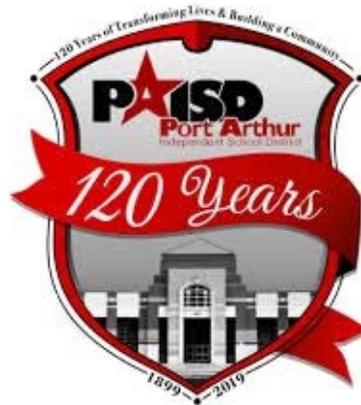


**PORT ARTHUR  
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

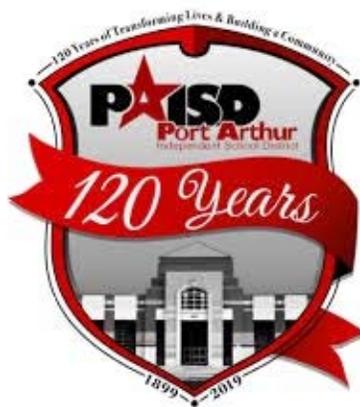
**For The Year Ended August 31, 2019**





**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
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**CERTIFICATE OF THE BOARD**

**Port Arthur Independent School District**

Name of School District

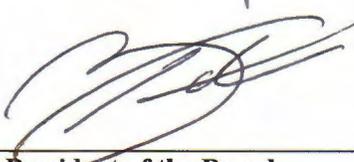
**Jefferson**

County

**123-907**

Co. - Dist. No.

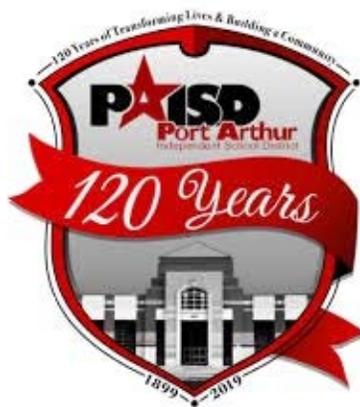
We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2019, at a meeting of the board of trustees of such school district on January 23, 2020.



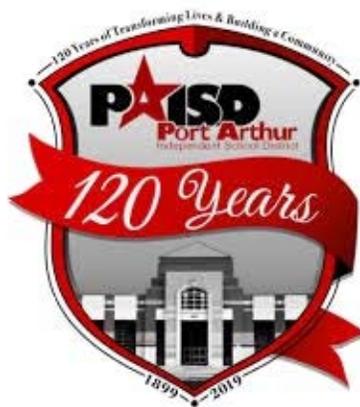
**President of the Board**



**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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

***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, 2019, 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 on pages 5 through 13, the budgetary comparison information on pages 62 to 64, the required pension system information on pages 65 and 66, and the required other post-employment benefit information on pages 67 and 68 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.

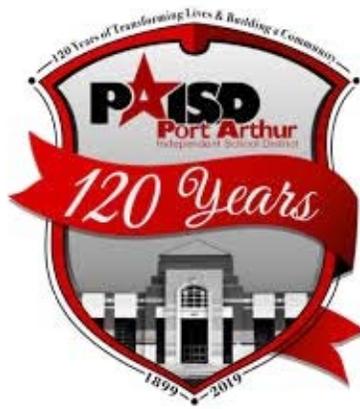
To the Board of Trustees  
Port Arthur Independent School District

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2020 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 23, 2020



## **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, 2019.

#### **Financial Highlights**

The liabilities and deferred inflows exceeded the District's assets and deferred outflows at the close of the fiscal year by \$15,441,568 (*net deficit*). Of this amount, negative \$9,279,041 was net investment in capital assets, which represents the debt related to the capital assets that exceeds the carrying value of the capital assets, \$7,513,938 was restricted for debt service and federal and state programs, and the remaining amount was a deficit unrestricted net position of \$13,676,465.

- The District's total net position increased by \$25,521,380 from current year activities, primarily due to an increase 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 \$62,188,914, a decrease of \$5,202,179 in comparison with the prior year. The decrease in governmental fund balances was primarily due to a decrease in the capital projects fund of \$24,660,108 due to increased spending on capital projects. In addition the increase of \$23,365,754 in the general fund was due to an increase property tax revenue as significant Chapter 313 agreements came to end during fiscal year 2019.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$26,621,557 or 31 percent of total general fund expenditures.
- The District's total debt decreased by \$9,120,000 (2.67 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.

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

**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).

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

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

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.

**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 \$15,441,568 at the close of the fiscal year.

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 \$9,279,041. 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.

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

Net position in the amount of \$7,513,938 is restricted for federal and state programs and debt service. The remaining balance of \$13,676,465 is an *unrestricted net deficit*. The District's net position increased by \$25,521,380 during fiscal year 2019 due to current year activities. This was offset by a prior period adjustment of for a total decrease in net position of \$25,521,380 when compared to the prior fiscal year.

**Port Arthur Independent School District's Net Position**

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
Current and other assets	\$ 88,090,307	\$ 91,679,618
Capital and non current assets	326,445,877	311,675,519
<b>Total Assets</b>	<b>414,536,184</b>	<b>403,355,137</b>
<b>Deferred Outflows of Resources</b>		
Deferred charge on refunding	14,648,092	15,646,342
Deferred outflows relating to pension/OPEB activities	10,870,466	2,829,972
<b>Total Deferred Outflows of Resources</b>	<b>25,518,558</b>	<b>18,476,314</b>
Current liabilities	14,312,401	19,011,090
Long term liabilities	424,982,554	426,209,977
<b>Total Liabilities</b>	<b>439,294,955</b>	<b>445,221,067</b>
<b>Deferred Inflows of Resources</b>		
Deferred inflows relating to pension/OPEB activities	16,201,355	17,573,332
<b>Total Deferred Inflows of Resources</b>	<b>16,201,355</b>	<b>17,573,332</b>
<b>Net Position</b>		
Net investment in capital assets	(9,279,041)	(9,394,558)
Restricted	7,513,938	9,551,445
Unrestricted	(13,676,465)	(41,119,835)
<b>Total Net Position</b>	<b>\$ (15,441,568)</b>	<b>\$ (40,962,948)</b>

**Governmental Activities**

Governmental activities increased the District's net position by \$25,521,380. Key elements of this increase are as follows:

Revenues are generated primarily from two sources, program and general revenues. Grants and contributions totaling \$25,099,582 represent 16 percent of total revenues and property taxes (\$96,601,065) represent 61 percent of total revenues. State aid totaled \$32,574,187 or 21 percent of total revenues. The District received a one-time payment of \$8.4 million from the Texas Education Agency as a result of SB 500. The remaining \$4,508,078 or 3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$63,904,514), which represents 48 percent of total expenses. Facilities maintenance and operations (\$14,700,463) represents 11 percent of total expenses. Interest on long-term debt (\$13,259,321) represents 10 percent of total expenses. The remaining individual functional categories of expenses are each less than 5 percent of total expenses. Revenues from property taxes increased by \$25,595,236 or 36 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**

	<b>Governmental Activities</b>	
	<b>2019</b>	<b>2018</b>
<b>Program Revenues</b>		
Charges for services	\$ 2,521,768	\$ 1,912,965
Operating grants	23,662,572	9,390,127
<b>General Revenues</b>		
Property taxes	96,601,065	71,005,829
State aid	32,574,187	30,124,064
Grants and contributions not restricted	1,442,736	-
Investment earnings	1,209,276	1,234,360
Other	771,308	1,789,886
<b>Total Revenues</b>	<b>158,782,912</b>	<b>115,457,231</b>
<b>Expenses</b>		
Instruction	63,904,514	47,678,513
Instructional resources and media services	1,070,777	704,245
Curriculum and staff development	1,570,682	1,114,090
Instructional leadership	2,741,282	1,738,004
School leadership	7,562,147	4,473,974
Guidance, counseling, and evaluation services	3,686,977	2,086,526
Social work services	806,244	269,918
Health services	1,953,559	802,902
Student transportation	3,162,220	2,196,288
Food services	6,714,833	3,156,367
Extracurricular activities	2,211,084	1,944,192
General administration	4,049,813	3,894,476
Facilities maintenance and operations	14,700,463	19,664,218
Security and monitoring services	1,886,821	1,741,382
Data processing services	2,283,112	2,455,816
Community services	445,435	184,074
Interest on long-term debt	13,259,321	13,557,999
Debt issuance costs and fees	63,450	13,725
Facilities planning	126,212	124,463
Payments to Juvenile Justice AEP	108,000	108,000
Payments to appraisal district	954,586	516,846
<b>Total Expenses</b>	<b>133,261,532</b>	<b>108,426,018</b>
Increase (Decrease) in Net Position	25,521,380	7,031,213
<b>Beginning Net Position</b>	<b>(40,962,948)</b>	<b>14,153,778</b>
Prior period adjustment	-	(62,147,939)
<b>Ending Net Position</b>	<b>\$ (15,441,568)</b>	<b>\$ (40,962,948)</b>

**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 \$62,188,914, a decrease of \$5,202,179 in comparison with the prior year. The decrease in ending governmental fund balances is primarily due to a decrease of \$24,660,108 in the capital projects fund and the increase of \$23,365,754 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 \$26,621,557, while total fund balance reached \$41,924,780. 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 31 percent of total general fund expenditures, while total fund balance represents 48 percent of that same amount.

The debt service fund has a total fund balance of \$3,842,268, all of which is restricted for the payment of debt service. The decrease in the debt service fund balance during the current year of \$3,876,230 was attributable to scheduled payments on outstanding bonds.

