must be consistent with the state's goal to "encourage large scale capital investments in this state." Chapter 313 of the Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application's approval, the agreement was found to have done so by both the District's Board of trustees and the Texas Comptroller's Office, which recommended approval of the project. The application, the agreements and state reporting requirement documentation can be viewed at the Texas Comptroller's website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The agreement and all supporting documentation was assigned Texas Comptroller Application number.

The following Chapter 313 Agreements are in effect:

Premcor III Hyrdocracker Project's (Application No. 76) first year value limitation was tax year 2011. The project is no longer in the value limitation as of 2019, with a total project value of \$331,266,800. In the current fiscal year, the applicant's M&O taxes have been reduced by \$0. The net benefit to the District was the full amount of M&O taxes owed, \$3,539,089.

Praxair's (Application No. 217) first year value limitation was tax year 2015. The project value's value limitation is \$30,000,000, with a total project value of \$174,633,900. In the current fiscal year, after the application of the tax credit, the applicant's M&O taxes have been reduced by \$1,865,701. The net benefit to the District was \$958,187.

On September 25, 2018, the District approved a Tax Limitation Agreement with The Premcor Refining Group (Application No. 1205). The first-year value limitation will be tax year 2022. The project value's value limitation is \$30,000,000. In the current fiscal year, there was no reduction in M&O taxes for the tax year and the net benefit to the District was \$0.

On June 25, 2020, the District approved a Tax Limitation Agreement with Emerald Renewable Diesel, LLC (Application No. 1443). The first-year value limitation will be tax year 2022. The project value's value limitation is \$30,000,000. In the current fiscal year, there was no reduction in M&O taxes for the tax year and the net benefit to the District was \$0.

Note 15 - Subsequent Events

On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in Texas in response to the COVID-19, which disaster declaration he has subsequently extended. In addition, certain local officials, including the County Judge of Harris County, also declared a local state of disaster.

The TEA advised districts that for to stabilize funding expectations for 2020-21, districts will be provided an ADA grace period for the first two six weeks of Foundation School Program reporting. Specifically, TEA will replace attendance numbers for each eligible LEA’s 2020-2021 first two six-week attendance periods with projected ADA and student FTE numbers calculating using a three-year average trend of final numbers from the 2017-2018 through the 2019-2020 school years, unless this projection is both 15% higher and 100 ADA higher than the 2020- 2021 LPE projections. In the latter case, 2020-2021 LPE counts will be used. Student enrollment as of mid- September 2020 is lower than budgeted student enrollment and the District is actively contacting all students who were dropped in 2020-21 due to not showing for remote instruction at the start of school in August 2020.

TEA will make available an ADA hold harmless for the third six weeks attendance reporting period, on the condition that LEAs allow on-campus instruction throughout the entire third six weeks period, as further described below. The ADA hold harmless methodology will be identical to the methodology used for the first two six weeks attendance reporting periods, except that the third six weeks will be examined independent of the first two six weeks attendance reporting periods. Specifically, if an LEA’s refined ADA counts during the third six weeks attendance reporting period is less than the ADA hold harmless projections (described in the prior question and available online), the third six-weeks attendance reporting period for 2020–2021 will be excluded from the calculation of ADA and student FTEs for FSP funding purposes and will be replaced with the ADA hold harmless projections. As noted above, this ADA hold harmless methodology will only apply to attendance-based counts and will not apply to enrollment-based FSP allotments such as the state compensatory education allotment and the dyslexia allotment.

The full extent of the ongoing impact of COVID-19 on the District’s 2020-21 fiscal year and longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies related to COVID-19, the duration an D-19, and future governmental actions, all of which are highly uncertain and cannot be predicted.

