PORT ARTHUR
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

For The Year Ended August 31, 2018

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS

CERTIFICATE OF THE BOARD

Port Arthur Independent School District	Jefferson	123-907
Name of School District	County	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, 2018, at a meeting of the board of trustees of such school district on January 24, 2019.

President of the Board **Secretary of the Board**

FINANCIAL SECTION

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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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this 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, 2018, 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.

Emphasis of Matter

As discussed in Note 1, Note 9, and Note 16 to the financial statements, the District adopted the provisions of Government Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of August 31, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 7 through 16, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 24, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

Whitley Penn LLP

Houston, Texas
January 24, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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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, 2018.

Financial Highlights

The liabilities and deferred inflows exceeded the District's assets and deferred outflows at the close of the fiscal year by $40,962,948 *(net deficit).* Of this amount, negative $9,394,558 was net investment in capital assets, which represents the debt related to the capital assets which exceeds the carrying value of the capital assets, $9,551,445 was restricted for debt service or federal and state programs, and the remaining amount was a deficit unrestricted net position of $41,119,835.

- The District's total net position increased by $7,031,213 from current year activities, primarily due to an increase in property tax revenues and state aid. This increase was offset by a negative prior period adjustment of $62,147,939 which resulted in an overall decrease in net position of $55,116,726. This decrease is mainly due to the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* and reflecting the District's proportionate share of the post-employment benefit liability in the financials. This change does not affect the financial stability of the District nor does it change how the District conducts its financial decision-making. Rather, the District is reflecting its portion of the liability that the State of Texas manages and operates.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $67,391,093, a decrease of $45,578,104 in comparison with the prior year. The decrease in governmental fund balances was primarily due to a decrease in the capital projects fund of $48,410,530 due to increased spending on capital projects. In addition the increase of $3,039,958 in the general fund was due to an increase in the M&O property tax rate.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $8,744,818 or 9 percent of total general fund expenditures.
- The District's total debt decreased by $8,835,000 (2.52 percent) during the current fiscal year.
- Implementation of new accounting standards regarding the accounting for Other Post-Employment Benefits (OPEB) promulgated by the Government Accounting Standards Board relating to the Texas Public School retired Group Insurance Program (TRS-Care) resulted in a deficit governmental activities unrestricted net position of $41,119,835, an increase from the prior year deficit unrestricted net position of $57,754,275, as restated.
- As a result of Hurricane Harvey, the District estimated an impairment loss of $14.8 million. The resulting net loss after insurance recovery was $2.3 million. The total insurance proceeds were $16.5 million and $2.1 million was recorded as other uses for payments to the adjuster. As a result of this impairment, the District has removed $20.6 million of capital assets, less accumulated depreciation of $5.8 million.

Overview of the Financial Statements

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

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Fiduciary Funds

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

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

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 $40,962,948 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 $9,394,558. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position in the amount of $9,551,445 is restricted for federal and state programs and debt service. The remaining balance of $41,119,835 is an *unrestricted net deficit* . The District's net position increased by $7,031,213 during fiscal year 2018 due to current year activities. This was offset by a prior period adjustment of $62,147,939 for a total decrease in net position of $55,116,726 when compared to the prior fiscal year.

Port Arthur Independent School District's Net Position

	Governmental Activities	
	2018	**2017***
Current and other assets	$ 91,679,618	$ 133,073,569
Capital and non current assets	311,675,519	281,915,545
Total Assets	403,355,137	414,989,114
Deferred Outflows of Resources		
Deferred charge on refunding	15,646,342	16,644,592
Deferred outflows relating to pension/OPEB activities	2,829,972	4,550,502
Total Deferred Outflows of Resources	18,476,314	21,195,094
Current liabilities	19,011,090	15,286,952
Long term liabilities	426,209,977	465,531,662
Total Liabilities	445,221,067	480,818,614
Deferred Inflows of Resources		
Deferred inflows relating to pension/OPEB activities	17,573,332	3,359,755
Total Deferred Inflows of Resources	17,573,332	3,359,755
Net Position		
Net investment in capital assets	(9,394,558)	(314,876)
Restricted	9,551,445	10,074,990
Unrestricted	(41,119,835)	(57,754,275)
Total Net Position	$ (40,962,948)	$ (47,994,161)

* The prior year governmental activities and total net position balances have been restated by $62.1 million to reflect the implementation of GASB Statement No. 75, *Accounting and Financial Reporting for Post-employment Benefits Other than Pensions.*

Governmental Activities

Governmental activities increased the District's net position by $7,031,213. Key elements of this increase are as follows:

Revenues are generated primarily from two sources, program and general revenues. Grants and contributions totaling $9,390,127 represent 8 percent of total revenues and property taxes ($71,005,829) represent 61 percent of total revenues. State aid totaled $30,124,064 or 26 percent of total revenues. The remaining $4,937,211 or 4 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is instruction ($47,678,513), which represents 44 percent of total expenses. Facilities maintenance and operations ($19,664,218) represents 18 percent of total expenses. Interest on long-term debt ($13,557,999) represents 13 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 $7,222,262 or 11 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) and significant changes in the benefits provided by the TRS retiree healthcare plan (TRS-Care). The reduction in plan benefits resulted in a sizable decrease in the District's Net OPEB Liability and a resulting negative OPEB expense of $21.1 million in accordance with newly implemented accounting standards. Under these standards, the District is also required to report what is essentially both negative on-behalf expenses and negative on-behalf revenues for the portion of the reduction in the OPEB liability that is the responsibility of the State, or an additional $12.21 million. See Note 9 to the financial statements for a reconciliation of functional expenses and revenues impacted by this accounting treatment.

Port Arthur Independent School District's Changes in Net Position

	Governmental Activities	
	2018	**2017***
Program Revenues		
Charges for services	$ 1,912,965	$ 2,503,840
Operating grants	9,390,127	20,203,116
General Revenues		
Property taxes	71,005,829	63,783,567
State aid	30,124,064	23,879,952
Grants and contributions not restricted		254,888
Investment earnings	1,234,360	1,121,014
Other	1,789,886	98,412
Total Revenues	115,457,231	111,844,789
Expenses		
Instruction	47,678,513	54,465,019
Instructional resources and media services	704,245	1,105,955
Curriculum and staff development	1,114,090	1,540,517
Instructional leadership	1,738,004	2,452,987
School leadership	4,473,974	6,011,727
Guidance, counseling, and evaluation services	2,086,526	3,021,206
Social work services	269,918	604,825
Health services	802,902	1,335,803
Student transportation	2,196,288	3,313,775
Food services	3,156,367	6,319,610
Extracurricular activities	1,944,192	1,993,010
General administration	3,894,476	3,928,719
Facilities maintenance and operations	19,664,218	13,265,253
Security and monitoring services	1,741,382	1,808,296
Data processing services	2,455,816	2,094,375
Community services	184,074	320,373
Interest on long-term debt	13,557,999	11,640,966
Debt issuance costs and fees	13,725	949,770
Facilities repairs and maintenance	124,463	201,507
Payments to Juvenile Justice AEP	108,000	108,000
Payments to appraisal district	516,846	639,820
Total Expenses	108,426,018	117,121,513
Increase (Decrease) in Net Position	7,031,213	(5,276,724)
Beginning Net Position	14,153,778	19,430,502
Prior period adjustment	(62,147,939)	(62,147,939)
Ending Net Position	$ (40,962,948)	$ (47,994,161)

* Implementation of GASB 75 was effective at the beginning of the 2018 fiscal year. Changes for revenues and expenses relating to the implementation have not been calculated and are not available for comparison.

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 $67,391,093 a decrease of $45,578,104 in comparison with the prior year. The decrease in ending governmental fund balances is primarily due to a decrease of $48,410,530 in the capital projects fund and the increase of $3,039,958 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 $8,744,818, while total fund balance reached $18,559,026. 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 9 percent of total general fund expenditures, while total fund balance represents 19 percent of that same amount.