The capital projects fund has a total fund balance of \$15,491,112, all of which is restricted for authorized construction and technology projects/enhancements. The net decrease in fund balance of \$24,660,108 during the current year was primarily due to expenditures for ongoing capital projects.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget as considered necessary. Actual expenditures were \$5.1 million below the final budget amendments. The most significant positive variances were in the following categories: (1) instruction, (2) general administration, (3) facilities maintenance and operations, and (4) facilities acquisition and construction variances.

Actual revenues were \$23.5 million above the final budgeted amounts. This was primarily attributable to the insurance proceeds being budgeted as a local revenue, but reclassified and presented as an other financing source.

Other financing sources (uses) were \$718,111 million above the final budgeted amounts due to the insurance proceeds being budgeted as a local revenue, but reclassified and presented as an other financing source.

The review of the final amended budget versus actual for the general fund reflected a budget variance in the amount of \$29,376,896 resulting in a increase in fund balance of \$23,365,754.

**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, 2019, amounts to \$326,445,877 (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:

	<b>Balance September 1, 2018</b>	<b>Additions</b>	<b>(Retirements) and Transfers</b>	<b>Balance August 31, 2019</b>
Capital assets, not being depreciated				
Land	\$ 6,770,448	\$ -	\$ -	\$ 6,770,448
Construction in progress	69,180,052	24,364,349	(14,888,448)	78,655,953
Total Capital Assets, not being depreciated	75,950,500	24,364,349	(14,888,448)	85,426,401
Capital assets, being depreciated				
Buildings and improvements	323,471,311	-	9,281,969	332,753,280
Furniture and equipment	44,234,015	6,269,931	5,577,834	56,081,780
Total Capital Assets, being depreciated	367,705,326	6,269,931	14,859,803	388,835,060
Less accumulated depreciation for:				
Buildings and improvements	(111,428,416)	(13,028,464)	-	(124,456,880)
Furniture and Equipment	(20,551,891)	(2,835,458)	28,645	(23,358,704)
Total Accumulated Depreciation	(131,980,307)	(15,863,922)	28,645	(147,815,584)
<b>Governmental Capital Assets</b>	<b>\$ 311,675,519</b>	<b>\$ 14,770,358</b>	<b>\$ -</b>	<b>\$ 326,445,877</b>

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 \$332,730,000 in bonded debt outstanding, a decrease of \$9,120,000 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, 2019, are as follows:

	<b>Balance September 1, 2018</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance August 31, 2019</b>
General obligation bonds	\$ 341,850,000	\$ -	\$ (9,120,000)	\$ 332,730,000
For issuance premiums/discounts	35,017,639	-	(1,761,996)	33,255,643
Accrued compensated absences	2,099,719	765,969	(889,630)	1,976,058
Property tax lawsuits settlements and refunds due	498,537	-	(498,537)	-
Other long-term liability	79,419	-	-	79,419
	<b>\$ 379,545,314</b>	<b>\$ 765,969</b>	<b>\$ (12,270,163)</b>	<b>\$ 368,041,120</b>

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 2018-2019 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 passing of House Bill 3 (HB 3) by the Texas state legislature brought new funding calculations and curriculum requirements for PAISD. The 2019-2020 budget reflects the implementation of those requirements. Among the highlights of HB 3 include:

- Created an Early Childhood Allotment to provide high-quality full day Pre-Kindergarten
- Increased Mainstream Special Education funding
- Introduced a Dyslexia Allotment
- Reduced in recapture cost
- Increased funding for low-income students, with more money in the highest poverty areas

For 2019-20, the maintenance and operations (M&O) tax rate is \$1.06835. The district was able to implement a well thought out compensation plan that raises the starting teacher salary to \$50,000.00 per year while also adjusting salaries for years of service. It is hoped these changes will help in employee retention and recruitment. The Interest and Sinking fund (I&S) rate is \$0.41254.

Projected revenues for the 2019-2020 General Fund are \$83,062,466, excluding TRS contributions. Revenues for the General Fund are generated from the following primary resources:

- Local Funding - \$75,923,575
- State Funding - \$5,385,369
- Federal Funding - \$1,753,522

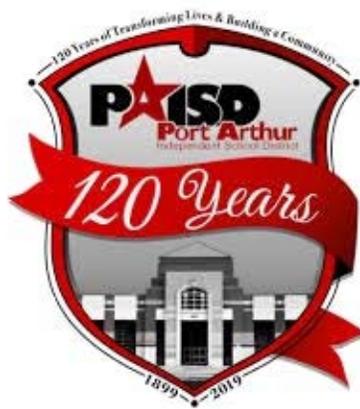
The 2019-2020 state revenue projections are based on an estimated average daily attendance (ADA) of 7,314 students.

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.

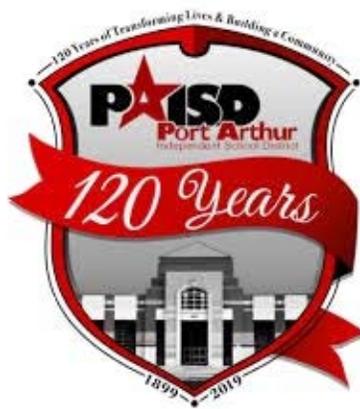
## **BASIC FINANCIAL STATEMENTS**



**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
August 31, 2019

Exhibit A-1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
<b>Assets</b>		
1110	Cash and cash equivalents	\$ 65,612,803
1220	Property taxes receivables, net	12,790,082
1240	Due from other governments	6,534,515
1250	Accrued interest	54,296
1290	Other receivables, net	2,302,885
1300	Inventories	795,726
<b>Capital assets not subject to depreciation:</b>		
1510	Land	6,770,448
1580	Construction in progress	78,655,953
<b>Capital assets net of depreciation:</b>		
1520	Buildings and improvements, net	208,296,400
1530	Furniture and equipment, net	32,723,076
<b>1000</b>	<b>Total Assets</b>	<u>414,536,184</u>
<b>Deferred Outflows of Resources</b>		
1700	Deferred charge on refunding	14,648,092
1705	Deferred outflows relating to pension activities	7,471,980
1706	Deferred outflows - OPEB	3,398,486
	<b>Total Deferred Outflows of Resources</b>	<u>25,518,558</u>
<b>Liabilities</b>		
2110	Accounts payable	3,358,072
2140	Interest payable	613,767
2150	Payroll deductions and withholdings	959,657
2160	Accrued wages payable	5,051,487
2200	Accrued expenses	4,271,708
2300	Unearned revenue	57,710
Noncurrent Liabilities:		
2501	Due within one year	10,176,162
2502	Due in more than one year	357,864,958
2540	Net pension liability	16,267,100
2545	Net other post-employment benefits (OPEB) obligation	40,674,334
<b>2000</b>	<b>Total Liabilities</b>	<u>439,294,955</u>
<b>Deferred Inflows of Resources</b>		
2605	Deferred inflows relating to pension activities	3,315,230
2606	Deferred inflows - OPEB	12,886,125
	<b>Total Deferred Inflows of Resources</b>	<u>16,201,355</u>
<b>Net Position</b>		
3200	Net investment in capital assets	(9,279,041)
Restricted for:		
3820	Federal and state programs	242,126
3850	Debt service	7,271,812
3900	Unrestricted	(13,676,465)
<b>3000</b>	<b>Total Net Position</b>	<u>\$ (15,441,568)</u>



**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
 August 31, 2019

*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
	<b>Governmental activities:</b>				
11	Instruction	\$ 63,904,514	\$ 570,654	\$ 10,401,348	\$ (52,932,512)
12	Instructional resources and media services	1,070,777	306	235,673	(834,798)
13	Curriculum and staff development	1,570,682	5,892	663,267	(901,523)
21	Instructional leadership	2,741,282	17,370	481,219	(2,242,693)
23	School leadership	7,562,147	80,348	964,886	(6,516,913)
31	Guidance, counseling, and evaluation services	3,686,977	6,503	602,228	(3,078,246)
32	Social work services	806,244	33,392	221,743	(551,109)
33	Health services	1,953,559	274,828	2,582,645	903,914
34	Student transportation	3,162,220	331,303	604,769	(2,226,148)
35	Food service	6,714,833	433,953	4,997,179	(1,283,701)
36	Extracurricular activities	2,211,084	234,521	79,652	(1,896,911)
41	General administration	4,049,813	11,961	606,426	(3,431,426)
51	Facilities maintenance and operations	14,700,463	58,843	760,990	(13,880,630)
52	Security and monitoring services	1,886,821	611	134,548	(1,751,662)
53	Data processing services	2,283,112	183,192	126,355	(1,973,565)
61	Community services	445,435	5,586	178,695	(261,154)
72	Interest on long-term debt	13,259,321	-	-	(13,259,321)
73	Debt issuance costs and fees	63,450	-	-	(63,450)
81	Facilities planning	126,212	272,505	20,949	167,242
95	Payments to Juvenile Justice AEP	108,000	-	-	(108,000)
99	Payments to appraisal district	954,586	-	-	(954,586)
<b>TG</b>	<b>Total governmental activities</b>	<b>\$ 133,261,532</b>	<b>\$ 2,521,768</b>	<b>\$ 23,662,572</b>	<b>(107,077,192)</b>

Data Control Codes		
	<b>General revenues:</b>	
	Taxes:	
<b>MT</b>	Property taxes, levied for general purposes	75,320,773
<b>DT</b>	Property taxes, levied for debt service	21,280,292
<b>SF</b>	State-aid formula grants	32,574,187
<b>GC</b>	Grants and contributions not restricted	1,442,736
<b>IE</b>	Investment earnings	1,209,276
<b>MI</b>	Miscellaneous	771,308
<b>TR</b>	<b>Total general revenues</b>	<b>132,598,572</b>
<b>CN</b>	Change in net position	25,521,380
<b>NB</b>	<b>Net Position - beginning</b>	<b>(40,962,948)</b>
<b>NE</b>	<b>Net Position - ending</b>	<b>\$ (15,441,568)</b>

