

DRISCOLL INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2018



Lovvorn & Kieschnick
CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

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DRISCOLL INDEPENDENT SCHOOL DISTRICT

DIRECTORY OF OFFICIALS

AUGUST 31, 2018

BOARD OF TRUSTEES

VERONICA RAMON	PRESIDENT
LALA ZUNIGA	VICE-PRESIDENT
CINDY LOPEZ	SECRETARY
JOHANNA SCHUBERT	MEMBER
GLORIA OLIVAREZ	MEMBER
MIKE ZAMORA	MEMBER
VACANT	MEMBER

OTHER OFFICIALS

DR. CYNTHIA M. GARCIA	SUPERINTENDENT
ANNETTE VASQUEZ	BUSINESS MANAGER

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Driscoll Independent School District
Annual Financial Report
For The Year Ended August 31, 2018

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Introductory Section

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CERTIFICATE OF BOARD

Driscoll Independent School District
Name of School District

Nueces
County

178-905
Co.-Dist. Number

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

Signature of Board Secretary

Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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Financial Section

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Lovvorn & Kieschnick, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Board of Trustees
Driscoll Independent School District
P. O. Box 238
Driscoll, Texas 78351

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 the Driscoll 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 includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Driscoll Independent School District as of August 31, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles

generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2018, Driscoll Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. 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, and budgetary comparison information and schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions, and schedule of the District's proportionate share of the net OPEB liability and schedule of District OPEB contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Driscoll Independent School District's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2018 on our consideration of Driscoll Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Driscoll Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



Lovvorn & Kieschnick, LLP

Corpus Christi, TX
November 12, 2018

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Management's Discussion and Analysis

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Management's Discussion and Analysis

This section of Driscoll Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

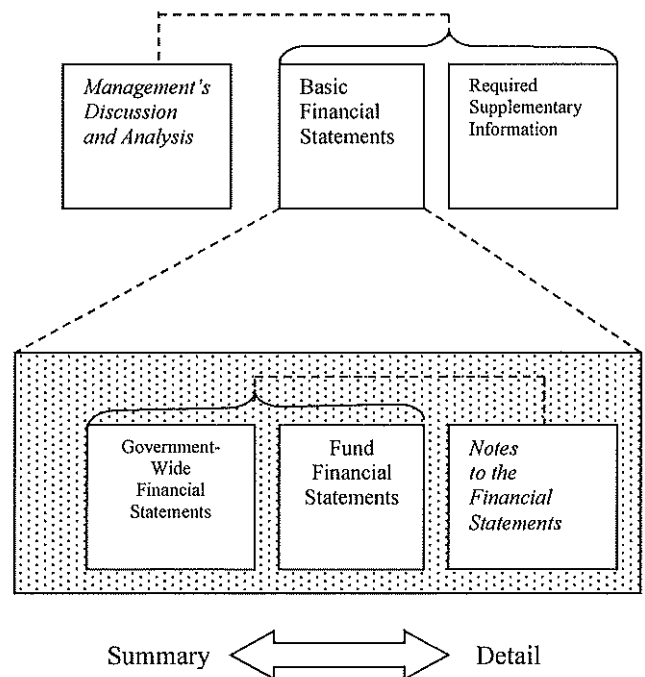
- The District's total combined net position was \$7,508,229 at August 31, 2018.
- During the year, the District's expenses were \$948,078 less than the \$5,297,481 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was \$4,349,403, or 17.9% lower than last year, but no new programs were added this year.
- The general fund reported a fund balance this year of \$4,369,641 which is a \$618,767 or 16.5% increase over last year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*, such as food service.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1. Required Components of the District's Annual Financial Report



The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-Wide and Fund Financial Statements				
<i>Type of Statements</i>	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District's government (except fiduciary funds) and the District's component units	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statement</i>	*Statement of net position	*Balance Sheet	*Statement of net position	*Statement of Fiduciary net position
	*Statement of activities	*Statement of revenues, expenditures & changes in fund balances	*Statement of revenues, expenses and changes in fund net position *Statement of cash flows	*Statement of changes in fiduciary net position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term, the District's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenue and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District’s tax base.

The government-wide financial statements of the District include the *Governmental Activities*. Most of the District’s basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District’s most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

- *Governmental funds*—Most of the District’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statement, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- We use *internal service funds* to report activities that provide supplies and services for the District’s other programs and activities.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. The District’s fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District’s government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position

The District's *combined* net position was \$7,508,229 on August 31, 2018.