REQUIRED SUPPLEMENTARY INFORMATION

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

Exhibit G-1

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2020

| Data Control Codes | | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|---|---|----------------------|----------------------|----------------------|---|
| | | Original | Final | | |
| Revenues | | | | | |
| 5700 | Local, intermediate, and out-of-state | \$ 75,923,575 | \$ 75,998,575 | \$ 64,589,115 | \$ (11,409,460) |
| 5800 | State program revenues | 9,217,505 | 9,217,505 | 18,039,949 | 8,822,444 |
| 5900 | Federal program revenues | 1,753,522 | 1,753,522 | 2,260,968 | 507,446 |
| 5020 | Total revenues | 86,894,602 | 86,969,602 | 84,890,032 | (2,079,570) |
| Expenditures | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 47,255,542 | 49,044,542 | 47,716,697 | 1,327,845 |
| 0012 | Instructional resources and media services | 818,133 | 818,133 | 654,017 | 164,116 |
| 0013 | Curriculum and instructional staff development | 678,346 | 787,346 | 687,326 | 100,020 |
| 0021 | Instructional leadership | 2,111,754 | 2,161,754 | 1,997,789 | 163,965 |
| 0023 | School leadership | 5,864,429 | 5,864,429 | 5,801,410 | 63,019 |
| 0031 | Guidance, counseling and evaluation services | 2,667,026 | 2,876,026 | 2,893,922 | (17,896) |
| 0032 | Social work services | 535,729 | 610,729 | 523,389 | 87,340 |
| 0033 | Health services | 1,011,097 | 1,111,097 | 1,009,542 | 101,555 |
| 0034 | Student transportation | 2,653,808 | 2,574,953 | 2,151,349 | 423,604 |
| 0035 | Food services | 142,692 | 163,692 | 53,540 | 110,152 |
| 0036 | Extracurricular activities | 1,784,150 | 1,784,150 | 1,578,259 | 205,891 |
| 0041 | General administration | 3,235,993 | 3,610,993 | 3,295,124 | 315,869 |
| 0051 | Facilities maintenance and operations | 13,131,040 | 13,352,040 | 12,292,897 | 1,059,143 |
| 0052 | Security and monitoring services | 2,072,990 | 2,437,214 | 1,764,274 | 672,940 |
| 0053 | Data processing services | 1,842,156 | 1,880,364 | 1,815,472 | 64,892 |
| 0061 | Community services | 173,367 | 305,367 | 272,934 | 32,433 |
| Capital outlay | | | | | |
| 0081 | Facilities acquisition and construction | 16,850 | 120,950 | 63,401 | 57,549 |
| Intergovernmental | | | | | |
| Contracted instructional services between | | | | | |
| 0091 | public schools | - | 932,790 | 441,960 | 490,830 |
| 0095 | Payments to Juvenile Justice AEP | 119,500 | 119,500 | 108,000 | 11,500 |
| 0099 | Payments to appraisal district | 780,000 | 620,230 | 620,230 | - |
| 6030 | Total Expenditures | 86,894,602 | 91,176,299 | 85,741,532 | 5,434,767 |
| 1100 | Excess (deficiency) of revenues over expenditures | - | (4,206,697) | (851,500) | 3,355,197 |
| Other Financing Sources (Uses) | | | | | |
| 7912 | Sale of real and personal property | - | - | 11,756 | 11,756 |
| 7915 | Operating transfers in | - | - | 698,453 | 698,453 |
| 8911 | Operating transfers out | - | - | (130,527) | (130,527) |
| 8949 | Other uses - property tax refunds | - | (3,367,269) | (3,367,269) | - |
| 7080 | Total Other Financing Sources (Uses) | - | (3,367,269) | (2,787,587) | 579,682 |
| 1200 | Net change in fund balances | - | (7,573,966) | (3,639,087) | 3,934,879 |
| 0100 | Fund Balance - September 1 (Beginning) | 41,924,780 | 41,924,780 | 41,924,780 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 41,924,780 | \$ 34,350,814 | \$ 38,285,693 | \$ 3,934,879 |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION PROGRAM
For the Year Ended August 31, 2020