The debt service fund has a total fund balance of $7,718,498, all of which is restricted for the payment of debt service. The decrease in the debt service fund balance during the current year of $491,705 was attributable to the slight decrease in the property tax I&S rate and schedule payments on outstanding bonds.

The capital projects fund has a total fund balance of $40,151,220, all of which is restricted for authorized construction and technology projects/enhancements. The net decrease in fund balance of $48,410,530 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 $3.6 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 $15.0 million below 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 $14,367,132 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 resulting in a increase in fund balance by $3,039,958.

Capital Assets and Long-term Liabilities

Capital Assets

The District's investment in capital assets for its governmental type activities as of August 31, 2018, amounts to $311,675,519 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment and construction in progress. Major capital asset events during the current fiscal year included the following:

	Balance September 1, 2017	Additions	(Retirements) and Transfers*	Balance August 31, 2018
Capital assets, not being depreciated				
Land	$ 6,770,448	$ -	$ -	$ 6,770,448
Construction in progress	41,822,361	54,926,623	(27,568,932)	69,180,052
Total Capital Assets, not being depreciated	48,592,809	54,926,623	(27,568,932)	75,950,500
Capital assets, being depreciated				
Buildings and improvements	322,655,940	-	815,371	323,471,311
Furniture and equipment	35,109,959	2,979,094	6,144,962	44,234,015
Total Capital Assets, being depreciated	357,765,899	2,979,094	6,960,333	367,705,326
Less accumulated depreciation for:				
Buildings and improvements	(105,582,749)	(11,646,551)	5,800,884	(111,428,416)
Furniture and Equipment	(18,860,414)	(1,691,477)	-	(20,551,891)
Total Accumulated Depreciation	(124,443,163)	(13,338,028)	$ 5,800,884	(131,980,307)
Governmental Capital Assets	$ 281,915,545	$ 44,567,689	$ (14,807,715)	$ 311,675,519

*See Note 4 for more information.

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 $341,850,000 in bonded debt outstanding, a decrease of $8,835,000 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 "AA-" and from Moody's Investors Service is "Aa3" for general obligation debt.

Changes to long-term debt, for the year ended August 31, 2018, are as follows:

	Balance September 1, 2017	Additions	Retirements	Balance August 31, 2018
General obligation bonds	$ 350,685,000	$ -	$ (8,835,000)	$ 341,850,000
For issuance premiums/discounts	36,751,763	-	(1,734,124)	35,017,639
Accrued compensated absences	1,948,110	651,998	(500,389)	2,099,719
Property tax lawsuits settlements and refunds due	997,074	-	(498,537)	498,537
Other long-term liability	79,419	-	-	79,419
	$ 390,461,366	$ 651,998	$ (11,568,050)	$ 379,545,314

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

Economic Factors and Next Year's Budgets and Tax Rates

The 2017-2018 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. We are very proud to say that one of these goals was reached. For the second time PAISD campuses met TEA standards and no longer are any of our campuses classified as Improvement Required. Public education is a never-ending responsibility, but it is one that holds the greatest opportunity to make the future for the 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.

For 2018-19, the maintenance and operations (M&O) tax rate remains $1.17. The district was able to implement a well thought out compensation plan that raised the salaries for employees. In addition, the district was able to increase the starting teacher salaries to $48,500 per year while also adjusting salaries for years of service. It is hoped that these changes will help with employee retention and recruitment. The Interest & Sinking fund (I&S) rate is $0.31509. The district continues to honor its commitment to its taxpayers by not increasing the I&S rate above $0.32.

Projected revenues for the 2018-2019 General Fund are $80,727,954, excluding TRS contributions. Revenues for the General Fund are generated from the following primary resources:

- Local Funding - $56,287,788
- State Funding - $23,086,644
- Federal Funding - $1,353,522

The 2018-2019 state revenue projections are based on an estimated average daily attendance (ADA) of 7,738 students.

In addition to those funds shown above, the district also records recognition for the state's contribution in the amount of 6.8% for teacher retirement on behalf of all TRS employees in the district plus an additional 1.25% for TRS Care totaling to 8.05%.

M&O Tax Rate

Based on the following legal opinion, the Board of Trustees approved at the August 2018 Board meeting a resolution to retain the district's Maintenance & Operations tax rate for the 2018-19 budget year.

- The PAISD Board of Trustees set its 2017-18 M&O Tax Rate at $1.17 per 100.00. The adoption of such rate was approved by the district's voters in a previously held 2017 TRE Election. The election provided the general authority for the PAISD Board of Trustees to adopt an annual M&O Tax Rate of up to $1.17 per $100.00 valuation. However, that authority is subject in any given year to a separate tax rollback if the tax rate adopted by the Board of Trustees exceeds the district's tax rollback rate.

- Motiva Refinery's Chapter 313 January 25, 2008 Agreement Tax Limitation Period expired effective with the end of Tax Year 2017. As a result of that expiration, the return of the full appraised value of the Motiva refinery to taxable status will add significant additional value to the district's ad valorem tax base. In tax year 2017 and the several previous tax years, property values in excess of $30 Million were exempted from taxation by the existence of the Tax Code

Chapter 313 Tax Limitation Agreement. In 2018, the value increase will be significant enough that the rollback provisions in state law would trigger a significant reduction in the district's 2018 tax rate to avoid a tax rollback election. However, the final factor, discussed below, will provide the opportunity to avoid the necessity of a rollback election. That new factor is Hurricane Harvey.

- Under the provisions of Tex. Tax Code §26.08(a), the Port Arthur ISD Board of Trustees is fully authorized to maintain its M&O Tax rate to $1.17 per $100 valuation without the necessity of holding a TRE (rollback) election for the 2018-19 budget year in response to a disaster declaration (Hurricane Harvey) occurring during the previous 2017 calendar/tax year.

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 ***Exhibit A-1***

STATEMENT OF NET POSITION

August 31, 2018

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and cash equivalents	$ 73,817,238
1220	Property taxes receivables, net	6,057,284
1240	Due from other governments	6,767,206
1250	Accrued interest	175,817
1290	Other receivables, net	4,001,628
1300	Inventories	860,445
	Capital assets not subject to depreciation:	
1510	Land	6,770,448
1580	Construction in progress	69,180,052
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	212,042,895
1530	Furniture and equipment, net	23,682,124
1000	**Total Assets**	403,355,137
	Deferred Outflows of Resources	
1700	Deferred charge on refunding	15,646,342
1705	Deferred outflows relating to pension activities	2,263,127
1706	Deferred outflows - OPEB	566,845
	Total Deferred Outflows of Resources	18,476,314
	Liabilities	
2110	Accounts payable	7,799,194
2140	Interest payable	625,878
2150	Payroll deductions and withholdings	1,012,726
2160	Accrued wages payable	5,445,700
2200	Accrued expenses	4,127,592
	Noncurrent Liabilities:	
2501	Due within one year	10,225,589
2502	Due in more than one year	369,319,725
2540	Net pension liability	11,222,317
2545	Net other post-employment benefits (OPEB) obligation	35,442,346
2000	**Total Liabilities**	445,221,067
	Deferred Inflows of Resources	
2605	Deferred inflows relating to pension activities	2,747,732
2606	Deferred inflows - OPEB	14,825,600
	Total Deferred Inflows of Resources	17,573,332
	Net Position	
3200	Net investment in capital assets	(9,394,558)
	Restricted for:	
3820	Federal and state programs	510,241
3850	Debt service	9,041,204
3900	Unrestricted	(41,119,835)
3000	**Total Net Position**	$ (40,962,948)