**Table A-1
The District's Net Position**

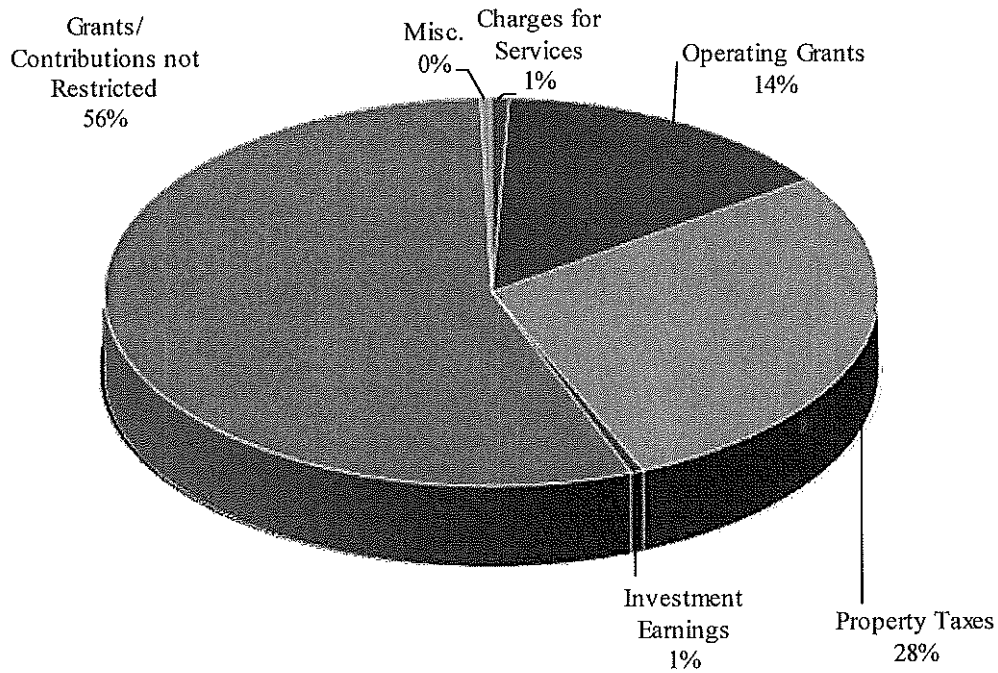
	Governmental Activities		% Change
	2018	2017	
Current and other assets	\$ 5,530,771	\$ 4,869,458	13.58%
Capital and non-current assets	12,574,231	12,993,629	-3.23%
Total Assets	18,105,002	17,863,087	1.35%
Deferred Outflow of Resources	8,974	17,487	-48.68%
Deferred Outflow Related to Pensions	193,877	252,679	-23.27%
Deferred Outflow Related to OPEB	18,896	-	0.00%
Total Deferred Outflows of Resources	221,747	270,166	-17.92%
Current liabilities	732,546	776,274	-5.63%
Long-term liabilities	7,767,151	8,044,544	-3.45%
Net Pension Liability	564,719	652,558	-13.46%
Net OPEB Liability	1,175,858	-	0.00%
Total Liabilities	10,240,274	9,473,376	8.10%
Deferred Inflows Related to Pensions	86,382	37,633	129.54%
Deferred Inflows Related to OPEB	491,864	-	0.00%
Total Deferred Inflows of Resources	578,246	37,633	1436.54%
Net position			
Net investment in capital assets	4,811,776	4,887,142	-1.54%
Restricted	46,129	33,829	36.36%
Unrestricted	2,650,324	3,701,273	-28.39%
Total Net Position	\$ 7,508,229	\$ 8,622,244	-12.92%

The \$2,556,579 of unrestricted net position represents resources available to fund the programs of the District next year.

Changes in net position

The District's total revenues were \$5,297,481. A significant portion, 56%, of the District's revenues comes from grants and contributions (See Figure A-3); 28% comes from property taxes, while only 1% relates to charges for services.

**Figure 1:
District Sources of Revenue for Fiscal Year**



The total cost of all programs and services was \$4,349,403; 46% of these costs were for instructional and student services and 6% were for intergovernmental charges.

Governmental Activities

Property tax rates remained the same at \$1.04 per \$100 valuation. However, property valuations increased by \$5,117,385.

Current and other assets increased \$661,313, or 13.6% from the previous year due to significant increases in cash and cash equivalents as well as due from other governments. Capital assets decreased \$419,398 due to depreciation of buildings and improvements, of which the new school was completed in 2017. Long-term liabilities saw a decrease of \$277,393, or 3.5% from prior year.

Table A-2
The District's Revenues and Expenses

	Governmental Activities		Total % Changes
	2018	2017	
Revenues:			
Program Revenues:			
Charges for service	\$ 40,122	\$ 49,569	-19.06%
Operating grants and contributions	766,072	695,101	10.21%
General Revenues:			
Maintenance and operations taxes	920,758	885,357	4.00%
Debt service taxes	584,043	567,236	2.96%
Grants and contributions not restricted to specific functions	2,935,426	3,726,896	-21.24%
Investment earnings	27,882	17,675	57.75%
Miscellaneous	23,178	15,303	51.46%
Total Revenue	<u>5,297,481</u>	<u>5,957,137</u>	-11.07%
Expenses:			
Instruction, curriculum and media services	\$ 1,981,071	\$ 2,543,909	-22.12%
Instructional and school leadership	206,761	247,420	-16.43%
Student support services	260,036	397,651	-34.61%
Child nutrition	253,245	277,631	-8.78%
Cocurricular activities	62,463	67,487	-7.44%
General administration	312,744	369,621	-15.39%
Plant maintenance, security & data processing	694,992	919,120	-24.39%
Community services	15,321	22,218	-31.04%
Debt services	295,756	299,304	-1.19%
Capital outlay	4,589	-	0.00%
Bond Issuance Costs and Fees	2,900	2,900	0.00%
Intergovernmental charges	259,525	146,829	76.75%
Total Expenses	<u>4,349,403</u>	<u>5,294,090</u>	-17.84%
Increase in net position before transfers and special items	948,078	663,047	42.99%
Net position (deficit) at beginning of year	8,622,244	7,959,197	8.33%
Prior Period Adjustment	(2,062,093)	-	0.00%
Net position(deficit) at end of year	<u>\$ 7,508,229</u>	<u>\$ 8,622,244</u>	-12.92%

Table A-3 presents the cost of each of the District's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$4,349,403.
- However, the amount that our taxpayers paid for these activities through property taxes was \$1,504,801
- Some of the cost was paid by those who directly benefited from the programs, \$40,122, or by grants and contributions of \$766,072.

Table A-3
Net Cost of Selected District Functions

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2018	2017		2018	2017	
Instruction	\$ 1,913,217	\$ 2,437,974	-21.52%	\$ 1,558,466	\$ 2,083,931	-25.22%
General administration	312,744	369,621	-15.39%	304,941	355,882	-14.31%
Plant maintenance	659,383	883,028	-25.33%	651,274	868,602	-25.02%
Contracted instructional services between schools	259,525	146,829	76.75%	259,525	146,829	76.75%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types total \$5,330,407, an increase of 10.1% compared to the preceding year. State program revenues decreased by \$782,933, or 19.9%, which is primarily the result of a decrease in foundation school programs and teacher retirement, while the property tax rate remained the same. Federal revenues increased by \$103,203, or 27.9%.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures were \$402,720 below final budget amounts. The most significant positive variance resulted from instruction costs being much lower than anticipated. Staffing is budgeted for full employment throughout the year.