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
 August 31, 2019

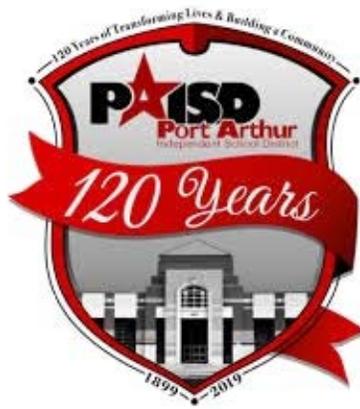
*Exhibit C-1*  
 Page 1 of 2

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Special Revenue Fund</u>
<b>Assets</b>			
1110	\$ 39,872,737	\$ 3,722,562	\$ 1,253,941
	Receivables:		
1220	9,521,506	4,689,697	-
1230	(952,151)	(468,970)	-
1240	3,475,897	-	3,058,618
1250	-	-	-
1260	3,004,377	-	372,550
1290	2,302,885	-	-
	Other assets:		
1310	664,339	-	131,387
<b>1000</b>	<u>\$ 57,889,590</u>	<u>\$ 7,943,289</u>	<u>\$ 4,816,496</u>
<b>Liabilities</b>			
2110	\$ 1,808,701	\$ -	\$ 485,434
2150	959,657	-	-
2160	4,451,724	-	595,998
2170	585,280	-	2,804,310
2190	79,420	-	-
2200	-	-	-
2300	-	57,710	-
<b>2000</b>	<u>7,884,782</u>	<u>57,710</u>	<u>3,885,742</u>
<b>Deferred Inflows of Resources</b>			
2600	8,080,028	4,043,311	-
	<u>8,080,028</u>	<u>4,043,311</u>	<u>-</u>
<b>Fund Balances</b>			
<b>Non-Spendable</b>			
3410	664,339	-	-
<b>Restricted</b>			
3450	-	-	242,126
3470	-	-	-
3480	-	3,842,268	-
<b>Committed</b>			
3510	10,396,763	-	-
3520	3,581,679	-	-
3545	660,442	-	688,628
3600	26,621,557	-	-
<b>3000</b>	<u>41,924,780</u>	<u>3,842,268</u>	<u>930,754</u>
<b>4000</b>	<u>\$ 57,889,590</u>	<u>\$ 7,943,289</u>	<u>\$ 4,816,496</u>

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
August 31, 2019

*Exhibit C-1*  
Page 2 of 2

	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>Assets</b>		
1110	\$ 20,763,563	\$ 65,612,803
	Receivables:	
1220	-	14,211,203
1230	-	(1,421,121)
1240	-	6,534,515
1250	54,296	54,296
1260	12,663	3,389,590
1290	-	2,302,885
	Other assets: -	
1310	-	795,726
<b>1000</b>	<u>\$ 20,830,522</u>	<u>\$ 91,479,897</u>
<b>Liabilities</b>		
2110	\$ 1,080,821	\$ 3,374,956
2150	-	959,657
2160	3,765	5,051,487
2170	-	3,389,590
2190	-	79,420
2200	4,254,824	4,254,824
2300	-	57,710
<b>2000</b>	<u>5,339,410</u>	<u>17,167,644</u>
<b>Deferred Inflows of Resources</b>		
2600	-	12,123,339
	<u>-</u>	<u>12,123,339</u>
<b>Fund Balances</b>		
<b>Non-Spendable</b>		
3410	-	664,339
<b>Restricted</b>		
3450	-	242,126
3470	15,491,112	15,491,112
3480	-	3,842,268
<b>Committed</b>		
3510	-	10,396,763
3520	-	3,581,679
3545	-	1,349,070
3600	-	26,621,557
<b>3000</b>	<u>15,491,112</u>	<u>62,188,914</u>
<b>4000</b>	<u>\$ 20,830,522</u>	<u>\$ 91,479,897</u>



**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**STATEMENT OF NET POSITION**  
*August 31, 2019*

*Exhibit C-2*

<u>Data Control Codes</u>		
	<b>Total fund balance, governmental funds</b>	\$ 62,188,914
	Amounts reported for governmental activities in the statement of net position are different because:	
<b>1</b>	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	326,445,877
<b>2</b>	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).	12,123,339
<b>3</b>	The deferred charge on refunding is not a current financial resource and is not reported on the fund financial statements	14,648,092
<b>4</b>	Deferred Outflows relating to pension activities	7,471,980
<b>5</b>	Deferred Outflows relating to OPEB activities	3,398,486
<b>6</b>	Interest payable on general obligation bonds are due within a year but are not included in the fund financial statements.	(613,767)
	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:	
<b>7</b>	General obligation bonds	(332,730,000)
<b>8</b>	Accrued compensated absences	(1,976,057)
<b>9</b>	Premium/discount on issuance of bonds	(33,255,643)
<b>10</b>	Net Pension Liability	(16,267,100)
<b>11</b>	Net OPEB Liability	(40,674,334)
<b>12</b>	Deferred Inflows relating to pension activities	(3,315,230)
<b>13</b>	Deferred Inflows relating to OPEB activities	<u>(12,886,125)</u>
<b>19</b>	<b>Total net position - governmental activities</b>	<u><u>\$ (15,441,568)</u></u>

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**For the Year Ended August 31, 2019**

*Exhibit C-3*  
*Page 1 of 2*

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Special Revenue Fund</u>
<b>Revenues</b>			
5700 Local, intermediate, and out-of-state	\$ 71,603,438	\$ 19,342,398	\$ 2,148,071
5800 State program revenues	36,087,780	220,758	1,427,139
5900 Federal program revenues	<u>3,251,722</u>	-	<u>14,026,465</u>
5020 <b>Total revenues</b>	<u>110,942,940</u>	<u>19,563,156</u>	<u>17,601,675</u>
<b>Expenditures</b>			
<b>Current:</b>			
0011 Instruction	45,252,896	-	8,272,612
0012 Instructional resources and media services	709,077	-	170,169
0013 Curriculum and instructional staff development	731,307	-	588,278
0021 Instructional leadership	1,967,367	-	308,630
0023 School leadership	5,760,536	-	517,180
0031 Guidance, counseling and evaluation services	2,698,494	-	336,653
0032 Social work services	444,258	-	219,976
0033 Health services	972,564	-	634,240
0034 Student transportation	2,514,119	-	664,482
0035 Food services	7,647	-	5,735,870
0036 Extracurricular activities	1,743,421	-	105,304
0041 General administration	3,409,991	-	10,562
0051 Facilities maintenance and operations	12,207,565	-	336,888
0052 Security and monitoring services	1,526,867	-	82,380
0053 Data processing services	1,866,973	-	140,702
0061 Community services	201,866	-	157,270
<b>Debt service</b>			
0071 Debt service - principal	-	9,120,000	-
0072 Debt service - interest	-	14,255,936	-
0073 Debt issuance cost & fees	-	63,450	-
<b>Capital outlay</b>			
0081 Facilities acquisition and construction	4,130,223	-	-
<b>Intergovernmental</b>			
0095 Payments to Juvenile Justice AEP	108,000	-	-
0099 Payments to appraisal district	954,586	-	-
6030 <b>Total expenditures</b>	<u>87,207,757</u>	<u>23,439,386</u>	<u>18,281,196</u>
1100 Excess (deficiency) of revenues over expenditures	<u>23,735,183</u>	<u>(3,876,230)</u>	<u>(679,521)</u>
<b>Other Financing Sources (Uses)</b>			
7949 Insurance recovery	2,302,358	-	-
7912 Sale of real and personal property	30,055	-	-
7915 Operating transfers in	-	-	647,926
8911 Operating transfers out	(647,926)	-	-
8949 Other uses - property tax refunds	(498,540)	-	-
8949 Other uses - payments to Hurricane Harvey adjuster	(1,512,876)	-	-
8949 Other uses - payments related to lawsuit settlements	(42,500)	-	-
7080 <b>Total other financing sources (uses)</b>	<u>(369,429)</u>	<u>-</u>	<u>647,926</u>
1200 Net change in fund balance	23,365,754	(3,876,230)	(31,595)
0100 <b>Fund balance - September 1 (beginning)</b>	<u>18,559,026</u>	<u>7,718,498</u>	<u>962,349</u>
3000 <b>Fund balance - August 31 (ending)</b>	<u>\$ 41,924,780</u>	<u>\$ 3,842,268</u>	<u>\$ 930,754</u>

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
**For the Year Ended August 31, 2019**