See Notes to the Financial Statements

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2018

Data Control Codes	Functions/Programs	Expenses	Program Revenue: Charges for Services	Program Revenue: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
	Governmental activities:				
11	Instruction	$ 47,678,513	$ 678,516	$ 2,311,541	$ (44,688,456)
12	Instructional resources and media services	704,245	95	66,372	(637,778)
13	Curriculum and staff development	1,114,090	5,871	450,616	(657,603)
21	Instructional leadership	1,738,004	22,725	(10,165)	(1,725,444)
23	School leadership	4,473,974	73,812	(405,515)	(4,805,677)
31	Guidance, counseling, and evaluation services	2,086,526	5,918	(124,343)	(2,204,951)
32	Social work services	269,918	33,804	149,909	(86,205)
33	Health services	802,902	16,997	1,375,314	589,409
34	Student transportation	2,196,288	261,579	(64,273)	(1,998,982)
35	Food service	3,156,367	423,919	4,846,144	2,113,696
36	Extracurricular activities	1,944,192	298,450	1,008,978	(636,764)
41	General administration	3,894,476	48,998	(77,959)	(3,923,437)
51	Facilities maintenance and operations	19,664,218	35,416	92,129	(19,536,673)
52	Security and monitoring services	1,741,382	189	(76,066)	(1,817,259)
53	Data processing services	2,455,816	189	(199,605)	(2,655,232)
61	Community services	184,074	5,634	97,857	(80,583)
72	Interest on long-term debt	13,557,999	-	-	(13,557,999)
73	Debt issuance costs and fees	13,725	-	-	(13,725)
81	Facilities repairs and maintenance	124,463	853	(50,807)	(174,417)
95	Payments to Juvenile Justice AEP	108,000	-	-	(108,000)
99	Payments to appraisal district	516,846	-	-	(516,846)
TG	**Total governmental activities**	$ 108,426,018	$ 1,912,965	$ 9,390,127	(97,122,926)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	48,363,214
DT	Property taxes, levied for debt service	22,642,615
SF	State-aid formula grants	30,124,064
IE	Investment earnings	1,234,360
MI	Miscellaneous	1,789,886
TR	**Total general revenues**	104,154,139
CN	Change in net position	7,031,213
NB	**Net Position - beginning**	14,153,778
PA	Prior period adjustments	(62,147,939)
NE	**Net Position - ending**	$ (40,962,948)

See Notes to the Financial Statements

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
August 31, 2018

		General Fund	Debt Service Fund	Special Revenue Fund
	Assets			
1110	Cash and cash equivalents	$ 15,981,112	$ 7,668,178	$ 980,302
	Receivables:			
1220	Property taxes - delinquent	4,509,311	2,221,004	-
1230	Allowance for uncollectible taxes	(450,931)	(222,100)	-
1240	Due from other governments	3,893,064	-	2,874,142
1250	Accrued interest	-	-	-
1260	Due from other funds	2,425,243	-	314,383
1290	Other receivables	4,001,628	-	-
	Other assets:			
1310	Inventories	628,479	-	231,966
1000	**Total assets**	$ 30,987,906	$ 9,667,082	$ 4,400,793
	Liabilities			
2110	Accounts payable	$ 2,293,123	$	$ 425,124
2150	Payroll deductions and withholdings	1,012,582	-	144
2160	Accrued wages payable	4,854,063	-	587,933
2170	Due to other funds	314,383	-	2,425,243
2190	Due to student groups and others	79,419	-	-
2200	Accrued expenditures	-	-	-
2000	**Total liabilities**	8,553,570	-	3,438,444
	Deferred Inflows of Resources			
2600	Unavailable revenue - property taxes	3,875,310	1,948,584	-
	Total deferred inflows of resources	3,875,310	1,948,584	-
	Fund Balances			
	Non-Spendable			
3410	Inventories	628,479	-	-
	Restricted			
3450	Federal/State grant funds	-	-	510,241
3470	Capital acquisitions and contractual obligations	-	-	-
3480	Debt service	-	7,718,498	-
	Committed			
3510	Construction	5,518,648	-	-
3520	Claims and judgments	3,006,639	-	-
3545	Other committed	660,442	-	452,108
3600	**Unassigned**	8,744,818	-	-
3000	**Total fund balances**	18,559,026	7,718,498	962,349
4000	**Total liabilities, deferred inflows and fund balances**	$ 30,987,906	$ 9,667,082	$ 4,400,793

See notes to the financial statements.

Exhibit C-1

Capital Projects Fund	Total Governmental Funds
$ 49,187,646	$ 73,817,238
-	6,730,315
-	(673,031)
-	6,767,206
175,817	175,817
-	2,739,626
-	4,001,628
-	860,445
$ 49,363,463	$ 94,419,244
$ 5,336,883	$ 8,055,130
-	1,012,726
3,704	5,445,700
-	2,739,626
-	79,419
3,871,656	3,871,656
9,212,243	21,204,257
-	5,823,894
-	5,823,894
-	628,479
-	510,241
40,151,220	40,151,220
-	7,718,498
-	5,518,648
-	3,006,639
-	1,112,550
-	8,744,818
40,151,220	67,391,093
$ 49,363,463	$ 94,419,244

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT *Exhibit C-2*

RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET POSITION

August 31, 2018

Data Control Codes		
	Total fund balance, governmental funds	$ 67,391,093
	Amounts reported for governmental activities in the statement of net position are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable	311,675,519
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	5,823,894
3	The deferred charge on refunding is not a current financial resource and is not reported on the fund financial statements	15,646,342
4	Deferred Outflows relating to pension activities	2,263,127
5	Deferred Outflows relating to OPEB activities	566,845
6	Interest payable on general obligation bonds are due within a year but are not included in the fund financial statements.	(625,878)
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
7	General obligation bonds	(341,850,000)
8	Accrued compensated absences	(2,099,719)
9	Premium/discount on issuance of bonds	(35,017,639)
10	Property tax lawsuits settlements	(498,537)
11	Net Pension Liability	(11,222,317)
12	Net OPEB Liability	(35,442,346)
13	Deferred Inflows relating to pension activities	(2,747,732)
14	Deferred Inflows relating to OPEB activities	(14,825,600)
19	**Total net position - governmental activities**	$ (40,962,948)

See notes to the financial statements.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT *Exhibit C-3*

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2018

		General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total Governmental Funds
	Revenues					
5700	Local, intermediate, and out-of-state	$ 48,298,446	$ 22,603,499	$ 1,834,568	$ 981,821	$ 73,718,334
5800	State program revenues	33,779,160	284,127	1,245,332	-	35,308,619
5900	Federal program revenues	3,006,322	-	15,306,779	-	18,313,101
5020	**Total revenues**	85,083,928	22,887,626	18,386,679	981,821	127,340,054
	Expenditures					
	Current:					
0011	Instruction	46,006,345	-	8,997,570	-	55,003,915
0012	Instructional resources and media services	801,517	-	177,601	-	979,118
0013	Curriculum and instructional staff development	655,905	-	591,177	-	1,247,082
0021	Instructional leadership	1,915,705	-	285,299	-	2,201,004
0023	School leadership	5,238,134	-	426,801	-	5,664,935
0031	Guidance, counseling and evaluation services	2,604,567	-	295,216	-	2,899,783
0032	Social work services	298,171	-	217,576	-	515,747
0033	Health services	939,746	-	426,555	-	1,366,301
0034	Student transportation	2,353,842	-	381,861	-	2,735,703
0035	Food services	13,754	-	5,616,772	-	5,630,526
0036	Extracurricular activities	1,801,222	-	89,473	-	1,890,695
0041	General adminstration	3,559,020	-	25,207	14,678	3,598,905
0051	Facilities maintenance and operations	16,022,898	-	791,981	-	16,814,879
0052	Security and monitoring services	1,635,466	-	-	-	1,635,466
0053	Data processing services	2,336,280	-	-	-	2,336,280
0061	Community services	177,687	-	148,107	-	325,794
	Debt service					
0071	Debt service - principal	-	8,835,000	-	-	8,835,000
0072	Debt service - interest	-	14,530,606	-	-	14,530,606
0073	Debt issuance cost & fees	-	13,725	-	-	13,725
	Capital outlay					
0081	Facillities acquisition and construction	8,513,460	-	-	49,377,673	57,891,133
	Intergovernmental					
0095	Payments to Juvenile Justice AEP	108,000	-	-	-	108,000
0099	Payments to appraisal district	516,846	-	-	-	516,846
6030	**Total expenditures**	95,498,565	23,379,331	18,471,196	49,392,351	186,741,443
1100	Excess (deficiency) of revenues over expenditures	(10,414,637)	(491,705)	(84,517)	(48,410,530)	(59,401,389)
	Other Financing Sources (Uses)					
7949	Insurance recovery	16,500,351				16,500,351
7915	Operating transfers in	-	-	368,690	-	368,690
8911	Operating transfers out	(368,690)	-	-	-	(368,690)
8949	Other uses - property tax refunds	(498,537)	-	-	-	(498,537)
8949	Other uses - payments to Hurricane Harvey adjuster	(2,101,529)	-	-	-	(2,101,529)
8949	Other uses - payments related to lawsuit settlements	(77,000)	-	-	-	(77,000)
7080	**Total other financing sources (uses)**	13,454,595		368,690		13,823,285
1200	Net change in fund balance	3,039,958	(491,705)	284,173	(48,410,530)	(45,578,104)
0100	**Fund balance - September 1 (beginning)**	15,519,068	8,210,203	678,176	88,561,750	112,969,197
3000	**Fund balance - August 31 (ending)**	$ 18,559,026	$ 7,718,498	$ 962,349	$ 40,151,220	$ 67,391,093