Resources available were \$1,177,275 above the final budgeted amount. As noted earlier:

- Property tax collections were \$30,382 more than expected.
- State funding was more than final budget amounts for the current year by \$1,123,424 as a result of higher foundation school programs at year end than what was originally estimated and federal funds remained stable, only slightly decreasing.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had invested \$15,612,238 in a broad range of capital assets, including land, buildings, and vehicles. (See Table A-4.) This amount represents a net increase (including additions less reductions) of \$39,855, or 0.26% over last year.

Table A-4
District's Capital Assets

	Governmental Activities		Total % Change
	2018	2017	
Land	\$ 47,851	\$ 47,851	0.00%
Construction in progress	-	-	0.00%
Buildings and improvements	14,342,259	14,342,259	0.00%
Equipment	602,067	562,212	7.09%
Vehicles	620,061	620,061	0.00%
Totals at historical cost	15,612,238	15,572,383	0.26%
Total accumulated depreciation	3,038,006	2,578,753	17.81%
Net capital assets	\$ 12,574,232	\$ 12,993,630	-3.23%

Long-Term Debt

As a result of the District adopting GASB 75 in fiscal year 2018, the District's proportionate share of the TRS-CARE OPEB liability is reflected as a long-term debt of the District at August 31, 2018.

The District had the following debt at August 31, 2018:

Table A-5
The District's Long-Term Debt

	2018	2017	Total % Change
Current Interest Bonds	\$ 5,780,000	\$ 5,860,000	-1.37%
Capital Appreciation Bonds	1,278,306	1,278,306	0.00%
Refunding bonds	553,000	799,000	-30.79%
	7,611,306	7,937,306	-4.11%
Bond Premium and Discount	160,135	186,670	-14.21%
Net Pension Liability	564,719	652,558	-13.46%
Net OPEB Liability	1,175,858	2,075,917	-43.36%
Bond Accretion on CAP Bonds	355,066	273,660	29.75%
Total long-term debt	9,867,084	11,126,111	-11.32%
Less: Current liability portion	359,367	353,103	1.77%
Long-Term Liabilities	\$ 9,507,717	\$ 10,773,008	-11.75%

The District doesn't anticipate issuing any new debt of any kind during the next year. Additional information regarding the District's Long-Term Debt can be found in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised values used for the 2018 tax year property tax assessments will be up by \$16.262 million, or 18.1% from the 2017 tax year, primarily due to higher oil and gas reserves from the prior year.
- General operating fund spending per student decreases in the 2018 budget from \$13,997 to \$12,068. This is a 13.8% decrease.
- The district's 2018 refined average daily attendance is expected to increase to 292 students.

These indicators were taken into account when adopting the general fund budget for 2018-2019. Amounts available for appropriation in the general fund budget are \$3,322,134, a decrease of 14.5% over the final 2017 budget of \$2,900,300. Property tax revenue is budgeted to increase by 21.4% due to a \$16.2 million increase in assessed values. State revenue is expected to decrease as the property tax revenue increases.

Expenditures are budgeted to decrease by 8.8% to \$3,523,901 from prior year actual expenditures. The largest decrease is in the area of instruction. The District has added no new major programs or initiatives to the 2018-2019 budget.

If these estimates are realized, the District's budgetary general fund balance is expected to remain the same by the close of 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Services Department.

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Basic Financial Statements

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

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 4,328,822
1225	Property Taxes Receivable (Net)	130,957
1240	Due from Other Governments	1,063,819
1290	Other Receivables (Net)	7,173
Capital Assets:		
1510	Land	47,851
1520	Buildings and Improvements, Net	12,126,482
1530	Furniture and Equipment, Net	399,898
1000	Total Assets	<u>18,105,002</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1701	Deferred Charge for Refunding	8,974
1705	Deferred Outflow Related to Pensions	193,877
1706	Deferred Outflow Related to OPEB	18,896
1700	Total Deferred Outflows of Resources	<u>221,747</u>
LIABILITIES:		
2110	Accounts Payable	30,800
2140	Interest Payable	9,837
2165	Accrued Liabilities	332,545
Noncurrent Liabilities:		
2501	Due Within One Year	359,364
2502	Due in More Than One Year	7,767,151
2540	Net Pension Liability	564,719
2545	Net OPEB Liability	1,175,858
2000	Total Liabilities	<u>10,240,274</u>
DEFERRED INFLOWS OF RESOURCES:		
2605	Deferred Inflow Related to Pensions	86,382
2606	Deferred Inflow Related to OPEB	491,864
2600	Total Deferred Inflows of Resources	<u>578,246</u>
NET POSITION:		
3200	Net Investment in Capital Assets	4,811,776
Restricted For:		
3820	State and Federal Programs	46,129
3900	Unrestricted	2,650,324
3000	Total Net Position	<u>\$ 7,508,229</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	Instruction	\$ 1,913,217	\$ 23	\$ 354,728	\$ (1,558,466)	
12	Instructional Resources and Media Services	43,210	--	1,362	(41,848)	
13	Curriculum and Staff Development	24,644	--	17,466	(7,178)	
21	Instructional Leadership	2,014	--	--	(2,014)	
23	School Leadership	204,747	--	6,999	(197,748)	
31	Guidance, Counseling, & Evaluation Services	65,735	--	2,604	(63,131)	
32	Social Work Services	12,547	--	359	(12,188)	
33	Health Services	52,049	--	59,906	7,857	
34	Student Transportation	129,705	--	3,088	(126,617)	
35	Food Service	253,245	29,708	221,351	(2,186)	
36	Cocurricular/Extracurricular Activities	62,463	2,785	13,233	(46,445)	
41	General Administration	312,744	750	7,053	(304,941)	
51	Facilities Maintenance and Operations	659,383	--	8,109	(651,274)	
52	Security and Monitoring Services	3,989	--	--	(3,989)	
53	Data Processing Services	31,620	--	197	(31,423)	
61	Community Services	15,321	6,856	1,339	(7,126)	
72	Interest on Long-term Debt	295,756	--	68,278	(227,478)	
73	Bond Issuance Costs and Fees	2,900	--	--	(2,900)	
81	Capital Outlay	4,589	--	--	(4,589)	
99	Other Intergovernmental Charges	259,525	--	--	(259,525)	
TG	Total Governmental Activities	<u>4,349,403</u>	<u>40,122</u>	<u>766,072</u>	<u>(3,543,209)</u>	
TP	Total Primary Government	<u>\$ 4,349,403</u>	<u>\$ 40,122</u>	<u>\$ 766,072</u>	<u>(3,543,209)</u>	
	General Revenues:					
MT	Property Taxes, Levied for General Purposes				920,758	
DT	Property Taxes, Levied for Debt Service				584,043	
IE	Investment Earnings				27,882	
GC	Grants and Contributions Not Restricted to Specific Programs				2,935,426	
MI	Miscellaneous				23,178	
TR	Total General Revenues				<u>4,491,287</u>	
CN	Change in Net Position				948,078	
NB	Net Position - Beginning				8,622,244	
PA	Prior Period Adjustment				(2,062,093)	
	Net Position - Beginning, as Restated				6,560,151	
NE	Net Position - Ending				<u>\$ 7,508,229</u>	