Exhibit G-2

| Data Control Codes | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) | |
|---------------------------------------|--|------------------|-------------------|---|--------------------|
| | Original | Final | | | |
| Revenues | | | | | |
| 5700 | Local, intermediate, and out-of-state | \$ 541,002 | \$ 541,002 | \$ 315,410 | \$ (225,592) |
| 5800 | State program revenues | 37,434 | 65,554 | 34,332 | (31,222) |
| 5900 | Federal program revenues | 5,510,815 | 5,510,815 | 4,318,864 | (1,191,951) |
| 5030 | Total Revenues | <u>6,089,251</u> | <u>6,117,371</u> | <u>4,668,606</u> | <u>(1,448,765)</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| 0035 | Food services | 6,089,251 | 6,118,391 | 4,799,133 | 1,319,258 |
| 6030 | Total Expenditures | <u>6,089,251</u> | <u>6,118,391</u> | <u>4,799,133</u> | <u>1,319,258</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | - | (1,020) | (130,527) | (129,507) |
| Other Financing Sources (Uses) | | | | | |
| 7915 | Operating transfer in | - | - | 130,527 | 130,527 |
| | Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>130,527</u> | <u>130,527</u> |
| 1200 | Net change in fund balance | - | (1,020) | - | 1,020 |
| 0100 | Fund Balance - September 1 (Beginning) | - | - | - | - |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ -</u> | <u>\$ (1,020)</u> | <u>\$ -</u> | <u>\$ 1,020</u> |

The District adopts annual appropriations type budgets for the General Fund, Child Nutrition Program included in the Special Revenue Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The General Fund Budget Schedule and the Child Nutrition Program Budget Schedule appear on Exhibit G-1 and G-2, respectively, and the Debt Service Fund Budget Schedule is on Exhibit J-4.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. During the year ended August 31, 2020, the Board of Trustees approved budget amendments increasing expenditures as follows:

| | <u>General Fund</u> | <u>Child Nutrition Program</u> | <u>Debt Service Fund</u> |
|---------------------|---------------------|------------------------------------|------------------------------|
| Amendments Approved | \$ 4,281,697 | \$ 29,140 | \$ 1,356,153 |

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 31, 2019. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year-end and encumbrances outstanding at that time are appropriately provided for in the subsequent year's budget.

The District's actual expenditures exceeded final budgeted amounts in the General Fund functional category of guidance, counseling, and evaluation services by \$17,896.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
Last Six Measurement Years

Exhibit G-4

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|----------------------|
| District's proportion of the net pension liability | 0.031300% | 0.029600% | 0.035100% |
| District's proportionate share of the net pension liability | \$ 16,247,895 | \$ 16,267,100 | \$ 11,222,317 |
| State's proportionate share of the net pension liability associated with the District | <u>39,635,983</u> | <u>45,254,942</u> | <u>23,707,097</u> |
| Total | <u>\$ 55,883,878</u> | <u>\$ 61,522,042</u> | <u>\$ 34,929,414</u> |
| District's covered payroll (for Measurement Year) | \$ 53,991,706 | \$ 52,425,792 | \$ 50,156,718 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 30.1% | 31.0% | 22.4% |
| Plan fiduciary net position as a percentage of the total pension liability * | 75.24% | 73.74% | 82.17% |
| Plan's net pension liability as a percentage of covered payroll * | 114.93% | 126.11% | 75.93% |
| | <u>2016</u> | <u>2015</u> | <u>2014</u> |
| District's proportion of the net pension liability | 0.033100% | 0.032884% | 0.038821% |
| District's proportionate share of the net pension liability | \$ 12,496,047 | \$ 11,623,986 | \$ 10,371,816 |
| State's proportionate share of the net pension liability associated with the District | <u>29,351,981</u> | <u>28,179,603</u> | <u>25,590,134</u> |
| Total | <u>\$ 41,848,028</u> | <u>\$ 39,803,589</u> | <u>\$ 35,961,950</u> |
| District's covered payroll (for Measurement Year) | \$ 49,326,749 | \$ 47,813,903 | \$ 49,184,516 |
| District's proportionate share of the net pension liability as a percentage of its covered payroll | 25.3% | 24.3% | 21.1% |
| Plan fiduciary net position as a percentage of the total pension liability * | 78.00% | 78.43% | 83.25% |
| Plan's net pension liability as a percentage of covered payroll * | 92.75% | 91.94% | 72.89% |

Notes: Amounts will be presented prospectively in accordance with GASB 68.