See notes to the financial statements.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT *Exhibit C-4*

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, 2018

Data Control Codes		
	Net change in fund balances - total governmental funds (from C-3)	$ (45,578,104)
	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	57,905,717
2	Governmental activities depreciation expense	(13,338,028)
	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 thenet 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	The net effect of other transactions involving capital assets (i.e., retirements, transfers, and impairments) is to decrease net position.	(14,807,715)
4	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	507,409
5	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.	2,108,360
6	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.	(547,543)
7	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	8,835,000
	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:	
8	Change in interest payable	(47,394)
9	Amortization of deferred loss on refunding	(998,250)
10	Amortization of premium/discount	1,734,124
11	Change in compensated absences	(151,609)
12	Pension expense for the plan measurement year	22,792,346
13	OPEB expense for the plan measurement year	(11,881,637)
14	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.	498,537
	Change in net position of governmental activities (see B-1)	$ 7,031,213

See Notes to the Financial Statements

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT ***Exhibit E-1***

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2018

Data Control Codes		Private Purpose Trust Funds	Agency Funds
	Assets		
1110	Cash and cash equivalents	$ 21,426	$ 256,067
	Total Assets	21,426	256,067
	Liabilities		
2110	Accounts payable	-	28,950
2190	Due to others	-	227,117
2000	**Total Liabilities**	-	$ 256,067
	Net Position		
3800	Held in trust for other purposes	$ 21,426	

See Notes to the Financial Statements.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT ***Exhibit E-2***

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

For the Year Ended August 31, 2018

		Private Purpose Trust Funds
Additions		
Gifts and contributions	$	12,009
Miscellaneous		2,500
Total Additions		14,509
Deductions		
Scholarships awarded		13,648
Total deductions		13,648
Change in net position		861
Net Position beginning of year		20,565
Net Position end of year	$	21,426

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:

Assets	Years
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, 2018. 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, 2018.

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 $5,518,648 for capital replacement expenditures and/or major maintenance expenditures. In addition the general fund has committed $3,006,639 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 $452,108 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. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 85, *Omnibus 2017*. This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

GASB Statement No. 86, *Certain Debt Extinguishment Issues*. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources—that is, resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this Statement establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. The Distrixt has determined that this standard has no impact on fiscal year 2018 operations.

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, 2018, the carrying amount of the District’s cash deposits was $14,577,428 and the bank balance was $19,682,941. The District’s cash deposits were entirely covered by the FDIC or by pledged collateral as of August 31, 2018. 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, 2018, 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:

		Cost/ Fair Value	Weighted Average Maturity (Days)
Cash and deposits			
Governmental activities	$	14,299,935	N/A
Fiduciary funds		277,493	
Total cash and deposits		14,577,428	
Investments:			
Local Government Investment Pools:			
Lone Star Government Overnight Fund		8,966,113	20
Lone Star Corporate Ocernight Plus Fund		1,564,727	48
TexPool		2,478,317	28
Total Local Government Investment Pools		13,009,157	
Investment Securities			
Municipal Bonds		13,893,393	37
Federal Home Loan Bank		7,083,880	24
Federal Home Loan Mortgage Corporation		5,595,203	50
Federal Farm Credit Bank		488,981	3
US Treasury Notes		12,826,508	56
Federal National Mortgage Assoc.		6,620,181	52
Total Investment Securities		46,508,146	
Total Investments		59,517,303	39
Total Cash and Investments	$	74,094,731	

Due to the immediate availability of the funds, the District's temporary investments at August 31, 2018 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, 2018:

		Fair Value Measurements Using		
Investment Type	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Municipal Bonds	13,893,393	-	13,893,393	-
Federal Home Loan Bank	7,083,880	-	7,083,880	-
Federal Home Loan Mortgage Corporation	5,595,203	-	5,595,203	-
Federal Farm Credit Bank	488,981	-	488,981	-
US Treasury Notes	12,826,508	-	12,826,508	-
Federal National Mortgage Assoc.	6,620,181	-	6,620,181	-
Total	$ 46,508,146	$ -	$ 46,508,146	$ -

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 2018.

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:

	Amortized Cost/ Fair Value	Credit Quality Rating	Percentage of Investments
Investments:			
Local Government Investment Pools:			
Lone Star Government Overnight Fund	8,966,113	AAA	15.1%
Lone Star Corporate Ocernight Plus Fund	1,564,727	AAA	2.6%
TexPool	2,478,317	AAAm	4.2%
Total Local Government Investment Pools	13,009,157		21.9%
Investment Securities			
Municipal Bonds	13,893,393	AA+	23.3%
Federal Home Loan Bank	7,083,880	AA+	11.9%
Federal Home Loan Mortgage Corporation	5,595,203	AA+	9.4%
Federal Farm Credit Bank	488,981	AA+	0.8%
US Treasury Notes	12,826,508	AA+	21.6%
Federal National Mortgage Assoc.	6,620,181	AA+	11.1%
Total Investment Securities	46,508,146		78.1%
Total Investments	$ 59,517,303		100%

Concentration of Credit Risk

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

Note 3 - Receivables

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

	General Fund	Debt Service Fund	Special Revenue Fund	Capital Projects Fund	Total
Property Taxes	$ 4,509,311	$ 2,221,004	$ -	$ -	$ 6,730,315
Due from other governments	3,893,064	-	2,874,142	-	6,767,206
Accrued interest	-	-	-	175,817	175,817
Other receivables	4,001,628	-	-	-	4,001,628
Gross Receivables	12,404,003	2,221,004	2,874,142	175,817	17,674,966
Less allowance for doubtful accounts	(450,931)	(222,100)	-	-	(673,031)
Net Total Receivables	$ 11,953,072	$ 1,998,904	$ 2,874,142	$ 175,817	$ 17,001,935

Note 4 - Capital Assets

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

	Balance September 1, 2017	Additions	(Retirements) and Transfers*	Balance August 31, 2018
Capital assets, not being depreciated				
Land	$ 6,770,448	$ -	$ -	$ 6,770,448
Construction in progress	41,822,361	54,926,623	(27,568,932)	69,180,052
Total Capital Assets, not being depreciated	48,592,809	54,926,623	(27,568,932)	75,950,500
Capital assets, being depreciated				
Buildings and improvements	322,655,940	-	815,371	323,471,311
Furniture and equipment	35,109,959	2,979,094	6,144,962	44,234,015
Total Capital Assets, being depreciated	357,765,899	2,979,094	6,960,333	367,705,326
Less accumulated depreciation for:				
Buildings and improvements	(105,582,749)	(11,646,551)	5,800,884	(111,428,416)
Furniture and Equipment	(18,860,414)	(1,691,477)	-	(20,551,891)
Total Accumulated Depreciation	(124,443,163)	(13,338,028)	$ 5,800,884	(131,980,307)
Governmental Capital Assets	$ 281,915,545	$ 44,567,689	$ (14,807,715)	$ 311,675,519

* Retirements and transfers includes $27,568,932 transferred from construction in process to completed projects. The amount also includes assets impaired as a result of Hurricane Harvey. As a result of this impairment, the District removed $20.6 million of capital assets, less accumulated depreciation of $5.8 million. See Note 15 for more information regarding the capital asset impairment due to Hurricane Harvey.