*Exhibit C-3*  
*Page 2 of 2*

	<u>Capital Projects Fund</u>	<u>Total Governmental Funds</u>
<b>Revenues</b>		
5700 Local, intermediate, and out-of-state	\$ 990,289	\$ 94,084,196
5800 State program revenues	-	37,735,677
5900 Federal program revenues	-	17,278,187
5020 <b>Total revenues</b>	<u>990,289</u>	<u>149,098,060</u>
<b>Expenditures</b>		
<b>Current:</b>		
0011 Instruction	-	53,525,508
0012 Instructional resources and media services	-	879,246
0013 Curriculum and instructional staff development	-	1,319,585
0021 Instructional leadership	-	2,275,997
0023 School leadership	-	6,277,716
0031 Guidance, counseling and evaluation services	-	3,035,147
0032 Social work services	-	664,234
0033 Health services	-	1,606,804
0034 Student transportation	-	3,178,601
0035 Food services	-	5,743,517
0036 Extracurricular activities	-	1,848,725
0041 General administration	6,972	3,427,525
0051 Facilities maintenance and operations	-	12,544,453
0052 Security and monitoring services	-	1,609,247
0053 Data processing services	-	2,007,675
0061 Community services	-	359,136
<b>Debt service</b>		
0071 Debt service - principal	-	9,120,000
0072 Debt service - interest	-	14,255,936
0073 Debt issuance cost & fees	-	63,450
<b>Capital outlay</b>		
0081 Facilities acquisition and construction	25,643,425	29,773,648
<b>Intergovernmental</b>		
0095 Payments to Juvenile Justice AEP	-	108,000
0099 Payments to appraisal district	-	954,586
6030 <b>Total expenditures</b>	<u>25,650,397</u>	<u>154,578,736</u>
1100 Excess (deficiency) of revenues over expenditures	<u>(24,660,108)</u>	<u>(5,480,676)</u>
<b>Other Financing Sources (Uses)</b>		
7949 Insurance recovery	-	2,302,358
7912 Sale of real and personal property	-	30,055
7915 Operating transfers in	-	647,926
8911 Operating transfers out	-	(647,926)
8949 Other uses - property tax refunds	-	(498,540)
8949 Other uses - payments to Hurricane Harvey adjuster	-	(1,512,876)
8949 Other uses - payments related to lawsuit settlements	-	(42,500)
7080 <b>Total other financing sources (uses)</b>	<u>-</u>	<u>278,497</u>
1200 Net change in fund balance	(24,660,108)	(5,202,179)
0100 <b>Fund balance - September 1 (beginning)</b>	<u>40,151,220</u>	<u>67,391,093</u>
3000 <b>Fund balance - August 31 (ending)</b>	<u>\$ 15,491,112</u>	<u>\$ 62,188,914</u>

**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, 2019**

*Exhibit C-4*

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ (5,202,179)
	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	30,634,280
2	Governmental activities depreciation expense	(15,863,922)
	Governmental funds report the entire net insurance recovery (proceeds) from the impairment of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the net impairment gain/(loss) on the sale of the assets. Thus, the change in net position differs by the net historical cost of the asset impaired and the net insurance recovery amount.	-
3	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	6,299,445
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.	1,009,198
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.	554,051
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.	9,120,000
	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:	
7	Change in interest payable	12,111
8	Amortization of deferred loss on refunding	(998,250)
9	Amortization of premium/discount	1,761,996
10	Change in compensated absences	123,662
11	Pension expense for the plan measurement year	(1,412,626)
12	OPEB expense for the plan measurement year	(1,014,923)
13	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>498,537</u>
	<b>Change in net position of governmental activities (see B-1)</b>	<b><u>\$ 25,521,380</u></b>

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
*August 31, 2019*

*Exhibit E-1*

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
	<b>Assets</b>		
1110	Cash and cash equivalents	\$ 24,251	\$ 228,570
	<b>Total Assets</b>	<u>24,251</u>	<u>228,570</u>
	<b>Liabilities</b>		
2110	Accounts payable	650	13,453
2190	Due to others	-	215,117
2000	<b>Total Liabilities</b>	<u>650</u>	<u>\$ 228,570</u>
	<b>Net Position</b>		
3800	Held in trust for other purposes	<u>\$ 23,601</u>	

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
*For the Year Ended August 31, 2019*

*Exhibit E-2*

	<u>Private Purpose Trust Funds</u>
<b>Additions</b>	
Gifts and contributions	\$ 13,203
<b>Total Additions</b>	<u>13,203</u>
<b>Deductions</b>	
Scholarships awarded	<u>11,028</u>
<b>Total deductions</b>	<u>11,028</u>
Change in net position	2,175
<b>Net Position beginning of year</b>	<u>21,426</u>
<b>Net Position end of year</b>	<u>\$ 23,601</u>

See Notes to the Financial Statements

**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 for 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, 2019. 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, 2019.

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 will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Deferred Outflows/Inflows of Resources (continued)**

- Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the District’s proportional share of pension liabilities. The 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 next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred outflows of resources for other post-employment benefits (OPEB) – Reported in the government wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of 1) differences between projected and actual earnings on OPEB plan investments and 2) changes in the District’s proportional share of OPEB liabilities. The 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 next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five year period. The remaining OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the District’s proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred inflows of resources for other post-employment benefits (OPEB) – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Pensions**

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

**Other Post-Employment Benefits.**

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

**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 \$10,396,763 for capital replacement expenditures and/or major maintenance expenditures. In addition the general fund has committed \$3,581,679 for claims and judgments and \$660,442 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 \$688,628 fund balance of the campus activity fund for use at the campuses per board policy.
- 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.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Fund Balance (continued)**

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 insure 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.

**Implementation of New Standards**

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Although these are effective, these new standards did not impact the District.

- GASB Statement No. 83, Certain Asset Retirement Obligations. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations.
- GASB Statement No. 88, Certain Disclosures related to Debt. This Statement establishes certain disclosures related debt, including direct borrowing and direct placements.

The following standards have been issued, but have not been implemented as not yet effective.

- GASB No. Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The criteria generally focus on: whether a government is controlling the assets of the fiduciary activity, and the beneficiaries with whom a fiduciary relationship exists.
- GASB No. Statement No. 87, provides guidance for lease contracts for nonfinancial assets—including vehicles, heavy equipment, and buildings—but excludes nonexchange transactions, including donated assets, and leases of intangible assets (such as patents and software licenses).
- GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period.
- GASB Statement No. 90, Majority Equity Interests. An amendment of GASB Statements No. 14 and No. 61.

**Note 2 - Deposits and Investments**

**Cash 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, 2019, the carrying amount of the District's cash deposits was \$40,739,529 and the bank balance was \$43,268,521. The District's cash deposits were entirely covered by the FDIC or by pledged collateral as of August 31, 2019. The District's certificates of deposit in the amount of were entirely covered by the FDIC insurance.

**Investments**

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.

For the year ended August 31, 2019, 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. 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.

**Note 2 - Deposits and Investments (continued)**

**Investments (continued)**

At year-end, the District's cash and investments balances and the weighted average maturity of these investments were as follows:

	<u>Amortized Cost/ Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
<b>Cash and deposits</b>		
Governmental activities	\$ 40,486,708	N/A
Fiduciary funds	252,821	
<b>Total cash and deposits</b>	<u>40,739,529</u>	
<b>Investments:</b>		
Local Government Investment Pools:		
Lone Star Government Overnight Fund	3,973,132	27
Lone Star Corporate Overnight Plus Fund	584,918	68
TexPool	714,113	38
Total Local Government Investment Pools	<u>5,272,163</u>	
<b>Investment Securities</b>		
Federal Home Loan Bank	18,476,373	33
US Treasury Notes	1,377,559	22
<b>Total Investment Securities</b>	<u>19,853,932</u>	
<b>Total Investments</b>	<u>25,126,095</u>	32
<b>Total Cash and Investments</b>	<u>\$ 65,865,624</u>	

Due to the immediate availability of the funds, the District's temporary investments at August 31, 2019 are included in cash and cash equivalents.

**Note 2 - Deposits and Investments (continued)**

**Investments (continued)**

Investments' fair value measurement are as follows at August 31, 2019:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Fair Value Measurements Using</b>		
		<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
Federal Home Loan Bank	\$ 18,476,373	\$ -	\$ 18,476,373	\$ -
US Treasury Notes	1,377,559	-	1,377,559	-
<b>Total</b>	<b>\$ 19,853,932</b>	<b>\$ -</b>	<b>\$ 19,853,932</b>	<b>\$ -</b>

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.

**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 2019.

**Note 2 - Deposits and Investments (continued)**

**Credit Risk (continued)**

The following table includes the portfolio balance, credit rating, and percentage of the portfolio balance by investment type held by the District as of year-end:

	<u>Amortized Cost/ Fair Value</u>	<u>Credit Quality Rating</u>	<u>Percentage of Investments</u>
<b>Investments:</b>			
Local Government Investment Pools:			
Lone Star Government Overnight Fund	\$ 3,973,132	AAA	15.8%
Lone Star Corporate Overnight Plus Fund	584,918	AAA	2.3%
TexPool	714,113	AAAm	2.8%
Total Local Government Investment Pools	<u>5,272,163</u>		<u>21.0%</u>
<b>Investment Securities</b>			
Federal Home Loan Bank	18,476,373	AA+	73.5%
US Treasury Notes	<u>1,377,559</u>	AA+	<u>5.5%</u>
<b>Total Investment Securities</b>	<u>19,853,932</u>		<u>79.0%</u>
<b>Total Investments</b>	<u>\$ 25,126,095</u>		<u>100%</u>

**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:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Special Revenue Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$ 9,521,506	\$ 4,689,697	\$ -	\$ -	\$ 14,211,203
Due from other governments	3,475,897	-	3,058,618	-	6,534,515
Accrued interest	-	-	-	54,296	54,296
Other receivables	<u>2,302,885</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,302,885</u>
Gross Receivables	15,300,288	4,689,697	3,058,618	54,296	23,102,899
Less allowance for doubtful accounts	<u>(952,151)</u>	<u>(468,970)</u>	<u>-</u>	<u>-</u>	<u>(1,421,121)</u>
<b>Net Total Receivables</b>	<u>\$ 14,348,137</u>	<u>\$ 4,220,727</u>	<u>\$ 3,058,618</u>	<u>\$ 54,296</u>	<u>\$ 21,681,778</u>