The amounts presented for each Plan year which ends the preceding August 31 of the District's fiscal year.

* Per Teacher Retirement System of Texas' comprehensive annual financial report.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
Last Nine Fiscal Years

Exhibit G-5

| | <u>2020¹</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|-------------------------|---------------|---------------|---------------|---------------|
| Contractually required contributions | \$ 1,850,743 | \$ 1,009,198 | \$ 986,936 | \$ 1,142,461 | \$ 1,050,178 |
| Contributions in relation to the contractual required contributions | 1,850,743 | 1,009,198 | 986,936 | 1,142,461 | 1,050,178 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's covered payroll | \$ 56,485,141 | \$ 53,991,706 | \$ 52,425,792 | \$ 50,156,718 | \$ 49,326,747 |
| Contributions as a percentage of covered payroll | 3.28% | 1.87% | 1.88% | 2.28% | 2.13% |
| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | |
| Contractually required contributions | \$ 973,705 | \$ 984,427 | \$ 797,769 | \$ 770,625 | |
| Contributions in relation to the contractual required contributions | 973,705 | 984,427 | 797,769 | 770,625 | |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| District's covered payroll | \$ 47,813,903 | \$ 49,184,516 | \$ 48,277,029 | \$ 50,928,308 | |
| Contributions as a percentage of covered payroll | 2.04% | 2.00% | 1.65% | 1.51% | |

¹ The District began paying the Public Education Employers Contribution (formerly RE Payment for Non-OASDI Members Contribution) due to legislation changes in House Bill 3. This became a requirement for all non-higher education reporting entities regardless of whether or not they pay social security on their TRS members.

Changes of Assumptions

- The single discount rate as of August 31, 2018 was a blended rate of 6.907 percent and that has changed to the long-term rate of return of 7.25 percent as of August 31, 2019.
- With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

Changes in Benefit Terms

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

Other Information

Effective September 1, 2014, employers who did not contribute to Social Security for TRS-eligible employees were required to contribute an additional 1.5% of TRS-eligible compensation which nearly doubled the District's contributions into the Plan. Because the District's proportional share of the plan is determined by its proportional share of contributions, the District recognized a corresponding increase in its share of net pension liability.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
Last Three Measurement Years

Exhibit G-6

| | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|----------------------|
| District's proportion of the net OPEB liability | 0.080600% | 0.081460% | 0.081500% |
| District's proportionate share of the net OPEB liability | \$ 38,131,457 | \$ 40,674,334 | \$ 35,442,346 |
| State's proportionate share of the net OPEB liability associated with the District | <u>50,668,182</u> | <u>42,046,570</u> | <u>36,497,126</u> |
| Total | <u>\$ 88,799,639</u> | <u>\$ 82,720,904</u> | <u>\$ 71,939,472</u> |
| District's covered payroll (for Measurement Year) | \$ 53,991,706 | \$ 52,425,792 | \$ 50,156,718 |
| District's proportionate share of the net OPEB liability as a percentage of its covered payroll | 70.6% | 77.6% | 70.7% |
| Plan fiduciary net position as a percentage of the total OPEB liability * | 2.66% | 1.57% | 0.91% |
| Plan's net OPEB liability as a percentage of covered payroll * | 135.21% | 146.64% | 132.55% |

Notes: Amounts will be presented prospectively in accordance with GASB 75.

The amounts presented for each Plan year which ends the preceding August 31 of the District's fiscal year.

* Per Teacher Retirement System of Texas' comprehensive annual financial report.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
Last Nine Fiscal Years