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

	Function	Depreciation Expense
11	Instruction	$ 6,948,064
12	Instructional resources and media	124,483
13	Curriculum and staff development	158,506
21	Instructional leadership	279,869
23	School leadership	720,410
31	Guidance, counseling and evaluation	368,759
32	Social work services	65,552
33	Health services	173,754
34	Student transportation	347,770
35	Food Services	715,528
36	Extracurricular activities	277,181
41	General administration	448,934
51	Facilities maintenance and operations	2,163,022
52	Security and monitoring services	207,803
53	Data processing services	296,962
61	Community services	41,431
		$ 13,338,028

Note 4 - Capital Assets (continued)

Construction Commitments

The District has active construction projects as of August 31, 2018. The projects include the construction and equipment of school facilities. At year-end, the District's commitments with contractors are as follows:

Project	Approved Construction Budget	Construction in Progress	Remaining Commitment
School Building	$ 210,482,789	$ 60,715,928	$ 149,766,861
Other-admin	17,996,943	8,464,124	9,532,819
	$ 228,479,732	$ 69,180,052	$ 159,299,680

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, 2018, is as follows:

	Interfund Receivable	Interfund Payable
General Fund	$ 2,425,243	$ 314,383
Special Revenue Fund	314,383	2,425,243
	$ 2,739,626	$ 2,739,626

Transfers that occurred during the fiscal year ending August 31, 2018 are as follows:

Transfer Out	Transfer In	Amount
Special Revenue Fund	General Fund	$ 368,690
		$ 368,690

Note 6 - Long-term Liabilities

Changes in Long-term Liabilities

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

	Balance September 1, 2017	Additions	Retirements	Balance August 31, 2018	Due Within One Year
General obligation bonds	$ 350,685,000	$ -	$ (8,835,000)	$ 341,850,000	$ 9,120,000
For issuance premiums/discounts	36,751,763	-	(1,734,124)	35,017,639	-
Accrued compensated absences	1,948,110	651,998	(500,389)	2,099,719	607,052
Property tax lawsuits settlements and refunds due	997,074	-	(498,537)	498,537	498,537
Other long-term liability	79,419	-	-	79,419	-
	$ 390,461,366	$ 651,998	$ (11,568,050)	$ 379,545,314	$ 10,225,589

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, 2018, is comprised of the following individual issues:

Issue	Original Issuance Amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax School Building Bonds, Series 2009	75,000,000	3.25% to 4.75%	2019	$ 2,065,000
Unlimited Tax School Building Bonds, Series 2010	49,525,000	2.00% to 4.50%	2020	2,430,000
Unlimited Tax Refunding Bonds, Series 2012	46,480,000	3.50% to 5.00%	2035	42,765,000
Unlimited Tax School Building Bonds, Series 2015A	89,855,000	1.75% to 5.00%	2045	88,015,000
Unlimited Tax Refunding Bonds, Series 2015B	34,115,000	2.00% to 5.00%	2034	30,605,000
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	55,840,000
				$ 341,850,000

Annual debt service requirements to maturity for all bonded long-term debt outstanding as of August 31, 2018 as follows:

Year Ending August 31,	Principal	Interest	Totals
2019	$ 9,120,000	$ 14,255,939	$ 23,375,939
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 - 2028	68,285,000	55,036,763	123,321,763
2029 - 2033	83,570,000	38,578,369	122,148,369
2034 - 2038	82,550,000	20,969,463	103,519,463
2039 - 2043	38,980,000	7,973,225	46,953,225
2044 - 2045	16,005,000	758,325	16,763,325
	$ 341,850,000	$ 190,952,956	$ 532,802,956

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, 2018, $96,985,000 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. The related liability has been recognized by the District as of August 31, 2018.

The repayment schedule for all outstanding property tax lawsuit settlements and refunds is as follows:

Year Ending August 31,	Payment Due
2019	$ 498,537
	$ 498,537

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

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Totals
Property Taxes	$ 40,726,893	$ -	$ 22,494,136	$ -	$ 63,221,029
Payments in Lieu of Taxes	7,277,391	-	-	-	7,277,391
Investment Income	141,865	526	109,363	981,821	1,233,575
Co-curricular Student Activities	111,887	714,552	-	-	826,439
Food Sales	-	381,861	-	-	381,861
Other	40,410	737,629	-	-	778,039
	$ 48,298,446	$ 1,834,568	$ 22,603,499	$ 981,821	$ 73,718,334

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

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 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	Contribution Rates Plan Fiscal Year	
	2017	**2018**
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:

	Measurement Year (2017)		Fiscal Year (2018)
	Contributions Required and Made	**Pension Expense**	**TRS Contributions**
Member (Employee)	$ 3,862,068	$ -	$ 4,029,931
Non-employer contributing agency (State)	2,424,893	1,808,283	2,733,493
District	1,150,294	970,928	986,936

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 was determined using the following actuarial assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

F. Discount Rate

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

Note 8 - Defined Benefit Pension Plan (continued)

F. Discounted Rate (continued)

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

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

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

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 (8%) in measuring the Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportional share of the net pension liability	$ 18,918,609	$ 11,222,317	$ 4,813,905

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

At August 31, 2018, the District reported a liability of $11,222,317 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	$ 11,222,317
State's proportionate share of the net pension liability associated with the District	23,707,097
Total	$ 34,929,414

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

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.03510% which was an increase from its proportion measured as of August 31, 2016 of 0.03310%.

Changes since the Prior Actuarial Valuation

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

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

For the year ended August 31, 2018, the District recognized pension expense of $2,779,211, as well as revenue of $1,808,283 representing pension expense incurred by the State on behalf of the District.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 164,188	$ (605,205)
Changes of assumptions	511,194	(292,647)
Net difference between projected and current investment earnings	-	(817,858)
Changes in proportional share of contributions	600,809	(1,032,022)
District contributions subsequent to the measurement date	986,936	-
Total	$ 2,263,127	$ (2,747,732)

The $986,936 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended August 31, 2019 The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31	Amount
2019	$ 520,544
2020	(195,806)
2021	575,571
2022	723,151
2023	(84,074)
Thereafter	(67,845)
	$ 1,471,541

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

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

**or surviving spouse*

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

	Contribution Rates	
	2018	2017
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.00%
Employers	0.75%	0.55%
Federal/Private Funding remitted by Employers	1.25%	1.00%

	Measurement Year (2017)	Fiscal Year (2018)
	Contributions Required and Made	TRS-Care Contributions
Employer Contributions	$ 423,732	$ 561,297
Member Contributions	326,006	340,087
NECE On-behalf Contributions	436,342	771,476

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 $15.6 million in fiscal year 2017 and $182.6 million in fiscal year 2018.

In addition, during the current fiscal year, $212.0 million was transferred to TRS from the State to pay for TRS-Care during the 85th First Legislative Special Session House Bill 21, Section 10. The District reported on-behalf revenues and expenditures of approximately $173 thousand relating to these transfers.

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

E. Actuarial Assumptions

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

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

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

Additional Actuarial Methods and Assumptions

Valuation date	August 31, 2017
Actuarial Cost method	Individual Entry Age Normal
Inflation	2.50%
Discount rate	3.42%*
Aging factors	Based on plan specific experie
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	3.50% to 9.50%**
Healthcare trend rates	4.50% to 12.00%***
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

* Source: Fixed Income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2017.
** Includes Inflation at 2.50%
*** Initial trend rates are 7.00% for non-Medicare retirees; 10.00% for Medicare retirees and 12.00% for prescription trend rate of 4.50% over a period of 10 years.