**Note 4 - Capital Assets**

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

	<b>Balance September 1, 2018</b>	<b>Additions</b>	<b>(Retirements) and Transfers</b>	<b>Balance August 31, 2019</b>
Capital assets, not being depreciated				
Land	\$ 6,770,448	\$ -	\$ -	\$ 6,770,448
Construction in progress	69,180,052	24,364,349	(14,888,448)	78,655,953
Total Capital Assets, not being depreciated	75,950,500	24,364,349	(14,888,448)	85,426,401
Capital assets, being depreciated				
Buildings and improvements	323,471,311	-	9,281,969	332,753,280
Furniture and equipment	44,234,015	6,269,931	5,577,834	56,081,780
Total Capital Assets, being depreciated	367,705,326	6,269,931	14,859,803	388,835,060
Less accumulated depreciation for:				
Buildings and improvements	(111,428,416)	(13,028,464)	-	(124,456,880)
Furniture and Equipment	(20,551,891)	(2,835,458)	28,645	(23,358,704)
Total Accumulated Depreciation	(131,980,307)	(15,863,922)	28,645	(147,815,584)
<b>Governmental Capital Assets</b>	<b>\$ 311,675,519</b>	<b>\$ 14,770,358</b>	<b>\$ -</b>	<b>\$ 326,445,877</b>

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

	<b>Function</b>	<b>Depreciation Expense</b>
11	Instruction	\$ 8,399,885
12	Instructional resources and media services	138,639
13	Curriculum and staff development	207,811
21	Instructional leadership	358,878
23	School leadership	989,865
31	Guidance, counseling and evaluation	478,580
32	Social work services	104,790
33	Health services	253,306
34	Student transportation	499,439
35	Food Services	905,633
36	Extracurricular activities	334,978
41	General administration	540,047
51	Facilities maintenance and operations	1,977,871
52	Security and monitoring services	253,596
53	Data processing services	363,976
61	Community services	56,628
		<b>\$ 15,863,922</b>

**Note 4 - Capital Assets (continued)**

**Construction Commitments**

The District has active construction projects as of August 31, 2019. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

<u>Project</u>	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Remaining Commitment</u>
School Buildings	\$ 131,376,090	\$ 73,668,674	\$ 57,707,416
Other-admin	13,728,675	4,987,279	8,741,396
	<u>\$ 145,104,765</u>	<u>\$ 78,655,953</u>	<u>\$ 66,448,812</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, 2019, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 3,004,377	\$ 585,280
Special Revenue Fund	372,550	2,804,310
Capital Projects Fund	12,663	-
	<u>\$ 3,389,590</u>	<u>\$ 3,389,590</u>

Transfers that occurred during the fiscal year ending August 31, 2019 are as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$ 647,926
		<u>\$ 647,926</u>

During the fiscal year, the General Fund transferred \$647,926 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, 2019, was as follows:

	<u>Balance</u> <u>September 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31,</u> <u>2019</u>	<u>Due Within</u> <u>One Year</u>
General obligation bonds	\$ 341,850,000	\$ -	\$ (9,120,000)	\$ 332,730,000	\$ 9,445,000
For issuance premiums/discounts	35,017,639	-	(1,761,996)	33,255,643	-
Accrued compensated absences	2,099,719	765,969	(889,630)	1,976,058	731,162
Property tax lawsuits settlements and refunds due	498,537	-	(498,537)	-	-
Other long-term liability	79,419	-	-	79,419	-
	<u>\$ 379,545,314</u>	<u>\$ 765,969</u>	<u>\$ (12,270,163)</u>	<u>\$ 368,041,120</u>	<u>\$ 10,176,162</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, 2019, is comprised of the following individual issues:

<u>Issue</u>	<u>Original</u> <u>Issuance</u> <u>Amount</u>	<u>Interest Rate</u> <u>(%)</u>	<u>Maturity</u> <u>Date</u>	<u>Debt</u> <u>Outstanding</u>
Unlimited Tax School Building Bonds, Series 2010	\$ 49,525,000	2.00% to 4.50%	2020	\$ 1,235,000
Unlimited Tax Refunding Bonds, Series 2012	46,480,000	3.50% to 5.00%	2035	41,430,000
Unlimited Tax School Building Bonds, Series 2015A	89,855,000	1.75% to 5.00%	2045	86,140,000
Unlimited Tax Refunding Bonds, Series 2015B	34,115,000	2.00% to 5.00%	2034	28,850,000
Unlimited Tax School Building Bonds, Series 2016A	41,460,000	2.00% to 5.00%	2045	39,730,000
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	27,350,000
Unlimited Tax Refunding Bonds, Series 2016E	55,840,000	3.00% to 5.00%	2038	54,945,000
				<u>\$ 332,730,000</u>

Annual debt service requirements to maturity for all bonded long-term debt outstanding as of August 31, 2019 as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 9,445,000	\$ 13,929,332	\$ 23,374,332
2021	10,710,000	13,557,714	24,267,714
2022	11,470,000	13,161,613	24,631,613
2023	11,715,000	12,732,213	24,447,213
2024	12,230,000	12,243,613	24,473,613
2025 - 2029	71,620,000	51,879,450	123,499,450
2030-2034	86,255,000	35,080,032	121,335,032
2035-2039	75,440,000	17,676,375	93,116,375
2040-2044	35,655,000	6,244,875	41,899,875
2045	8,190,000	191,800	8,381,800
	<u>\$ 332,730,000</u>	<u>\$ 176,697,017</u>	<u>\$ 509,427,017</u>

**Note 6 - Long-term Liabilities (continued)**

**Changes in Long-term Liabilities (continued)**

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, 2019, \$29,500,000 of the defeased debt remains outstanding.

**Motiva Refinery Refund**

Due to an error by the taxpayer, Motiva Refinery, the District was notified by such taxpayer that it had inadvertently paid approximately \$1.5 million in ad valorem taxes in excess of the amount required to be paid to the District. The District and Motiva Refinery have entered into a 3 year repayment agreement consisting of \$350,000 from the Interest and Sinking portion of the tax levy and \$1,150,000 from the Maintenance and Operation Fund portion of the tax levy. Equal annual payments in each of the years 2016, 2017, and 2018 are due to Motiva Refinery beginning on September 15, 2016. All payments have been made and the District no longer has a liability.

**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:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals</u>
Property Taxes	\$ 65,862,628	\$ -	\$ 19,185,565	\$ -	\$ 85,048,193
Payments in Lieu of Taxes	5,253,427	-	-	-	5,253,427
Investment Income	324,024	1,620	156,833	719,311	1,201,788
Co-curricular Student Activities	94,288	1,048,594	-	-	1,142,882
Food Sales	-	400,048	-	-	400,048
Insurance recovery	-	-	-	270,978	270,978
Other	69,071	697,809	-	-	766,880
	<u>\$ 71,603,438</u>	<u>\$ 2,148,071</u>	<u>\$ 19,342,398</u>	<u>\$ 990,289</u>	<u>\$ 94,084,196</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 work load 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**

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at [https://www.trs.texas.gov/TRS%20Documents/cafr\\_2018.pdf](https://www.trs.texas.gov/TRS%20Documents/cafr_2018.pdf); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**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.

**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. 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.

**Note 8 - Defined Benefit Pension Plan (continued)**

**D. Contributions (continued)**

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

	<b>Contribution Rates</b>	
	<b>Plan Fiscal Year</b>	
	<b>2018</b>	<b>2019</b>
Member (Employee)	7.70%	7.70%
Non-employer contributing agency (State)	6.80%	6.80%
District	6.80%	6.80%

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). Contributions and pension expense for all contributors were as follows:

	<b>Measurement Year (2018)</b>		<b>Fiscal Year (2019)</b>
	<b>Contributions Required and Made</b>	<b>Pension Expense</b>	<b>TRS Contributions</b>
Member (Employee)	\$ 4,029,931	\$ -	\$ 4,111,306
Non-employer contributing agency (State)	2,768,002	4,479,033	2,836,661
District	995,591	1,421,281	1,009,198

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)**

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

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

**E. Actuarial Assumptions**

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

Valuation Date	August 31, 2017 rolled forward to August 31, 2018
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	6.907%
Long-term expected Investment Rate of Return	3.69%*
Municipal Bond Rate	
Last year ending August 31 in Projection Period (100 years)	2116
Inflation	2.30%
Salary Increases including inflation	3.05% to 9.05%, including inflation
Ad hoc post-employment benefit changes	None

\*Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."

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

**F. Discount Rate**

The discount rate used to measure the total pension liability was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on these assumptions, the pension plan's fiduciary net position and future contributions were sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term rate of return on pension plan investments is 7.25%.

**Note 8 - Defined Benefit Pension Plan (continued)**

**F. Discounted Rate (continued)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2018, are summarized below:

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

<b>Asset Class</b>	<b>Target Allocation<sup>1</sup></b>	<b>Real Return Geometric Basis<sup>2</sup></b>	<b>Long-Term Expected Portfolio Real Rate of Returns</b>
<b>Global Equity</b>			
U.S.	18%	5.7%	1.04%
Non-U.S. Developed	13%	6.9%	0.90%
Emerging Markets	9%	9.0%	0.80%
Directional Hedge Funds	4%	3.5%	0.14%
Private Equity	13%	10.2%	1.32%
<b>Stable Value</b>			
U.S. Treasuries	11%	1.1%	0.12%
Stable Value Hedge Funds	4%	3.1%	0.12%
Cash	1%	-0.3%	0.00%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.7%	0.0%
Real Assets	14%	5.2%	0.73%
Energy and Natural Resources	5%	7.5%	0.37%
Commodities			
<b>Risk Parity</b>			
Risk Parity	5%	3.7%	0.18%
Inflation Expectation			2.3%
Volatility Drag <sup>3</sup>	0.0%		-0.79%
<b>Total</b>	<b>100%</b>		<b>7.2%</b>

<sup>1</sup> Target allocations are based on the FY 2016 policy model

<sup>2</sup> Capital market assumptions come from Aon Hewitt (2017 Q4)

**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 (6.907%) in measuring the Net Pension Liability.

	1% Decrease <u>5.907%</u>	Current Discount Rate <u>6.907%</u>	1% Increase <u>7.907%</u>
District's proportional share of the net pension liability	\$ 24,550,955	\$ 16,267,100	\$ 9,560,828

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

At August 31, 2019, the District reported a liability of \$16,267,100 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 net pension liability	\$ 16,267,100
State's proportionate share of the net pension liability associated with the District	<u>45,254,942</u>
Total	<u>\$ 61,522,042</u>

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

At August 31, 2018, the employer's proportion of the collective net pension liability was 0.02955% which was a decrease from its proportion measured as of August 31, 2017 of 0.03510%.