Exhibit G-7

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|---|---------------|---------------|---------------|---------------|---------------|
| Contractually required contributions | \$ 556,649 | \$ 554,051 | \$ 561,297 | \$ 423,738 | \$ 442,157 |
| Contributions in relation to the contractual required contributions | 556,649 | 554,051 | 561,297 | 423,738 | 442,157 |
| Contribution deficiency (excess) | <u>\$ -</u> |
| District's covered payroll | \$ 56,485,141 | \$ 53,991,706 | \$ 52,425,792 | \$ 50,156,718 | \$ 49,326,747 |
| Contributions as a percentage of covered payroll | 0.99% | 1.03% | 1.07% | 0.84% | 0.90% |
| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | |
| Contractually required contributions | \$ 324,855 | \$ 333,980 | \$ 368,444 | \$ 347,146 | |
| Contributions in relation to the contractual required contributions | 324,855 | 333,980 | 368,444 | 347,146 | |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | |
| District's covered payroll | \$ 47,813,903 | \$ 49,184,516 | \$ 48,277,029 | \$ 50,928,308 | |
| Contributions as a percentage of covered payroll | 0.68% | 0.68% | 0.76% | 0.68% | |

Changes of Assumptions

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

- The discount rate changed from 3.69 percent as of August 31, 2018 to 2.63 percent as of August 31, 2019. This change increased the TOL.
- The health care trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
- The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 75 percent to 50 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
- The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.
- Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

Changes of Benefit Terms

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

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

REQUIRED TEA SCHEDULES

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended August 31, 2020

Exhibit J-1
Page 1 of 2

| Last Ten Fiscal Years | Tax Rates | | Net Assessed/Appraised Value For School Tax Purposes | Beginning Balance 9/1/19 |
|--------------------------|-------------|--------------|--|--------------------------------|
| | 1 | 2 | | |
| | Maintenance | Debt Service | | |
| 2011 and prior | Various | Various | Various | \$ 1,732,227 |
| 2012 | 1.040000 | 0.327600 | \$4,425,423,227 | 354,675 |
| 2013 | 1.040000 | 0.312600 | 5,039,626,855 | 363,723 |
| 2014 | 1.040000 | 0.313120 | 5,541,350,428 | 473,056 |
| 2015 | 1.040000 | 0.313480 | 4,973,881,624 | 493,809 |
| 2016 | 1.040000 | 0.313140 | 4,749,619,404 | 511,009 |
| 2017 | 1.040000 | 0.313470 | 4,416,465,751 | 597,005 |
| 2018 | 1.170000 | 0.310987 | 4,281,278,094 | 927,199 |
| 2019 ¹ | 1.170000 | 0.315090 | 6,201,976,513 | 8,758,500 |
| 2020 | 1.068350 | 0.412540 | 5,550,038,374 | - |
| 1000 Totals | | | | \$ 14,211,203 |

¹ This row includes \$8.9 million in refunds due to settlements as a result of reappraisals.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended August 31, 2020

Exhibit J-1
Page 2 of 2

| | 20 | 31 | 32 | 40 | 50 |
|------------------------------|----------------------------------|--------------------------------------|---------------------------------------|----------------------------------|-------------------------------|
| Last Ten Fiscal Years | Current Year's Total Levy | Maintenance Total Collections | Debt Service Total Collections | Entire Year's Adjustments | Ending Balance 8/31/20 |
| 2011 and prior | \$ - | 43,543 | 13,750 | (96,307) | \$ 1,578,627 |
| 2012 | - | 18,643 | 5,873 | (7,321) | 322,838 |
| 2013 | - | 21,834 | 6,563 | (6,796) | 328,530 |
| 2014 | - | 27,394 | 8,248 | (6,588) | 430,826 |
| 2015 | - | 33,219 | 10,013 | (6,265) | 444,312 |
| 2016 | - | 34,088 | 10,264 | (7,202) | 459,455 |
| 2017 | - | 49,579 | 14,944 | (7,345) | 525,137 |
| 2018 | - | 60,790 | 16,158 | (84,551) | 765,700 |
| 2019 ¹ | - | (6,583,462) | (1,772,977) | (16,177,025) | 937,914 |
| 2020 | <u>82,189,963</u> | <u>57,817,245</u> | <u>22,922,621</u> | <u>-</u> | <u>1,450,097</u> |
| 1000 Totals | <u><u>\$ 82,189,963</u></u> | <u><u>\$ 51,522,873</u></u> | <u><u>\$ 21,235,457</u></u> | <u><u>\$ (16,399,400)</u></u> | <u><u>\$ 7,243,436</u></u> |