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%.
- 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.

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

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

F. Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	70.0%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	-0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Resources			
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations	0%	0.0%	2.2%
Alpha	0%	0.0%	1.0%
Total	100%		8.7%

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 (3.42%) in measuring the Net OPEB Liability:

	Discount Rate		
	1% Decrease in Discount Rate (2.42%)	Decrease Rate (3.42%)	1% Increase in Discount Rate (4.42%
District's proportionate share of the Net OPEB Liability:	$ 41,830,767	$ 35,442,346	$ 30,307,496

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:	$ 29,509,294	$ 35,442,346	$ 43,227,258

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

At August 31, 2018, the District reported a liability of $35,442,346 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	$ 35,442,346
State's proportionate share that is associated with District	36,497,126
Total	$ 71,939,472

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

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was 0.0815% which was the same proportion measured as of August 31, 2016.

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

There was a significant plan change adopted in fiscal year ending August 31, 2017:

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

Negative Pension Expense

The significant changes to the plan benefits and assumptions noted above lowered the OPEB liability related to TRS-Care plan as a whole by $33.3 billon. As a result, the District's proportional share of the net OPEB liability decreased by $27.1 million. Because the decrease in the liability was the result of changes to plan benefits, a majority of the decrease has been recognized immediately in the District's financial statements. As a result, the District recognized a total proportional share of negative OPEB expense of $24.1 million. A portion of this negative expense represents the State's on behalf share of this activity which is further augmented by what the Governmental Accounting Standards Board refers to as a negative revenue in the amount of $12.2 million.

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)

Negative Pension Expense (continued)

The following table illustrates the magnitude of the negative on behalf adjustment for the State's portion of the TRS-Care benefits by individual function for both operating grants and contributions revenues and expense:

		Current Year Prior to Negative On-behalf Activities			Current Year After Negative On-behalf Activities as presented in Exhibit B-1	
Data Control Codes	**Functions/Programs**	**Expenses**	**Operating Grants and Contributions**	**Negative On-Behalf Activities**	**Expenses**	**Operating Grants and Contributions**
	Governmental activities:					
11	Instruction	$ 55,055,110	$ 9,688,138	$ (7,376,597)	$ 47,678,513	$ 2,311,541
12	Instructional resources and media services	837,366	199,493	(133,121)	704,245	66,372
13	Curriculum and staff development	1,261,866	598,392	(147,776)	1,114,090	450,616
21	Instructional leadership	2,065,310	317,141	(327,306)	1,738,004	(10,165)
23	School leadership	5,396,049	516,560	(922,075)	4,473,974	(405,515)
31	Guidance, counseling, and evaluation services	2,583,591	372,722	(497,065)	2,086,526	(124,343)
32	Social work services	324,876	204,867	(54,958)	269,918	149,909
33	Health services	1,014,185	1,586,597	(211,283)	802,902	1,375,314
34	Student transportation	2,555,348	294,787	(359,060)	2,196,288	(64,273)
35	Food service	3,530,082	5,219,859	(373,715)	3,156,367	4,846,144
36	Extracurricular activities	2,143,262	1,208,048	(199,070)	1,944,192	1,008,978
41	General administration	4,248,650	276,215	(354,174)	3,894,476	(77,959)
51	Facilities maintenance and operations	20,466,606	894,517	(802,388)	19,664,218	92,129
52	Security and monitoring services	1,831,758	14,310	(90,376)	1,741,382	(76,066)
53	Data processing services	2,693,968	38,547	(238,152)	2,455,816	(199,605)
61	Community services	235,368	149,151	(51,294)	184,074	97,857
72	Interest on long-term debt	13,557,999	-	-	13,557,999	-
73	Debt issuance costs and fees	13,725	-	-	13,725	-
81	Facilities repairs and maintenance	198,962	23,692	(74,499)	124,463	(50,807)
95	Payments to Juvenile Justice AEP	108,000	-	-	108,000	-
99	Payments to appraisal district	516,846	-	-	516,846	-
TG	**Total governmental activities**	$ 120,638,927	$ 21,603,036	$ (12,212,909)	$ 108,426,018	$ 9,390,127

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$ (739,886)
Changes in actuarial assumptions	-	(14,085,714)
Difference between projected and actual investment earnings	5,384	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	164	-
Contributions paid to TRS subsequent to the measurement date	561,297	-
Total	$ 566,845	$ (14,825,600)

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 $561,297 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 August 31:	OPEB Expense Amount
2019	$ 1,955,523
2020	1,955,523
2021	1,955,523
2022	1,955,523
2023	1,956,869
Thereafter	5,041,091
	$ 14,820,052

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, 2018, 2017, and 2016, the subsidy payments received by TRS-Care on-behalf of the District were $156,930, $144,387, and $185,464, 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, 2018.

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, 2018.

Note 13 - Operating Leases

The District leases copiers under non-cancelable operating leases. Total costs for operating leases were $582,014 for the year ended August 31, 2018. From this amount only $17,356 was paid related to the non-cancelable operating leases, the remaining amount of $564,658 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:

Year Ending August 31	Amount
2019	$ 14,464
Total	$ 14,464

Note 14 - Tax Abatements

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

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

Note 14 - Tax Abatements (continued)

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:

Motiva Crude Expansion Project's (Application No. 37) first year value limitation was tax year 2010. The last year of the limitation was 2017. The 2018 total project value is $ 2,396,585,300. In the eleventh year of the Agreement (the 2018 tax year), the Third Party conducting the calculations under the Agreement is asked to determine whether, under the Applicable School Finance Law, PAISD has received incremental M&O revenue because of the expiration of the limitation under the Chapter 313 Agreement. Given the Board's August 2018 adoption of a tax rate resolution indicating that the District has suffered damages resulting from Hurricane Harvey and the relevant provisions of Section 26.08(a), as well as the disaster declarations issued by the Governor, it was their determination that no Eleventh Year Benefit exists under Article VI of the PAISD/Motiva Chapter 313 Agreement.

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 $ $3,538,016.82. However, the District's net benefit to the District was $415,991.

TEPPCO Terminal's (Application No. 111) tax limitation period expired in 2017.

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 $1,692,217. However, the District's net benefit to the District was $1,393,985.

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. However, the District's net benefit to the District was $0.

Note 15 -Hurricane Harvey Capital Asset Impairment

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast. Hurricane Harvey dumped approximately 26 inches of rain over Port Arthur triggering major flash flooding. Many residences and commercial properties in the Region sustained damage. The Hurricane continued through September 1, 2017.

The District suffered devastating damage to Staff Sgt. Lucian Adams Elementary School and the Administration Building. There was also damage to other locations, but not as severe.

A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. As a result of the hurricane, the District's capital assets have sustained impairment. The District has estimated an impairment loss of $14.8 million. After accounting for insurance proceeds, the District reported a net loss after insurance recovery of $2.3 million as a program expense in the statement of activities. The total insurance proceeds were $16.5 million and $2.1 million was recorded as other uses for payments to the adjuster. As a result of this impairment, the District has removed $20.6 million of capital assets, less accumulated depreciation of $5.8 million.