**Changes since the Prior Actuarial Valuation**

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

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

For the year ended August 31, 2019, the District recognized pension expense of \$5,900,314, which includes \$4,479,033 of the pension expense incurred by the State on behalf of the District. The on-behalf pension expense is offset by the same amount in revenue.

**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)**

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 101,396	\$ (399,130)
Changes of assumptions	5,865,073	(183,284)
Net difference between projected and current investment earnings	-	(308,656)
Changes in proportional share of contributions	496,313	(2,424,160)
District contributions subsequent to the measurement date	1,009,198	-
<b>Total</b>	<b>\$ 7,471,980</b>	<b>\$ (3,315,230)</b>

The \$1,009,198 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended August 31, 2019. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year ended August 31</b>	<b>Amount</b>
2020	\$ (853,126)
2021	(203,597)
2022	(82,927)
2023	(796,475)
2024	(759,316)
Thereafter	(452,111)
	<b>\$ (3,147,552)</b>

**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 TRS-Care’s fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [https://www.trs.texas.gov/Pages/about\\_archive\\_cafr.aspx](https://www.trs.texas.gov/Pages/about_archive_cafr.aspx); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**C. Benefits Provided**

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

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

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

**TRS-CARE Monthly for Retirees**  
**Effective January 1, 2018 - December 31, 2018**

	<u>Medicare</u>	<u>Non-Medicare</u>
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)**

**E. 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	
	2019	2018
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%

	Measurement Year	Fiscal Year
	(2018)	(2019)
	Contributions	TRS-Care
	Required and Made	Contributions
Employer Contributions	\$ 561,966	\$ 554,051
Member Contributions	340,087	350,946
NECE On-behalf Contributions	436,342	605,690

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to. When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the FY2018-19 biennium to continue to support the program. This was also received in FY2018 bringing the total appropriations received in fiscal year 2018 to 394.6 million.

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

**E. Actuarial Assumptions**

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

The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in this OPEB valuation were identical to those used in the respective TRS pension valuation. Since the assumptions were based upon a recent actuarial experience study performed and they were reasonable for this OPEB valuation, they were employed in this report. The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The Post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP). The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation that was rolled forward to August 31, 2018:

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

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

**E. Actuarial Assumptions (continued)**

*Additional Actuarial Methods and Assumptions*

Valuation date	8/31/2017, rolled for forward to August 31, 201
Actuarial Cost method	Individual Entry Age Normal
Inflation	2.30%
Discount rate*	3.69%
Aging factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll growth rate	2.50%
Salary increases	3.05% to 9.05%**
Healthcare trend rates	6.75% to 107.74%***
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

\* Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.

\*\* Includes Inflation at 2.30%

\*\*\* Initial medical trend rates of 107.74 percent and 9.00 percent for Medicare retirees and an initial medical trend rate of 6.75 percent for non-Medicare retirees.

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

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

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

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

**F. Discount Rate**

A single discount rate of 3.69% was used to measure the total OPEB liability. There was a change of 0.27% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

<u>Asset Class</u>	<u>Target Allocation<sup>1</sup></u>	<u>Long-Term Expected Arithmetic Real Rate of Return</u>	<u>Expected Contribution Long-Term Portfolio Returns</u>
<b>Global Equity</b>			
U.S.	18%	4.6%	1.04%
Non-U.S. Developed	13%	5.1%	0.9%
Emerging Markets	9%	5.9%	0.8%
Directional Hedge Funds	4%	3.2%	0.14%
Private Equity	13%	7.0%	1.32%
<b>Stable Value</b>			
U.S. Treasuries	11%	70.0%	0.12%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.12%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	-0.9%	0.02%
Real Assets	14%	5.1%	0.73%
Energy and Natural Resources	5%	6.6%	0.37%
<b>Resources</b>			
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.18%
Inflation Expectations	0%	0.0%	2.3%
Volatility Drag <sup>2</sup>	0%	0.0%	-0.8%
<b>Total</b>	<u>100%</u>		<u>7.25%</u>

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

**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 (3.69%) in measuring the Net OPEB Liability:

	Discount Rate		
	1% Decrease in Discount Rate (2.69%)	Decrease Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of the Net OPEB Liability:	\$ 48,416,432	\$ 40,674,334	\$ 34,549,835

*Healthcare Cost Trend Rate* - The following presents the District's proportional share of the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate:

	Healthcare Cost Trend Rate		
	1% Decrease	Current	1% Increase
District's proportionate share of the Net OPEB Liability:	\$ 33,780,697	\$ 40,674,334	\$ 49,753,403

**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 \$40,674,334 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	\$ 40,674,334
State's proportionate share that is associated with District	<u>42,046,570</u>
Total	<u>\$ 82,720,904</u>

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

At August 31, 2018 the employer's proportion of the collective Net OPEB Liability was 0.0815% which was the same proportion measured as of August 31, 2017.

**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)**

**Changes Since the Prior Actuarial Valuation** - The following assumptions, methods and plan changes which are specific to TRS-Care were updated from the prior year's report:

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

For the year ended August 31, 2019, the District recognized OPEB expense of \$2,544,731 which includes \$1,529,402 of pension expense paid by the State on-behalf of the District. This on-behalf amount is offset by revenue of the same amount.

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,158,436	\$ (641,901)
Changes in actuarial assumptions	678,744	(12,220,304)
Difference between projected and actual investment earnings	7,113	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	142	(23,920)
Contributions paid to TRS subsequent to the measurement date	554,051	-
Total	<u>\$ 3,398,486</u>	<u>\$ (12,886,125)</u>

**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 \$554,051 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 ending August 31, 2019. 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:

Year Ended <u>August 31:</u>	<u>OPEB Expense Amount</u>
2020	\$ 1,603,801
2021	1,603,801
2022	1,603,801
2023	1,605,146
2024	1,605,915
Thereafter	<u>2,019,226</u>
	<u>\$ 10,041,690</u>

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, 2019, 2018, and 2017, the subsidy payments received by TRS-Care on-behalf of the District were \$202,632, 156,930, and \$144,387, 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, 2019. 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, 2019.

**Note 13 - Operating Leases**

The District leases copiers under non-cancelable operating leases. Total costs for operating leases were \$561,535 for the year ended August 31, 2019. From this amount only \$17,356 was paid related to the non-cancelable operating leases, the remaining amount of \$544,179 was paid related to annual operating lease agreements. Operating lease obligations are payable from the general fund. The future minimum lease payments for the non-cancelable operating leases are as follows:

<u>Year Ending</u> <u>August 31</u>	<u>Amount</u>
2020	\$ 12,650
<b>Total</b>	<b>\$ 12,650</b>

**Note 14 - Tax Abatements**

Currently, the District has three (3) 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 value’s value limitation is \$30,000,000, with a total project value of \$332,394,600. The applicant’s M&O taxes have been reduced by \$ 3,542,642. However, the District’s net benefit to the District was \$64,991.

**Note 14 - Tax Abatements (Continued)**

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. The applicant's M&O taxes have been reduced by \$2,043,217. However, the District's net benefit to the District was \$1,042,985.

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. There is no reduction in M&O taxes for the tax year. And, the District's net benefit to the District was \$0.

**Note 15 Subsequent Events**

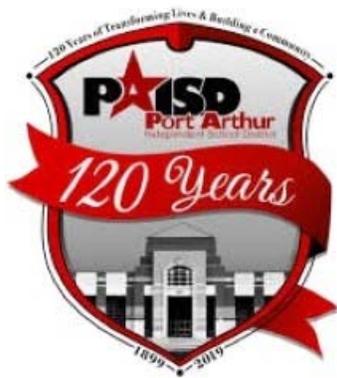
On September 18, 2019, the District issued Unlimited School Building Bonds Series 2019 A in the amount of \$43,190,000. The proceeds of these bonds will be used to finance the construction, renovation and equipping of school buildings. The District also issued Unlimited Tax Refunding Bonds, Taxable Series 2019B in the amount of \$21,755,000. The refunding bonds refunded the District's Unlimited Tax Refunding Bonds, Series 2012 in the amount of \$21,890,000.

Motiva Enterprises appealed the taxable values for their refinery located in Port Arthur ISD in Jefferson County for the 2018 and 2019 tax years. Motiva and the Jefferson Central Appraisal District entered into settlement agreements for the two tax years on November 1, 2019. Under the settlement agreements, the 2018 taxable value for the Motiva Refinery was reduced from \$2.872 billion to \$1.794 billion, a reduction of \$1.078 billion. For the 2019 tax year, the refinery value was reduced from \$2.919 billion to \$1.876 billion, a reduction of \$1.043 billion.