¹ This row includes \$8.9 million in refunds due to settlements as a result of reappraisals.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
For the Year Ended August 31, 2020

Exhibit J-2

| Data Control Codes | Budgeted Amounts | | Actual Amounts | Variance with Final Budget - Positive (Negative) | |
|---------------------------------------|--|---------------------|---------------------|---|--------------------|
| | Original | Final | | | |
| Revenues | | | | | |
| 5700 | Local, Intermediate, and Out-of-State | \$ 27,611,478 | \$ 27,611,478 | \$ 23,325,058 | \$ (4,286,420) |
| 5800 | State Program Revenues | - | - | 360,047 | 360,047 |
| 5030 | Total Revenues | <u>27,611,478</u> | <u>27,611,478</u> | <u>23,685,105</u> | <u>(3,926,373)</u> |
| Expenditures | | | | | |
| Debt Service: | | | | | |
| 0071 | Principal on long-term debt | 9,445,000 | 9,545,000 | 9,445,000 | 100,000 |
| 0072 | Interest on long-term debt | 18,136,478 | 19,163,631 | 15,295,602 | 3,868,029 |
| 0073 | Bond issuance costs and fees | 30,000 | 259,000 | 310,232 | (51,232) |
| 6030 | Total Expenditures | <u>27,611,478</u> | <u>28,967,631</u> | <u>25,050,834</u> | <u>3,916,797</u> |
| 1100 | Excess (Deficiency) Revenues Over Expenditures | - | (1,356,153) | (1,365,729) | (9,576) |
| Other Financing Sources (Uses) | | | | | |
| 7911 | Issuance of refunding bonds | - | 21,751,117 | 21,755,000 | 3,883 |
| 7915 | Operating transfers in | - | 25,426 | - | (25,426) |
| 7916 | Premium on bonds issued | - | 2,308,506 | 2,308,506 | - |
| 8949 | Other uses - property tax refunds | - | (895,097) | (895,097) | - |
| 8949 | Other uses - payment to escrow agent | - | (24,085,049) | (23,814,472) | 270,577 |
| | Total Other Financing Sources (Uses) | <u>-</u> | <u>(895,097)</u> | <u>(646,063)</u> | <u>249,034</u> |
| 1200 | Net change in fund balances | - | (2,251,250) | (2,011,792) | 239,458 |
| 0100 | Fund Balance - September 1 (Beginning) | <u>3,842,268</u> | <u>3,842,268</u> | <u>3,842,268</u> | <u>-</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ 3,842,268</u> | <u>\$ 1,591,018</u> | <u>\$ 1,830,476</u> | <u>\$ 239,458</u> |

FEDERAL AWARDS SECTION



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

To the Board of Trustees
Port Arthur Independent School District
Port Arthur, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and by 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 Port Arthur Independent School District (the “District”) as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated January 26, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material 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.

To the Board of Trustees
Port Arthur Independent School District

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. 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

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of the 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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
January 26, 2021

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

To the Board of Trustees
Port Arthur Independent School District
Port Arthur, Texas

Report on Compliance for Each Major Federal Program

We have audited Port Arthur Independent School District's (the "District") compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2020. The 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 the 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit included examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the type of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2020.

To the Board of Trustees
Port Arthur Independent School District

Report on Internal Control over Compliance

Management of the 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 the 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 have not been identified.

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

Handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive style.

Houston, Texas
January 26, 2021

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2020

I. Summary of Auditors' Results

Financial Statements

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

Federal Awards

| | |
|--|---------------|
| Internal control over major programs: | |
| Material weakness(es) identified? | No |
| Significant deficiency (ies) identified that are not considered to be material weaknesses? | None reported |
| Type of auditors' report issued on compliance with major programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)? | No |

Identification of major programs:

| Name of Federal Program: | CFDA Number: |
|--|---------------------|
| United States Department of Agriculture | |
| Child Nutrition Cluster | |
| National School Lunch Program (Commodities) | 10.555 |
| National School Breakfast Program | 10.553 |
| National School Breakfast Program (COVID-19) | 10.553 |
| National School Lunch Program | 10.555 |
| National School Lunch Program (COVID-19) | 10.555 |
| United States Department of Education | |
| ESSER Grant (COVID-19) | 84.425D |
| Dollar Threshold Considered Between Type A and Type B Federal Programs | \$750,000 |
| Auditee qualified as low-risk auditee? | Yes |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2020

II. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs

None reported.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2020

Exhibit K-1

| (2a) NOGA ID/ Pass-Through Entity Identifying Number | Fund Code | (1) Federal Grantor/ Pass-Through Grantor/ Program Title | (2) Federal CFDA Number | (3) Federal Expenditures |
|---|--------------|---|----------------------------------|--------------------------------|
| U.S. Department of Defense | | | | |
| Direct: | | | | |
| N/A | 288 | Naval JROTC | 12.000 | \$ 64,139 |
| Total U.S. Department of Defense | | | | <u>64,139</u> |
| U.S. Department of Agriculture | | | | |
| Child Nutrition Cluster: | | | | |
| Pass-Through Texas Department of Agriculture: | | | | |
| Non cash assistance: | | | | |
| CE-123907 | 240 | National School Lunch Program (Commodities) | 10.555 | 379,843 |
| Pass-Through Texas Education Agency: | | | | |
| Cash assistance: | | | | |
| 71402001 | 240 | National School Breakfast Program | 10.553 | 978,132 |
| 52402001 | 240 | National School Breakfast Program (COVID-19) | 10.553 | 28,476 |
| 71302001 | 240 | National School Lunch Program | 10.555 | 2,887,109 |
| 52302001 | 240 | National School Lunch Program (COVID-19) | 10.555 | 45,304 |
| Total Child Nutrition Cluster (CFDA # 10.553, 10.555) | | | | <u>4,318,864</u> |
| Total U. S. Department of Agriculture | | | | <u>4,318,864</u> |
| U. S. Department of Education | | | | |
| Pass-Through Texas Education Agency: | | | | |
| 20610101123907 | 211 | ESEA, Title I, Part A - Improving Basic Programs | 84.010A | 2,985,144 |
| 20610141123907 | 211 | Title I, 1003 School Improvement | 84.010A | 91,152 |
| Total CFDA # 84.010 | | | | <u>3,076,296</u> |
| 20615001123907 | 212 | ESEA, Title I, Part C - Migrant | 84.011A | 227,536 |
| Special Education Cluster: | | | | |
| 196600011239076600 | 224 | IDEA, Part B - Formula | 84.027A | 122,483 |
| 206600011239076600 | 224 | IDEA, Part B - Formula | 84.027A | 1,760,891 |
| 196610011239076610 | 225 | IDEA, Part B - Preschool | 84.173A | 2,066 |
| 206610011239076610 | 225 | IDEA, Part B - Preschool | 84.173A | 27,873 |
| Total Special Education Cluster (CFDA # 84.027, 84.173) | | | | <u>1,913,313</u> |
| 20420006123907 | 244 | Career and Technical - Basic Grant | 84.048A | 101,708 |
| 20694501123907 | 255 | Title II, Part A, Supporting Effective Instruction | 84.367A | 331,107 |
| 20671001123907 | 263 | ESEA, Title III, Part A - ELA | 84.365A | 94,649 |
| 20521001123907 | 266 | ESSER Grant (COVID-19) | 84.425D | 2,534,028 |
| 20680101123907 | 289 | Title IV, Part A | 84.424A | 169,811 |
| 69551902 | 289 | LEP Summer School | 84.369A | 6,678 |
| 20511703123907 | 289 | Restart for 2019 Flooding | 84.938A | 28,120 |
| 19513701123907 | 289 | Texas Hurricane Homeless Youth | 84.938B | 72,159 |
| Total CFDA # 84.938 | | | | <u>100,279</u> |
| Total U. S. Department of Education | | | | <u>8,555,405</u> |
| U. S. Department of Health and Human Services | | | | |
| Direct: | | | | |
| 06CH011224-01-00 | 205 | Early Head Start Program | 93.600 | 2,815,491 |
| Pass-Through Texas Health and Human Services Commission: | | | | |
| N/A | 199 | Medicaid Administrative Claims (MAC) | 93.778 | 23,047 |
| Pass-Through Texas Education Agency: | | | | |
| 67601998 | 199 | TX Preschool Development Grant - Admin | 94.434 | 281 |
| Total U. S. Department of Health and Human Services | | | | <u>2,838,819</u> |
| U. S. Department of Homeland Security | | | | |
| Pass-Through Texas Department of Emergency Management | | | | |
| 4332DRTXP0000001 | 289 | Disaster Grants - Public Assistance | 97.036 | 170,611 |
| Total U. S. Department of Homeland Security | | | | <u>170,611</u> |
| Total Expenditures of Federal Awards | | | | <u>\$ 15,947,838</u> |