Note 16 - Prior Period Adjustment - New Accounting Pronouncement

In the current fiscal year, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result the beginning net position of the District's governmental activities has been restated on the Statement of Activities to reflect the net OPEB liability and deferred outflows of resources relating to TRS-Care contributions made after the prior measurement date of the plan as follows:

	Governmental Activities
Beginning Net Position	$ 14,153,778
Prior Period Restatement	
Restatement due to:	
Net OPEB liability (measurement date as of August 31, 2016)	(62,571,671)
Deferred outflows:	
District contributions made to TRS-Care during the fiscal year	423,732
Beginning Net Position - As Restated	$ (47,994,161)

REQUIRED SUPPLEMENTARY INFORMATION

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT *Exhibit G-1*

BUDGETARY COMPARISON SCHEDULE

GENERAL FUND

For the Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
	Revenues				
5700	Local, intermediate, and out-of-state	$ 47,473,790	$ 63,168,205	$ 48,298,446	$ (14,869,759)
5800	State program revenues	32,499,161	35,532,343	33,779,160	(1,753,183)
5900	Federal program revenues	1,353,522	1,353,522	3,006,322	1,652,800
	Total revenues	81,326,473	100,054,070	85,083,928	(14,970,142)
	Expenditures				
	Current:				
0011	Instruction	44,998,869	46,877,151	46,006,345	870,806
0012	Instructional resources and media services	783,909	858,909	801,517	57,392
0013	Curriculum and instructional staff development	674,764	704,764	655,905	48,859
0021	Instructional leadership	1,950,608	1,978,864	1,915,705	63,159
0023	School leadership	5,229,448	5,259,448	5,238,134	21,314
0031	Guidance, counseling and evaluation services	2,624,957	2,719,392	2,604,567	114,825
0032	Social work services	288,238	338,238	298,171	40,067
0033	Health services	786,645	936,645	939,746	(3,101)
0034	Student transportation	2,622,488	2,467,488	2,353,842	113,646
0035	Food services	169,482	47,282	13,754	33,528
0036	Extracurricular activities	1,591,039	1,966,039	1,801,222	164,817
0041	General adminstration	3,017,677	4,068,521	3,559,020	509,501
0051	Facilities maintenance and operations	11,841,810	16,663,061	16,022,898	640,163
0052	Security and monitoring services	1,916,659	1,817,659	1,635,466	182,193
0053	Data processing services	1,776,529	2,457,168	2,336,280	120,888
0061	Community services	153,851	228,851	177,687	51,164
	Capital outlay				
0081	Facillities acquisition and construction	-	8,968,264	8,513,460	454,804
	Intergovernmental				
0095	Payments to Juvenile Justice AEP	119,500	119,500	108,000	11,500
0099	Payments to appraisal district	780,000	660,000	516,846	143,154
	Total Expenditures	81,326,473	99,137,244	95,498,565	3,638,679
1100	Excess (deficiency) of revenues over expenditures	-	916,826	(10,414,637)	(11,331,463)
	Other Financing Sources (Uses)				
7949	Insurance recovery	-	-	16,500,351	16,500,351
8911	Operating transfers out	-	(337,000)	(368,690)	(31,690)
8949	Other uses - property tax refunds	-	(498,537)	(498,537)	-
8949	Other uses - payments to Hurricane Harvey adjuster	-	-	(2,101,529)	(2,101,529)
8949	Other uses - payments related to lawsuit settlements	-	(77,000)	(77,000)	-
	Total Other Financing Sources (Uses)	-	(912,537)	13,454,595	14,367,132
	Net change in fund balances	-	(1,420,711)	3,039,958	4,460,669
0100	**Fund Balance - September 1 (Beginning)**	15,519,068	15,519,068	15,519,068	-
3000	**Fund Balance - August 31 (Ending)**	$ 15,519,068	$ 14,098,357	$ 18,559,026	$ 4,460,669

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION PROGRAM

For the Year Ended August 31, 2018

		Child Nutrition			
		Budget			
Data Control Codes		**Original**	**Final**	**Actual**	**Variance Favorable (Unfavorable)**
	Revenues				
5700	Local, intermediate, and out-of-state	$ 521,002	$ 556,002	$ 418,929	$ (137,073)
5800	State program revenues	37,434	37,434	32,661	(4,773)
5900	Federal program revenues	5,344,654	5,344,654	4,621,358	(723,296)
5030	**Total Revenues**	5,903,090	5,938,090	5,072,948	(865,142)
	Expenditures				
	Current:				
0035	Food services	5,903,090	5,938,090	5,596,772	341,318
6030	**Total Expenditures**	5,903,090	5,938,090	5,596,772	341,318
1100	Excess (deficiency) of revenues over expenditures	-	-	(523,824)	(523,824)
	Other Financing Sources (Uses)				
7915	Operating transfer in	-	-	368,690	368,690
	Other Financing Sources (Uses)	-	-	368,690	368,690
1200	Net change in fund balance	-	-	(155,134)	(155,134)
0100	**Fund Balance - September 1 (Beginning)**	415,258	415,258	415,258	
3000	**Fund Balance - August 31 (Ending)**	$ 415,258	$ 415,258	$ 260,124	$ (155,134)

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, 2018, the Board of Trustees approved budget amendments increasing expenditures as follows:

	General Fund	Child Nutrition Program	Debt Service Fund
Amendments Approved	$ 17,810,771	$ 35,000	$ 430,000

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, 2017. 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 Health Services by $3,101. The District's actual expenditures exceeded final budgeted amounts in the Debt Service Fund functional category of interest payments by $10,381. The actual total expenditures for the General Fund and Debt Service Fund did not exceed final budgeted total expenditure amounts.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT ***Exhibit G-4***

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

TEACHER RETIREMENT SYSTEM OF TEXAS

Last Four Measurement Years

	2017	2016	2015	2014
District's proportion of the net pension liability	0.035100%	0.033100%	0.032884%	0.038821%
District's proportionate share of the net pension liability	$ 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	23,707,097	29,351,981	28,179,603	25,590,134
Total	$ 34,929,414	$ 41,848,028	$ 39,803,589	$ 35,961,950
District's covered payroll (for Measurement Year)	$ 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	22.4%	25.3%	24.3%	21.1%
Plan fiduciary net position as a percentage of the total pension liability *	82.17%	78.00%	78.43%	83.25%
Plan's net pension liability as a percentage of covered payroll *	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.

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS

TEACHERS RETIREMENT SYSTEM OF TEXAS

Last Seven Fiscal Years

	2018	2017	2016	2015
Contractually required contributions	$ 986,936	$ 1,142,461	$ 1,050,178	$ 973,705
Contributions in relation to the contractual required contributions	986,936	1,142,461	1,050,178	973,705
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 52,425,792	$ 50,156,718	$ 49,326,747	$ 47,813,903
Contributions as a percentage of covered payroll	1.88%	2.28%	2.13%	2.04%

	2014	2013	2012
Contractually required contributions	$ 984,427	$ 797,769	$ 770,625
Contributions in relation to the contractual required contributions	984,427	797,769	770,625
Contribution deficiency (excess)	$ -	$ -	$ -
District's covered payroll	$ 49,184,516	$ 48,277,029	$ 50,928,308
Contributions as a percentage of covered payroll	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

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

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 ***Exhibit G-6***

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

TEACHER RETIREMENT SYSTEM OF TEXAS

Last Measurement Year

		2017
District's proportion of the net OPEB liability		0.081500%
District's proportionate share of the net OPEB liability	$	35,442,346
State's proportionate share of the net OPEB liability associated with the District		36,497,126
Total	$	71,939,472
District's covered payroll (for Measurement Year)	$	50,156,718
District's proportionate share of the net OPEB liability as a percentage of its covered payroll		70.7%
Plan fiduciary net position as a percentage of the total OPEB liability *		0.91%
Plan's net OPEB liability as a percentage of covered payroll *		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.

SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS

TEACHERS RETIREMENT SYSTEM OF TEXAS

Last Seven Fiscal Years

	2018	2017	2016	2015
Contractually required contributions	$ 561,297	$ 423,738	$ 442,157	$ 324,855
Contributions in relation to the contractual required contributions	561,297	423,738	442,157	324,855
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
District's covered payroll	$ 52,425,792	$ 50,156,718	$ 49,326,747	$ 47,813,903
Contributions as a percentage of covered payroll	1.07%	0.84%	0.90%	0.68%

	2014	2013	2012
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)	$ -	$ -	$ -
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

Changes since the Prior Actuarial Valuation

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

There was a significant plan change adopted in fiscal year ending August 31, 2017:

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

REQUIRED TEA SCHEDULES

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2018

	1	2	3	10
	Tax Rates		Net Assessed/Appraised	Beginning
Last Ten			Value For School	Balance
Fiscal Years	Maintenance	Debt Service	Tax Purposes	9/1/17
2009 and prior	Various	Various	Various	$ 1,768,756
2010	1.040000	0.306000	$5,080,668,141	303,115
2011	1.040000	0.330000	$4,379,583,650	346,161
2012	1.040000	0.327600	$4,425,423,227	417,014
2013	1.040000	0.312600	$5,039,626,855	445,260
2014	1.040000	0.313120	$5,541,350,428	587,833
2015	1.040000	0.313480	$4,973,881,624	198,916
2016	1.040000	0.313140	$4,749,619,404	1,165,249
2017	1.040000	0.313470	$4,416,465,751	1,117,860
2018	1.170000	0.310987	$4,281,278,094	-
1000 **Totals**				$ 6,350,164

20 Current Year's Total Levy	31 Maintenance Total Collections	32 Debt Service Total Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/18
$ -	$ 21,916	$ 10,794	$ (92,836)	$ 1,643,210
-	11,214	3,300	(4,500)	284,101
-	16,969	5,384	(3,912)	319,896
-	22,700	7,151	(3,700)	383,463
-	35,687	10,727	(524)	398,322
-	50,488	15,201	(197)	521,947
-	61,671	18,589	(866)	117,790
-	95,354	28,711	(5,531)	1,035,653
-	228,374	68,835	(78,740)	741,911
63,405,172	39,868,737	22,252,413	-	1,284,022
$ 63,405,172	$ 40,413,110	$ 22,421,105	$ (190,806)	$ 6,730,315

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2018

Data Control Codes		Debt Service Fund Budget Original	Final	Actual	Variance Favorable (Unfavorable)
	Revenues				
5700	Local, Intermediate, and Out-of-State	$ 22,955,225	$ 23,385,225	$ 22,603,499	$ (781,726)
5800	State Program Revenues	-	-	284,127	284,127
5030	**Total Revenues**	22,955,225	23,385,225	22,887,626	(497,599)
	Expenditures				
	Debt Service:				
0071	Debt service - principal	8,835,000	8,835,000	8,835,000	-
0072	Debt service - interest	14,090,225	14,520,225	14,530,606	(10,381)
0073	Debt issuance cost & fees	30,000	30,000	13,725	16,275
6030	**Total Expenditures**	22,955,225	23,385,225	23,379,331	5,894
1100	Excess (Deficiency) Revenues Over Expenditures	-	-	(491,705)	(491,705)
1200	Net change in fund balances	-	-	(491,705)	(491,705)
0100	**Fund Balance - September 1 (Beginning)**	8,210,203	8,210,203	8,210,203	-
3000	**Fund Balance - August 31 (Ending)**	$ 8,210,203	$ 8,210,203	$ 7,718,498	$ (491,705)

FEDERAL AWARDS SECTION

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANICAL STATEMENTS PREFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITNG 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, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 24, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal 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.

Whitley Penn LLP

Houston, Texas
January 24, 2019

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REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTENRAL 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, 2018. 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 preform 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, 2018.

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 deficiencies, significant deficiencies or material weaknesses. 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.

Whitley Penn LLP

Houston, Texas
January 24, 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:

Name of Federal Program:	CFDA Number:
ESEA Title I, Part A	84.010A
Title I, 1003 School Improvement	84.010A
Restart Hurricane Recovery	84.938A
Emergency Impact Aid to LEAs	84.938C
Project Serv Hurricane Recovery	84.938G

Dollar Threshold Considered Between Type A and Type B Federal Programs	$750,000
Auditee qualified as low-risk auditee?	Yes

II. Financial Statement Findings

None reported.

III. Federal Award Findings and Questioned Costs

None reported.

PORT ARTHUR INDEPENDENT SCHOOL DISTRICT *Exhibit K-1*

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2018

(2a) NOGA ID/ Pass-Through Entity Identifying Number	Fund Code	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(3) Federal Expenditures
		U.S. Department of Defense		
		Direct Program:		
N/A	288	*Naval JROTC*	12.000	$ 66,732
		Total U.S. Department of Defense		**66,732**
		U.S. Department of Agriculture		
		Child Nutrition Cluster:		
		Pass-Through Texas Department of Agriculture:		
		Non cash assistance:		
CE-123907	240	*National School Lunch Program (Commodities)*	10.555	$ 451,243
		Total Pass-Through Texas Department of Agriculture		451,243
		Pass-Through Texas Education Agency:		
		Cash assistance:		
71401801	240	*School Breakfast Program*	10.553	1,076,930
71301801	240	*National School Lunch Program*	10.555	3,563,571
		Total Pass-Through Texas Education Agency		4,640,501
		Total Child Nutrition Cluster		5,091,744
		Total U. S. Department of Agriculture		**5,091,744**
		U. S. Department of Education		
		Pass-Through Texas Education Agency:		
		Title I Part A:		
18610101123907	211	*ESEA, Title I, Part A - Improving Basic Programs*	84.010A	4,155,918
18610123123907	211	*Title I, 1003 School Improvement*	84.010A	129,233
		Total Title I Part A		4,285,151
18615001123907	212	*ESEA, Title I, Part C - Migrant*	84.011A	158,582
		Special Education Cluster:		
186600011239076600	224	*IDEA, Part B - Formula*	84.027A	2,015,081
186610011239076610	225	*IDEA, Part B - Preschool*	84.173A	24,186
186600121239076677	226	*IDEA, Part B - Discretionary Residential*	84.027A	53,728
66001806	226	*IDEA, Part B - High Cost Funds*	84.027A	100,048
18660077123907	226	*IDEA, Part B - IEP Analysis*	84.027A	3,737
		Total Special Education Cluster		2,196,780
18420006123907	244	*Career and Technical - Basic Grant*	84.048A	65,053
18671001123907	263	*ESEA, Title III, Part A - ELA*	84.365A	156,886
18694501123907	255	*Title II, Part A, Supporting Effective Instruction*	84.367A	331,395
18680101123907	289	*Title IV, Part A*	84.424A	40,850
18511701123907	289	*Restart Hurricane Recovery*	84.938A	620,005
51271901	289	*Emergency Impact Aid to LEAs*	84.938C	504,485
18510701123907	289	*Project Serv Hurricane Recovery*	84.938G	14,226
		Total Pass-Through Texas Education Agency		8,373,413
		Total U. S. Department of Education		**8,373,413**
		U. S. Department of Health and Human Services		
		Direct:		
06CH7091-04	205	*Early Head Start Program*	93.600	2,463,652
		Total Direct		2,463,652
		Pass-Through Texas Health and Human Services Commission:		
N/A	199	*Medicaid Administrative Claims (MAC)*	93.778	31,238
		Total Pass-Through Texas Health and Human Services Commission		31,238
		Total U. S. Department of Health and Human Services		**2,494,890**
		Total Expenditures of Federal Awards		**$ 16,026,779**

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, 2018. 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	$ 16,026,779
Add:	
E-Rate	1,175,436
SHARS	1,110,886
Reconciled Balance	$ 18,313,101
Related Expenditures on Exhibit C-3	
General Fund	$ 3,006,322
Special Revenue Fund	15,306,779
	$ 18,313,101

Note 4 - General Fund Expenditures

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

Program or Source	CFDA Number	Amount
School Breakfast Program	10.553	$ 109,115
National School Lunch Program	10.555	361,271
ESEA, Title I, Part A - Improving Basic Programs	84.010A	191,550
ESEA, Title I, Part C - Migrant	84.011A	6,341
ESEA, Title III, Part A - LEP	84.365A	6,621
Title II, Part A, Teacher, Principal, Training & Recruiting	84.367A	13,864
E-Rate	N/A	1,175,436
Medicaid Administrative Claims (MAC)	93.778	31,238
School Health and Related Services Program (SHARS)	N/A	1,110,886
		$ 3,006,322

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

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.	$11,222,317
SF13	Pension Expense (6147) at fiscal year-end.	