The accompanying notes are an integral part of this statement.

DRISCOLL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 3,756,759	\$ 127,786	\$ 398,905	\$ 4,283,450
1225 Taxes Receivable, Net	89,521	41,436	--	130,957
1240 Due from Other Governments	925,980	50,656	87,183	1,063,819
1260 Due from Other Funds	1,588	--	--	1,588
1290 Other Receivables	7,173	--	--	7,173
1000 Total Assets	<u>4,781,021</u>	<u>219,878</u>	<u>486,088</u>	<u>5,486,987</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 15,126	\$ --	\$ 15,674	\$ 30,800
2150 Payroll Deductions & Withholdings	4,274	--	--	4,274
2160 Accrued Wages Payable	275,028	--	17,805	292,833
2170 Due to Other Funds	--	750	--	750
2200 Accrued Expenditures	27,431	--	--	27,431
2000 Total Liabilities	<u>321,859</u>	<u>750</u>	<u>33,479</u>	<u>356,088</u>
DEFERRED INFLOWS OF RESOURCES:				
2601 Unavailable Revenue - Property Taxes	89,521	41,436	--	130,957
2600 Total Deferred Inflows of Resources	<u>89,521</u>	<u>41,436</u>	<u>--</u>	<u>130,957</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	46,129	46,129
3480 Retirement of Long-Term Debt	--	177,692	--	177,692
Committed Fund Balances:				
3510 Construction	--	--	385,699	385,699
3545 Other Committed Fund Balance	--	--	20,171	20,171
Assigned Fund Balances:				
3590 Other Assigned Fund Balance	--	--	610	610
3600 Unassigned	4,369,641	--	--	4,369,641
3000 Total Fund Balances	<u>4,369,641</u>	<u>177,692</u>	<u>452,609</u>	<u>4,999,942</u>
4000 Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 4,781,021</u>	<u>\$ 219,878</u>	<u>\$ 486,088</u>	<u>\$ 5,486,987</u>

The accompanying notes are an integral part of this statement.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2018

Total fund balances - governmental funds balance sheet	\$ 4,999,942
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	12,574,231
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	130,956
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	36,528
Payables for bond principal which are not due in the current period are not reported in the funds.	(7,611,306)
Payables for bond interest which are not due in the current period are not reported in the funds.	(9,837)
Deferred charge for refunding is expensed in the funds, but is amortized in the Statement of Net Position.	8,965
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(564,719)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(86,382)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	193,877
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(355,066)
Bond premiums are amortized in the SNA but not in the funds.	(160,134)
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(1,175,858)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(491,864)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	18,896
Net position of governmental activities - Statement of Net Position	<u>\$ 7,508,229</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 976,915	\$ 585,544	\$ 159,935	\$ 1,722,394
5800 <i>State Program Revenues</i>	3,052,190	68,278	15,168	3,135,636
5900 <i>Federal Program Revenues</i>	58,470	--	413,907	472,377
5020 Total Revenues	<u>4,087,575</u>	<u>653,822</u>	<u>589,010</u>	<u>5,330,407</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	1,726,145	--	298,334	2,024,479
0012 <i>Instructional Resources and Media Services</i>	41,558	--	--	41,558
0013 <i>Curriculum and Staff Development</i>	4,594	--	17,464	22,058
0021 <i>Instructional Leadership</i>	1,803	--	--	1,803
0023 <i>School Leadership</i>	202,000	--	--	202,000
0031 <i>Guidance, Counseling, & Evaluation Services</i>	64,649	--	351	65,000
0032 <i>Social Work Services</i>	12,343	--	--	12,343
0033 <i>Health Services</i>	50,719	--	319	51,038
0034 <i>Student Transportation</i>	107,518	--	--	107,518
0035 <i>Food Service</i>	--	--	240,350	240,350
0036 <i>Cocurricular/Extracurricular Activities</i>	47,270	--	11,861	59,131
0041 <i>General Administration</i>	298,084	--	--	298,084
0051 <i>Facilities Maintenance and Operations</i>	614,413	--	--	614,413
0052 <i>Security and Monitoring Services</i>	3,570	--	--	3,570
0053 <i>Data Processing Services</i>	28,719	--	--	28,719
0061 <i>Community Services</i>	4,198	--	9,950	14,148
0071 <i>Principal on Long-term Debt</i>	--	326,000	--	326,000
0072 <i>Interest on Long-term Debt</i>	--	232,770	--	232,770
0073 <i>Bond Issuance Costs and Fees</i>	--	2,900	--	2,900
0081 <i>Capital Outlay</i>	--	--	4,589	4,589
0099 <i>Other Intergovernmental Charges</i>	259,525	--	--	259,525
6030 Total Expenditures	<u>3,467,108</u>	<u>561,670</u>	<u>583,218</u>	<u>4,611,996</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	620,467	92,152	5,792	718,411
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	--	--	1,700	1,700
8911 <i>Transfers Out</i>	(1,700)	--	--	(1,700)
7080 Total Other Financing Sources and (Uses)	<u>(1,700)</u>	<u>--</u>	<u>1,700</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>618,767</u>	<u>92,152</u>	<u>7,492</u>	<u>718,411</u>
0100 Fund Balances - Beginning	<u>3,750,874</u>	<u>85,540</u>	<u>445,117</u>	<u>4,281,531</u>
3000 Fund Balances - Ending	<u>\$ 4,369,641</u>	<u>\$ 177,692</u>	<u>\$ 452,609</u>	<u>\$ 4,999,942</u>