Adjustments to the Comptroller's state property value study and recalculations of a district's state aid and recapture costs are the traditional vehicle for restoring funding to a school district subject to property value reductions due to appeals. The transition to the use of current-year property values beginning with the 2019-20 school year has had the effect of not using the 2018 tax year values for Foundation School Program (FSP) funding purposes, although the 2018 local values are the basis for both local M&O and I&S tax collections. Based on the new House Bill 3 school funding formulas for the 2019-20 school year, there appears to be enough state aid offset for the 2019 appeal. No state Formula Transition Grant funding under Section 48.277 the Education Code appears to be available to offset the 2018 reduction under the settlement agreement.

Based on initial calculations by our consultants, preceding-year property values for state aid calculations for the 2018 and 2019 tax years would have generated an additional \$4.9 million for PAISD in the 2019-20 school year. This would have assisted the District in paying the \$8.5 million refund owed for the 2018 tax year (inclusive of I&S taxes for which there is no state aid or recapture offset).

Under Section 48.011 of the Education Code, the Commissioner is authorized to address unintended consequences from the school finance formulas adopted under House Bill 3. An "unintended consequence" of the transition to current-year property values is that PAISD does not receive \$4.9 million in state aid in the 2019-20 school year to offset the reduction in local tax revenue as a result of the 2018 property value appeal. These funds would assist the District in meeting its refund obligations to Motiva. The District intends to pursue an administrative appeal to the Commissioner of Education under Section 48.011 to resolve this issue.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**

*Exhibit G-1*

**BUDGETARY COMPARISON SCHEDULE**

**GENERAL FUND**

*For the Year Ended August 31, 2019*

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
	<b>Revenues</b>				
5700	Local, intermediate, and out-of-state	\$ 56,287,788	\$ 55,853,373	\$ 71,603,438	\$ 15,750,065
5800	State program revenues	26,918,782	29,758,707	36,087,780	6,329,073
5900	Federal program revenues	1,353,522	1,787,937	3,251,722	1,463,785
	<b>Total revenues</b>	<u>84,560,092</u>	<u>87,400,017</u>	<u>110,942,940</u>	<u>23,542,923</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	46,321,375	48,212,473	45,252,896	2,959,577
0012	Instructional resources and media services	750,402	772,443	709,077	63,366
0013	Curriculum and instructional staff development	701,034	821,034	731,307	89,727
0021	Instructional leadership	1,985,871	2,061,162	1,967,367	93,795
0023	School leadership	5,553,344	5,943,344	5,760,536	182,808
0031	Guidance, counseling and evaluation services	2,663,316	2,754,316	2,698,494	55,822
0032	Social work services	420,321	550,321	444,258	106,063
0033	Health services	866,130	1,121,130	972,564	148,566
0034	Student transportation	2,921,504	2,571,363	2,514,119	57,244
0035	Food services	142,692	100,339	7,647	92,692
0036	Extracurricular activities	1,654,184	1,904,184	1,743,421	160,763
0041	General administration	3,249,066	3,574,324	3,409,991	164,333
0051	Facilities maintenance and operations	12,435,309	12,387,128	12,207,565	179,563
0052	Security and monitoring services	1,989,605	1,959,605	1,526,867	432,738
0053	Data processing services	1,820,910	2,280,607	1,866,973	413,634
0061	Community services	168,680	222,680	201,866	20,814
<b>Capital outlay</b>					
0081	Facilities acquisition and construction	16,850	4,147,666	4,130,223	17,443
<b>Intergovernmental</b>					
0095	Payments to Juvenile Justice AEP	119,500	119,500	108,000	11,500
0099	Payments to appraisal district	780,000	820,000	954,586	(134,586)
	<b>Total Expenditures</b>	<u>84,560,093</u>	<u>92,323,619</u>	<u>87,207,757</u>	<u>5,115,862</u>
1100	Excess (deficiency) of revenues over expenditures	(1)	(4,923,602)	23,735,183	28,658,785
<b>Other Financing Sources (Uses)</b>					
7949	Insurance recovery	-	1,722,945	2,302,358	579,413
7912	Proceeds from sale of property	-	-	30,055	30,055
8911	Operating transfers out	-	(544,800)	(647,926)	(103,126)
8949	Other uses - property tax refunds	-	(498,740)	(498,540)	200
8949	Other uses - payments to Hurricane Harvey adjuster	-	(1,722,945)	(1,512,876)	210,069
8949	Other uses - payments related to lawsuit settlements	-	(44,000)	(42,500)	1,500
	<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>(1,087,540)</u>	<u>(369,429)</u>	<u>718,111</u>
	Net change in fund balances	(1)	(6,011,142)	23,365,754	29,376,896
0100	<b>Fund Balance - September 1 (Beginning)</b>	<u>18,559,026</u>	<u>18,559,026</u>	<u>18,559,026</u>	<u>-</u>
3000	<b>Fund Balance - August 31 (Ending)</b>	<u>\$ 18,559,025</u>	<u>\$ 12,547,884</u>	<u>\$ 41,924,780</u>	<u>\$ 29,376,896</u>

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**CHILD NUTRITION PROGRAM**  
For the Year Ended August 31, 2019

Exhibit G-2

Data Control Codes		Child Nutrition			Variance Favorable (Unfavorable)
		Budget		Actual	
		Original	Final		
	<b>Revenues</b>				
5700	Local, intermediate, and out-of-state	\$ 541,002	\$ 541,002	\$ 403,352	\$ (137,650)
5800	State program revenues	37,434	37,434	29,989	(7,445)
5900	Federal program revenues	5,418,327	5,418,327	4,369,704	(1,048,623)
5030	<b>Total Revenues</b>	<u>5,996,763</u>	<u>5,996,763</u>	<u>4,803,045</u>	<u>(1,193,718)</u>
	<b>Expenditures</b>				
	<b>Current:</b>				
0035	Food services	5,903,763	5,903,763	5,711,095	192,668
6030	<b>Total Expenditures</b>	<u>5,903,763</u>	<u>5,903,763</u>	<u>5,711,095</u>	<u>192,668</u>
1100	Excess (deficiency) of revenues over expenditures	93,000	93,000	(908,050)	(1,001,050)
	<b>Other Financing Sources (Uses)</b>				
7915	Operating transfer in	550,331	550,331	647,926	97,595
	<b>Other Financing Sources (Uses)</b>	<u>550,331</u>	<u>550,331</u>	<u>647,926</u>	<u>97,595</u>
1200	Net change in fund balance	643,331	643,331	(260,124)	(903,455)
0100	<b>Fund Balance - September 1 (Beginning)</b>	260,124	260,124	260,124	-
3000	<b>Fund Balance - August 31 (Ending)</b>	<u>\$ 903,455</u>	<u>\$ 903,455</u>	<u>\$ -</u>	<u>\$ (903,455)</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, 2019, 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	\$ 7,763,526	\$ -	\$ 484,636

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, 2018. 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 Payment to appraisal district by \$134,586.

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

*Exhibit G-4*

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

Notes: Ten years of data should be presented in this schedule but data is unavailable prior to 2014.

Net pension liability and related ratios will be presented prospectively as data becomes available.

Net pension liability is calculated using a new methodology and 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 Eight Fiscal Years*

*Exhibit G-5*

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contributions	\$ 1,009,198	\$ 986,936	\$ 1,142,461	\$ 1,050,178
Contributions in relation to the contractual required contributions	<u>1,009,198</u>	<u>986,936</u>	<u>1,142,461</u>	<u>1,050,178</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 53,991,706	\$ 52,425,792	\$ 50,156,718	\$ 49,326,747
Contributions as a percentage of covered payroll	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	<u>973,705</u>	<u>984,427</u>	<u>797,769</u>	<u>770,625</u>
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%

***Notes to Required Supplementary Information - Pensions***

Effective September 1, 2014, employers who did not contribute 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.

**Changes of Assumptions**

New actuarial assumptions were adopted by the Teacher Retirement System of Texas' Board of Trustees on September 24, 2015 and are effective with the valuation as of August 31, 2015. The major assumptions changes were the adoption of the use of generational mortality for the purpose of predicting future mortality improvement and the reduction in the inflation rate from 3.00% to 2.50%.

**Changes of Benefit Terms**

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

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

*Exhibit G-6*

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

Notes: Ten years of data should be presented in this schedule but data is unavailable prior to 2017.

Net OPEB liability and related ratios will be presented prospectively as data becomes available.

Net OPEB liability is calculated using a new methodology and 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 Eight Fiscal Years**

*Exhibit G-7*

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

The District implemented GASB 75 during fiscal year 2018.

***Notes to Required Supplementary Information - OPEB***

Effective September 1, 2014, employers who did not contribute 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.