Note 1 -Basis of Accounting

The District accounts for all awards under federal programs in the General and Special Revenue Fund in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such amounts are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2020. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 3 - Reconciliation to Basic Financial Statements

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

| | |
|--------------------------------------|----------------------|
| Total Expenditures of Federal Awards | \$ 15,947,838 |
| SHARS | 1,686,661 |
| Reconciled Balance | <u>\$ 17,634,499</u> |
| | |
| Related Expenditures on Exhibit C-3: | |
| General Fund | \$ 2,260,968 |
| Special Revenue Fund | 15,373,531 |
| Reconciled Balance | <u>\$ 17,634,499</u> |

Note 4 - General Fund Expenditures

Federal Awards reported in the general fund are summarized as follows:

| Program or Source | CFDA Number | Amount |
|---|------------------------|---------------|
| Early Head Start Program | 93.600 | \$ 125,861 |
| ESEA, Title I, Part A - Improving Basic Programs | 84.010A | 179,902 |
| Title I, 1003 School Improvement | 84.010A | 4,426 |
| ESEA, Title I, Part C - Migrant | 84.011A | 14,949 |
| IDEA, Part B - Formula | 84.027A | 172,869 |
| IDEA, Part B - Preschool | 84.173A | 3,148 |
| ESEA, Title III, Part A - LEP | 84.365A | 10,203 |
| Title II, Part A, Teacher, Principal, Training & Recruiting | 84.367A | 23,225 |
| Career and Technical - Basic Grant | 84.048A | 5,339 |
| Title IV, Part A | 84.424A | 11,057 |
| TX Preschool Development Grant - Admin | 94.434 | 281 |
| Medicaid Administrative Claims (MAC) | 93.778 | 23,047 |
| School Health and Related Services Program (SHARS) | N/A | 1,686,661 |
| | | \$ 2,260,968 |

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended August 31, 2020

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, “The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings.” The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit’s schedule of findings and questioned costs and
- All audit findings reported in the prior audit’s summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None Noted

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

CORRECTIVE ACTION PLAN

For the Year Ended August 31, 2020

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, “At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports.”

I. Corrective Action Plan

Not Applicable



DO NOT PRINT IN REPORTS

Schedule L-1 – Required Responses to Selected School FIRST Indicators

| | | |
|-----|---|--------|
| SF1 | Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole? | Yes |
| SF2 | Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end? | No |
| SF3 | <p>Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the school district was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the school district is considered to not have made timely payments.) Payments to the TRS and TWC are considered timely if a warrant hold that was issued in connection to the untimely payment was cleared within 30 days from the date the warrant hold was issued.</p> <p>Payments to the IRS are considered timely if a penalty or delinquent payment notice was cleared within 30 days from the date the notice was issued.</p> | Yes |
| SF4 | Was the school district issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the school district is considered to have been issued a warrant hold. | No |
| SF5 | Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds? | No |
| SF6 | Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds? | No |
| SF7 | Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district’s fiscal year end? | Yes |
| SF8 | Did the school board members discuss the school district’s property values at a board meeting within 120 days before the school district adopted its budget? | Yes |
| SF9 | Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end. | \$ -0- |

NOTE: This schedule is to be included as part of the annual financial audit report (AFR) submission on the required due date and published as a part of the school district’s AFR. This schedule should be submitted in the data feed file and submitted as an Adobe Acrobat portable document file (pdf).