The accompanying notes are an integral part of this statement.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2018*

Net change in fund balances - total governmental funds	\$ 718,411
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	39,855
The depreciation of capital assets used in governmental activities is not reported in the funds.	(459,252)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(3,145)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	326,000
The accretion of interest on capital appreciation bonds is not reported in the funds.	(81,406)
(Increase) decrease in accrued interest from beginning of period to end of period.	395
The net revenue (expense) of internal service funds is reported with governmental activities.	(4,360)
Amortization of bond premium and deferred amount is an expense in the SOA but not in the funds.	18,026
Pension contributions made after the measurement date but in current FY were de-expended & reduced NPL.	10,069
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(29,781)
The District's share of the unrecognized deferred inflows and outflows for the OPEB plan was amortized.	1,022,934
OPEB expense relating to GASB 75 is recorded in the SOA but not in the funds.	<u>(609,667)</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 948,078</u>

The accompanying notes are an integral part of this statement.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 INTERNAL SERVICE FUND
 AUGUST 31, 2018

Data Control Codes		Nonmajor Internal Service Fund
<u> </u>		<u> </u>
	ASSETS:	
	Current Assets:	
1110	<i>Cash and Cash Equivalents</i>	\$ 45,373
	Total Current Assets	<u>45,373</u>
1000	Total Assets	<u>45,373</u>
	 LIABILITIES:	
	Current Liabilities:	
2170	<i>Due to Other Funds</i>	\$ 838
2200	<i>Accrued Expenses</i>	<u>8,007</u>
	Total Current Liabilities	<u>8,845</u>
2000	Total Liabilities	<u>8,845</u>
	 NET POSITION:	
3900	<i>Unrestricted</i>	36,528
3000	Total Net Position	<u>\$ 36,528</u>

The accompanying notes are an integral part of this statement.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET POSITION - INTERNAL SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		Nonmajor Internal Service Fund
		Insurance Fund
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 7,930
5020	Total Revenues	<u>7,930</u>
	OPERATING EXPENSES:	
6400	<i>Other Operating Costs</i>	12,290
6030	Total Expenses	<u>12,290</u>
1300	Change in Net Position	(4,360)
0100	Total Net Position - Beginning	40,888
3300	Total Net Position - Ending	<u>\$ 36,528</u>

The accompanying notes are an integral part of this statement.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

	Enterprise Funds Nonmajor Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Receipts (Payments) for Quasi-external</i>	
<i>Operating Transactions with Other Funds</i>	\$ 7,930
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(12,290)
Net Cash Provided (Used) by Operating Activities	<u>(4,360)</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(4,360)
Cash and Cash Equivalents at Beginning of Year	49,733
Cash and Cash Equivalents at End of Year	<u>\$ 45,373</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ (4,360)
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Interfund Receivables</i>	--
<i>Increase (Decrease) in Interfund Payables</i>	--
<i>Increase (Decrease) in Accounts Payable</i>	--
Total Adjustments	<u>--</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,360)</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes		Agency Funds
	ASSETS:	
1110	<i>Cash and Cash Equivalents</i>	\$ 2,928
1290	<i>Other Receivables</i>	<u>1,746</u>
1000	Total Assets	<u>4,674</u>
	LIABILITIES:	
2200	<i>Accrued Expenditures/Expenses</i>	\$ 4,674
2000	Total Liabilities	<u>4,674</u>
	NET POSITION:	
3000	Total Net Position	<u>\$ ---</u>

The accompanying notes are an integral part of this statement.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

A. Summary of Significant Accounting Policies

The basic financial statements of Driscoll Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

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

Debt Service Fund: This fund is used to account for taxes collected for the purpose of debt service, and related debt service expenditures.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

In addition, the District reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end, with the exception of property taxes, which are considered immaterial. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available

DRISCOLL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

when they become due or past due and receivable within the current period. The assessed value of the roll on January 1, 2017, upon which the levy for the 2018 fiscal year was based, was \$89,443,404.

The tax rates assessed for the year ended August 31, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$.659772 per \$100 valuation, respectively, for a total of \$1.699772 per \$100 valuation.

Current tax collections for the year ended August 31, 2018, were 95.0% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on the rates adopted for the year of the levy.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Delinquent Taxes Receivable

The following table shows a schedule of delinquent taxes receivable and the allowance for uncollectible taxes for the District:

	Balance 09/01/17	Current Year Levy	Total Collections	Yearly Adjustments	Balance 08/31/18
Delinquent Taxes					
Receivable	\$ 211,936	\$ 1,483,693	\$ 1,476,564	\$ (1,370)	\$ 217,695
Allowance for					
Uncollectible Taxes	(77,836)			(8,902)	(86,738)
Net Delinquent					
Taxes Receivable	<u>\$ 134,100</u>	<u>\$ 1,483,693</u>	<u>\$ 1,476,564</u>	<u>\$ (10,272)</u>	<u>\$ 130,957</u>

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

DRISCOLL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

Impairment losses related to capital assets are recognized and measured when there has been a significant, unexpected decline in the service utility of capital assets. The events or changes in circumstances which lead to impairment determinations are not considered to be normal or ordinary. The service utility of a capital asset is the usable capacity which, at acquisition, was expected to be used or provide service. Common indicators of impairment include - evidence of physical damage where the level of damage is such that restoration efforts are needed to restore service utility; enactment of laws or approval of regulations as well as changes in environmental factors ; technological developments, or other evidence of obsolescence; changes in the manner of duration of use of capital assets; or construction stoppage due to lack of funding. There were no impairment charges during fiscal 2018.