***Changes since the Prior Actuarial Valuation***

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

The following assumptions, methods and plan changes which are specific to TRS-Care were updated from the prior year's report:

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

**REQUIRED TEA SCHEDULES**

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
*For the Year Ended August 31, 2019*

*Exhibit J-1*  
*Page 1 of 2*

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 9/1/18</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2010 and prior	Various	Various	Various	\$ 1,927,311
2011	1.040000	0.330000	\$4,379,583,650	319,896
2012	1.040000	0.327600	4,425,423,227	383,463
2013	1.040000	0.312600	5,039,626,855	398,322
2014	1.040000	0.313120	5,541,350,428	521,947
2015	1.040000	0.313480	4,973,881,624	117,790
2016	1.040000	0.313140	4,749,619,404	1,035,653
2017	1.040000	0.313470	4,416,465,751	741,911
2018	1.170000	0.310987	4,281,278,094	1,284,022
2019	1.170000	0.315090	6,201,976,513	-
<b>1000 Totals</b>				<u><u>\$ 6,730,315</u></u>

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
*For the Year Ended August 31, 2019*

*Exhibit J-1*  
*Page 2 of 2*

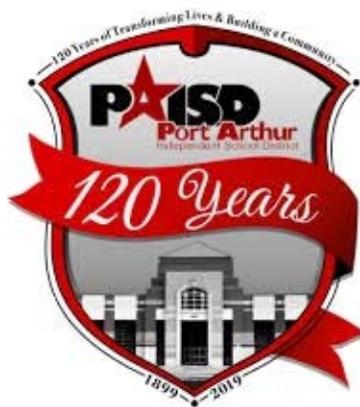
	<b>20</b>	<b>31</b>	<b>32</b>	<b>40</b>	<b>50</b>
<b>Last Ten Fiscal Years</b>	<b>Current Year's Total Levy</b>	<b>Maintenance Total Collections</b>	<b>Debt Service Total Collections</b>	<b>Entire Year's Adjustments</b>	<b>Ending Balance 8/31/19</b>
2010 and prior	\$ -	\$ 29,005	\$ 9,160	\$ (452,523)	\$ 1,436,623
2011	-	11,892	3,773	(5,839)	298,392
2012	-	16,884	5,319	(6,585)	354,675
2013	-	22,526	6,771	(6,350)	362,675
2014	-	32,301	9,725	(6,865)	473,056
2015	-	39,256	11,833	(11,722)	54,979
2016	-	57,749	17,388	(12,417)	948,099
2017	-	88,094	26,553	(30,259)	597,005
2018	-	183,976	48,901	(123,946)	927,199
2019	<u>92,104,933</u>	<u>64,553,212</u>	<u>18,793,221</u>	<u>-</u>	<u>8,758,500</u>
<b>1000 Totals</b>	<u><u>\$ 92,104,933</u></u>	<u><u>\$ 65,034,895</u></u>	<u><u>\$ 18,932,644</u></u>	<u><u>\$ (656,506)</u></u>	<u><u>\$ 14,211,203</u></u>

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**  
*For the Year Ended August 31, 2019*

*Exhibit J-2*

Data Control Codes	Debt Service Fund				
	Budget			Variance Favorable (Unfavorable)	
	Original	Final	Actual		
<b>Revenues</b>					
5700	Local, Intermediate, and Out-of-State	\$ 22,955,225	\$ 22,955,225	\$ 19,342,398	\$ (3,612,827)
5800	State Program Revenues	-	-	220,758	220,758
5030	<b>Total Revenues</b>	<u>22,955,225</u>	<u>22,955,225</u>	<u>19,563,156</u>	<u>(3,392,069)</u>
<b>Expenditures</b>					
<b>Debt Service:</b>					
0071	Debt service - principal	8,835,000	9,120,000	9,120,000	-
0072	Debt service - interest	14,090,225	14,255,937	14,255,936	1
0073	Debt issuance cost & fees	30,000	63,924	63,450	474
6030	<b>Total Expenditures</b>	<u>22,955,225</u>	<u>23,439,861</u>	<u>23,439,386</u>	<u>475</u>
1100	Excess (Deficiency) Revenues Over Expenditures	-	(484,636)	(3,876,230)	(3,391,594)
0100	<b>Fund Balance - September 1 (Beginning)</b>	<u>7,718,498</u>	<u>7,718,498</u>	<u>7,718,498</u>	<u>-</u>
3000	<b>Fund Balance - August 31 (Ending)</b>	<u>\$ 7,718,498</u>	<u>\$ 7,233,862</u>	<u>\$ 3,842,268</u>	<u>\$ (3,391,594)</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, 2019, 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 23, 2020.

**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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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, professional style.

Houston, Texas  
January 23, 2020

**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, 2019. 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, 2019.

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.



Houston, Texas  
January 23, 2020

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For The Year Ended August 31, 2019*

**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:**

<b>Name of Federal Program:</b>	<b>CFDA Number:</b>
<b>United States Department of Education</b>	
<b>Special Education Cluster</b>	
IDEA Part B, Formula	84.027A
IDEA Part B, Preschool	84.173A
IDEA Part B, Evaluation Capacity	84.027A
Title II, Part A Supporting Effective Instruction	84.367A
<b>United States Department of Health and Human Services</b>	
Early Head Start Program	93.600
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, 2019***

**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, 2019**

*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
		<b>U.S. Department of Defense</b>		
		<b>Direct Program:</b>		
N/A	288	<i>Naval JROTC</i>	12.000	\$ 56,996
		<b>Total U.S. Department of Defense</b>		<b>56,996</b>
		<b>U.S. Department of Agriculture</b>		
		<b>Child Nutrition Cluster:</b>		
		<b>Pass-Through Texas Department of Agriculture:</b>		
		Non cash assistance:		
CE-123907	240	<i>National School Lunch Program (Commodities)</i>	10.555	407,825
		<b>Total Pass-Through Texas Department of Agriculture</b>		407,825
		<b>Pass-Through Texas Education Agency:</b>		
		Cash assistance:		
71401901	240	<i>School Breakfast Program</i>	10.553	1,061,338
71301901	240	<i>National School Lunch Program</i>	10.555	3,498,027
		<b>Total Pass-Through Texas Education Agency</b>		4,559,365
		<b>Total Child Nutrition Cluster</b>		4,967,190
		<b>Total U. S. Department of Agriculture</b>		<b>4,967,190</b>
		<b>U. S. Department of Education</b>		
		<b>Pass-Through Texas Education Agency:</b>		
		<b>Title I Part A:</b>		
19610101123907	211	<i>ESEA, Title I, Part A - Improving Basic Programs</i>	84.010A	3,556,474
19610141123907	211	<i>Title I, 1003 School Improvement</i>	84.010A	92,252
		<b>Total Title I Part A</b>		3,648,726
19615001123907	212	<i>ESEA, Title I, Part C - Migrant</i>	84.011A	295,450
186600011239076000	224	<i>IDEA, Part B - Formula*</i>	84.027A	698,072
196600011239076000	224	<i>IDEA, Part B - Formula*</i>	84.027A	1,337,543
196610011239076610	225	<i>IDEA, Part B - Preschool*</i>	84.173A	24,604
186610011239076000	225	<i>IDEA, Part B - Preschool*</i>	84.173A	17,164
18660077123907	226	<i>IDEA, Part B - IEP Analysis*</i>	84.027A	5,977
				2,083,360
19420006123907	244	<i>Career and Technical - Basic Grant</i>	84.048A	90,094
19671003123907	263	<i>ESEA, Title III, Part A - Immigrant</i>	84.365A	6,801
19671001123907	263	<i>ESEA, Title III, Part A - ELA</i>	84.365A	200,893
19694501123907	255	<i>Title II, Part A, Supporting Effective Instruction</i>	84.367A	444,797
69551802	289	<i>Summer School LEP</i>	84.369A	6,258
19680101123907	289	<i>Title IV, Part A</i>	84.424A	386,688
		<b>Total Pass-Through Texas Education Agency</b>		7,163,067
		<b>Pass-Through Region 20 Education Service Center</b>		
ESC20	226	<i>IDEA - B Evaluation Capacity *</i>	84.027A	24,000
		<b>Total Pass-Through Region 20 Education Service Center</b>		24,000
		<b>Total U. S. Department of Education</b>		<b>7,187,067</b>
		<b>U. S. Department of Health and Human Services</b>		
		<b>Direct:</b>		
06CH7091-05-01	205	<i>Early Head Start Program</i>	93.600	2,828,052
		<b>Total Direct</b>		2,828,052
		<b>Pass-Through Texas Health and Human Services</b>		
		<b>Commission:</b>		
N/A	199	<i>Medicaid Administrative Claims (MAC)</i>	93.778	55,343
		<b>Total Pass-Through Texas Health and Human Services</b>		55,343
		<b>Commission</b>		55,343
		<b>Total U. S. Department of Health and Human Services</b>		<b>2,883,395</b>
		<b>Total Expenditures of Federal Awards</b>		<b>\$ 15,094,648</b>

\*Total Special Education Cluster \$2,107,360

**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, 2019. 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	\$ 15,094,648
Add:	
E-Rate	184,434
SHARS	1,999,105
Reconciled Balance	<u>\$ 17,278,187</u>
Related Expenditures on Exhibit C-3	
General Fund	\$ 3,251,722
Special Revenue Fund	14,026,465
	<u>\$ 17,278,187</u>

**Note 4 - General Fund Expenditures**

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

<b>Program or Source</b>	<b>CFDA Number</b>	<b>Amount</b>
School Breakfast Program	10.553	\$ 139,866
National School Lunch Program	10.555	457,620
ESEA, Title I, Part A - Improving Basic Programs	84.010A	175,220
Title I, 1003 School Improvement	84.010A	4,683
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
Title IV, Part A	84.424A	11,057
E-Rate	N/A	184,434
Medicaid Administrative Claims (MAC)	93.778	55,343
School Health and Related Services Program (SHARS)	N/A	1,999,105
		\$ 3,251,722

**PORT ARTHUR INDEPENDENT SCHOOL DISTRICT**

***SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS***

*For the Year Ended August 31, 2019*

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**

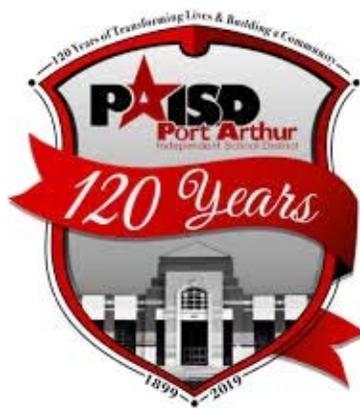
***CORRECTIVE ACTION PLAN***

***For the Year Ended August 31, 2019***

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



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

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
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
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 make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ 0
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ 0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$16,267,100
SF13	Pension Expense (6147) at fiscal year-end.	