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

f. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. Compensated Absences

At August 31, 2018, the District had no liability for accrued sick leave or vacation leave.

h. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

i. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

j. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a

DRISCOLL INDEPENDENT SCHOOL DISTRICT
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statewide database for policy development and funding plans.

k. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

l. Net Position Flow Assumption

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

m. Fund Balance Flow Assumptions

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

n. Negative Operating Grants and Contributions - Statement of Activities

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and

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

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities.

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

	Operating Grants and Contributions As Reported	Negative On-Behalf Accruals	Operating Grants and Contributions (Excluding On- Behalf Accruals)
11 - Instruction	\$ 354,728	\$ (352,025)	\$ 706,753
12 - Instructional Resources and Media Services	1,362	(8,099)	9,461
13 - Curriculum and Instructional Staff Development	17,466	--	17,466
21 - Instructional Leadership	--	--	--
23 - School Leadership	6,999	(41,598)	48,597
31 - Guidance, Counseling and Evaluation Services	2,604	(15,475)	18,079
32 - Social Work Services	359	(2,133)	2,492
33 - Health Services	59,906	(8,531)	68,437
34 - Student (Pupil) Transportation	3,088	(18,356)	21,444
35 - Food Services	221,351	(31,139)	252,490
36 - Extracurricular Activities	13,233	(8,313)	21,546
41 - General Administration	7,053	(41,917)	48,970
51 - Facilities Maintenance and Operations	8,109	(48,191)	56,300
52 - Security and Monitoring Services	--	--	--
53 - Data Processing Services	197	(1,174)	1,371
61 - Community Services	1,339	(1,219)	2,558
	<u>\$ 697,794</u>	<u>\$ (578,170)</u>	<u>\$ 1,275,964</u>

4. 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' 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.

At August 31, 2018, the District reported the following:

Net Pension Asset	\$	--
Net Pension Liability	\$	564,719

5. New Accounting Standards Adopted

In fiscal year 2018, the District adopted a new statement of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

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Statement No. 75, Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB.

The financial statements and note disclosures have been updated for the affects of the adoption of GASB Statement No. 75.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities 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.

1. Cash Deposits:

At August 31, 2018, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,837,646 and the bank balance was \$3,982,581. The District's cash deposits at August 31, 2018 and during the year ended August 31, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt,

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implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2018 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexStar Investment Pool (Rated AAA)	less than 1 year	\$ 184,107
Lone Star Investment Pool (Rated (AAAm))	less than 1 year	182,214
Total Investments		<u>\$ 366,321</u>

Due to the highly liquid nature of these investments, the amounts are included in cash and cash equivalents on the face of the financial statements.

Limitations exist for withdrawals in this way: ACH (Automated Clearing House) withdrawals from Lone Star or TexStar are restricted to the account designated by the direct deposit form currently on record. The current authorized direct deposit form designates only the District Depository Bank as the entity to use for deposits or withdrawals by ACH. The Superintendent must authorize any new or replacement direct deposit form that would alter or replace the depository bank.

Limitations exist for wire transfers in this way: A Wire Transfer to or from Lone Star or TexStar requires two signatures from authorized representatives in order to be processed.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

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At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

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

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexSTAR

The District invests in the Texas Short Term Asset Reserve Program (TexSTAR), which has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member board of directors (Board). In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Company (FSC) serve as co-administrators for TexSTAR under an agreement with the Board. JPMIM provides investment management services, and FSC provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. The business affairs of TexSTAR are managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection procedures governing the selection of, and action taken by, the

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Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated AAAM by Standard and Poor's and is not operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 47,851	\$ --	\$ --	\$ 47,851
Construction in progress	--	--	--	--
Total capital assets not being depreciated	<u>47,851</u>	<u>--</u>	<u>--</u>	<u>47,851</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	14,342,259	--	--	14,342,259
Equipment	562,212	39,855	--	602,067
Vehicles	620,061	--	--	620,061
Total capital assets being depreciated	<u>15,524,532</u>	<u>39,855</u>	<u>--</u>	<u>15,564,387</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,836,659)	(379,119)	--	(2,215,778)
Equipment	(245,639)	(48,460)	--	(294,099)
Vehicles	(496,455)	(31,674)	--	(528,129)
Total accumulated depreciation	<u>(2,578,753)</u>	<u>(459,253)</u>	<u>--</u>	<u>(3,038,006)</u>
Total capital assets being depreciated, net	<u>12,945,779</u>	<u>(419,398)</u>	<u>--</u>	<u>12,526,381</u>
Governmental activities capital assets, net	<u>\$ 12,993,630</u>	<u>\$ (419,398)</u>	<u>\$ --</u>	<u>\$ 12,574,232</u>

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Depreciation was charged to functions as follows:

Instruction	\$ 234,199
Instructional Resources and Media Services	4,849
Curriculum and Staff Development	2,586
Instructional Leadership	211
School Leadership	23,525
Guidance, Counseling, & Evaluation Services	7,569
Social Work Services	1,438
Health Services	5,946
Student Transportation	31,674
Food Services	28,181
Extracurricular Activities	6,906
General Administration	34,899
Plant Maintenance and Operations	71,831
Security and Monitoring Services	419
Data Processing Services	3,364
Community Services	1,656
	<u>\$ 459,253</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2018, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Debt Service Fund	750	Short-term loans
General Fund	Internal Service Fund	838	Short-term loans
	Total	<u>\$ 1,588</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2018, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General fund	Other Governmental Funds	\$ 1,700	Supplement other funds sources
	Total	<u>\$ 1,700</u>	

F. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2018, are as follows:

Amounts

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Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/17	Issued	Retired	Amounts Outstanding 8/31/18	Amounts Due Within One Year
Bonds and Notes:							
Unlimited Tax Current Interest Bonds Series 2013	2.0% to 4.0%	6,185,000 \$	5,860,000 \$	--	\$ 80,000 \$	5,780,000 \$	65,000
Unlimited Tax Capital Appreciation Bonds Series 2013	5.05% to 5.31%	1,278,306	1,278,306	--	--	1,278,306	--
Unlimited Tax Refunding Bonds Series 2016	3.00%	1,065,000	799,000	--	246,000	553,000	268,000
Sub-Totals			<u>7,937,306</u>	<u>--</u>	<u>326,000</u>	<u>7,611,306</u>	<u>333,000</u>
Bond Premium on Issuance			186,669		26,535	160,134	26,367
Bond Accretion on Capital Appreciation Bonds			273,660	81,406	--	355,066	--
Net Pension Liability			652,558	--	87,839	564,719	--
Net OPEB Liability			2,075,917	--	900,059	1,175,858	--
			<u>\$ 11,126,110</u>	<u>\$ 81,406</u>	<u>\$ 1,340,433</u>	<u>\$ 9,867,083</u>	<u>\$ 359,367</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2018, are as follows:

Year Ending August 31,	Governmental Activities				
	Principal	Interest	Principal	Interest	Total
2019	\$ 268,000	\$ 16,590	\$ 65,000	\$ 207,200	\$ 556,790
2020	285,000	8,550	60,000	205,900	559,450
2021	--	--	325,000	204,700	529,700
2022	--	--	330,000	194,950	524,950
2023	--	--	340,000	185,050	525,050
2024-2028	--	--	1,890,000	746,676	2,636,676
2029-2033	--	--	2,265,000	377,700	2,642,700
2034-2038	--	--	1,162,714	1,477,486	2,640,200
2039-2043	--	--	620,592	2,014,407	2,634,999
Totals	<u>\$ 553,000</u>	<u>\$ 25,140</u>	<u>\$ 7,058,306</u>	<u>\$ 5,614,069</u>	<u>\$ 13,250,515</u>

Defeased Bonds Outstanding

The District had no defeased bonds outstanding as of August 31, 2018.

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3. SEC Exemptive Relief

On February 9, 1996, TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities. The District qualifies for this exemption.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Unemployment Compensation

During the year ended August 31, 2018, Driscoll ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All districts participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. The Fund meets its obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

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

Workers' Compensation

The District has established the Worker's Compensation fund to account for and finance workers compensation claims. It is a modified self-insurance plan known as School Comp. The plan began September 1, 2017 and ended September 1, 2018. The District's maximum financial exposure for the plan year is \$26,690. Any costs above \$27,059 for the 2017-2018 plan year are the shared responsibility of the remaining School Comp members.

The District's self-insured retention per occurrence is \$350,000. Costs for any one claim above the self-insured retention are the shared responsibility of the remaining School Comp members. Excess insurance is provided by Safety National Casualty Corporation and admitted carrier. The policy provides for specific stop-loss attachment at \$250,000 per occurrence and aggregate stop-loss attachment at \$1,000,000. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

All funds of the District participated in the program and make payments to the fund based on actuarial estimates of the amounts needed to pay prior-year and current-year claims and to establish a reserve for losses relating to catastrophes. That reserve was \$40,800 at 8/31/18, and is reported as reserved Net Assets of the Worker's Compensation Internal Service Fund. The claims liability of \$8,007 reported in the fund at 8/31/18, is based on the requirements of Governmental Accounting Standards Board 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

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Changes in the balances of claims liabilities during the past two years are:

	Year Ended 8/31/18	Year Ended 8/31/17
Unpaid claims, beginning of year	\$ 8,007	\$ 8,007
Current year claims and changes in estimate	5,802	--
Claim payments	(5,802)	--
Unpaid claims, end of year	<u>\$ 8,007</u>	<u>\$ 8,007</u>

H. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

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

3. 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 (1.) above.

4. 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

DRISCOLL INDEPENDENT SCHOOL DISTRICT
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amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2018 Employer Contributions	\$ 59,202	
District's 2018 Member Contributions	\$ 170,481	
NECE 2017 On-Behalf Contributions to District	\$ 125,286	

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution 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.

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5. Actuarial Assumptions

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	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.

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. 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. 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:

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Teacher Retirement System of Texas			
Asset Allocation and Long-Term Expected Real Rate of Return			
As of August 31, 2017			
Asset Class	Target Allocation*	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns **
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		6.7%

* Target allocations are based on the FY2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in FY2017, but the reallocation does not affect the long term expected geometric real rate of return or expected contribution to long-term portfolio returns.

** The expected contribution to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.

7. 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 in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 952,004	\$ 564,719	\$ 242,241

8. 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 \$564,719 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:

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District's proportionate share of the collective net pension liability	\$ 564,719
State's proportionate share that is associated with District	<u>1,224,863</u>
Total	<u>\$ 1,789,582</u>

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

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0017661%. which was an increase (decrease) of 0.0000392782% from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions of 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 \$172,342 and revenue of \$93,428 for support provided by the State.

At August 31, 2018, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts below will be the cumulative layers from the current and prior years combined)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 8,262	\$ 30,455
Changes in actuarial assumptions	25,724	14,726
Difference between projected and actual investment earnings	--	41,156
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	100,689	45
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	<u>59,202</u>	<u>--</u>
Total	<u>\$ 193,877</u>	<u>\$ 86,382</u>

The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

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Year Ended August 31	Pension Expense Amount
2019	\$ 4,155
2020	\$ 40,202
2021	\$ 1,384
2022	\$ (8,204)
2023	\$ 9,790
Thereafter	\$ 966

I. Defined Other Post-Employment Benefit Plans

1. 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.

2. OPEB Plan Fiduciary Net Position

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2017 are as follows:

<u>Net OPEB Liability:</u>	<u>Total</u>
Total OPEB liability	\$ 43,885,784,621
Less: plan fiduciary net position	<u>399,535,986</u>
Net OPEB liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.91%

3. 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 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:

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Monthly TRS-Care Plan Premium Rates Effective September 1, 2016 - December 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

4. 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		
	2017	2018
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (NECE) - State	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
Current fiscal year District contributions		\$ 18,712
Current fiscal year Member contributions		\$ 14,391
2017 measurement year NECE contributions	\$ 20,657	

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

TRS-Care received supplemental appropriations from the State of Texas as the NECE in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

5. Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the

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following actuarial assumptions:

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

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

The 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 experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases **	3.50% to 9.50% **
Healthcare Trend Rates ***	4.50% to 12.00% ***
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad Hoc Post-Employment Benefit Changes	None

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

**Includes inflation at 2.50%

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

6. Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, there are no investments and 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 not to be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds

DRISCOLL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact on the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of net OPEB liability	\$ 1,387,804	\$ 1,175,858	\$ 1,005,501

8. Healthcare Cost Trend Rates Sensitivity Analysis

The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% less than and 1% greater than the assumed healthcare cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	\$ 979,019	\$ 1,175,858	\$ 1,434,135

9. 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 \$1,175,858 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	\$ 1,175,858
State's proportionate share that is associated with the District	\$ <u>1,727,806</u>
Total	\$ <u>2,903,664</u>

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

At August 31, 2017 the District's proportion of the collective net OPEB liability was 0.0027040.

10. Changes Since the Prior Actuarial Valuation.

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

- a. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- b. 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

DRISCOLL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

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.

- c. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

The Affordable Care Act includes a 40% excise tax on high-cost health plans known as the "Cadillac tax." In this valuation the impact of this tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

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

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

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

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

For the year ended August 31, 2018, the District recognized OPEB expense of \$(972,725) and revenue of \$(578,170) for support provided by the State.

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 Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ --	\$ 24,547
Changes in actuarial assumptions	--	467,317
Differences between projected and actual investment earnings	179	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	5	--
Contributions paid to TRS subsequent to the measurement date	<u>18,712</u>	
	<u>\$ 18,896</u>	<u>491,864</u>

DRISCOLL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

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

Year ended August 31,	Amount
2019	\$ (64,877)
2020	\$ (64,877)
2021	\$ (64,877)
2022	\$ (64,877)
2023	\$ (64,922)
Thereafter	\$ (167,248)

J. Employee Health Care Coverage

During the year ended August 31, 2018, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$123 per pay period per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2018, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the Blue Cross Blue Shield of Texas are available for the year ended December 31, 2017, have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

K. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31, 2018.

L. Concentration of Risk

The District is located within Nueces County, Texas and it derives approximately 28% of all revenue from property taxes and related penalties and interest. The District's top ten taxpayers have a total taxable property value of \$38,396,033 or 42.9% of the total property tax value of \$89,443,404. All of the top ten taxpayers are oil and gas related.

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NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2018

Taxpayer	Taxable Value	Percent of Total Taxable Value
DCP South Central Texas LLC	\$ 18,293,880	20.5%
Urban Oil & Gas Group	6,474,154	7.2%
Net Mexico Pipeline Partners	2,824,340	3.2%
Union Pacific RR Company	2,366,810	2.6%
Hosuton Pipeline Company LP	2,301,290	2.6%
Lin Operating Inc.	1,996,690	2.2%
AEP Texas Inc.	1,368,360	1.5%
ETC Lobo Pipeline	1,019,740	1.1%
Quality South Texas Trucking Inc.	960,756	1.1%
Driscoll Foundation	790,013	0.9%
Total Top Ten	\$ 38,396,033	42.9%
Total All Taxpayers	\$ 89,443,404	100.0%

M. Due From Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018, are reported on the combined financial statements as Due from Other Governments and are summarized below:

Fund	State Entitlements	Federal Grants	Other	Total
General	\$ 925,980	\$ --	\$ --	\$ 925,980
Debt Service	--	--	50,656	50,656
Other Governmental	--	87,183	--	87,183
Total	\$ 925,980	\$ 87,183	\$ 50,656	\$ 1,063,819

N. Fund Balances

The following is a summary of Governmental Fund fund balances of the District at the year ended August 31, 2017:

General Fund	
Unassigned:	4,369,641
Total General Fund fund balance	4,369,641
Debt Service Fund	
Restricted	
Retirement of Long-Term Debt	177,692
Total Debt Service Fund fund balance	177,692
Other Governmental Funds	
Restricted:	
Child Nutrition	46,060
State Textbook Fund	69
	<u>46,129</u>

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Committed:	
Construction	385,699
Campus Activity Funds	<u>20,171</u>
	<u>405,870</u>
Assigned:	
UIL/Teacher Training	<u>610</u>
Total Other Governmental Fund fund balance	<u>452,609</u>
Total Governmental fund balance	<u>\$ 4,999,942</u>

O. Prior Period Adjustment

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$(2,062,093), which resulted in a restated beginning net position balance of \$6,560,151.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT G-1
Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 936,533	\$ 946,533	\$ 976,915	\$ 30,382
5800	State Program Revenues	2,327,977	1,928,766	3,052,190	1,123,424
5900	Federal Program Revenues	35,000	35,000	58,470	23,470
5020	Total Revenues	<u>3,299,511</u>	<u>2,910,300</u>	<u>4,087,575</u>	<u>1,177,275</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	1,850,127	1,862,327	1,726,145	136,182
0012	Instructional Resources and Media Services	44,175	46,175	41,558	4,617
0013	Curriculum and Staff Development	13,550	13,550	4,594	8,956
	Total Instruction & Instr. Related Services	<u>1,907,852</u>	<u>1,922,052</u>	<u>1,772,297</u>	<u>149,755</u>
Instructional and School Leadership:					
0021	Instructional Leadership	2,650	2,650	1,803	847
0023	School Leadership	210,824	215,824	202,000	13,824
	Total Instructional & School Leadership	<u>213,474</u>	<u>218,474</u>	<u>203,803</u>	<u>14,671</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	75,261	75,261	64,649	10,612
0032	Social Work Services	12,720	13,720	12,343	1,377
0033	Health Services	52,829	53,829	50,719	3,110
0034	Student (Pupil) Transportation	289,109	205,109	107,518	97,591
0036	Cocurricular/Extracurricular Activities	55,900	55,900	47,270	8,630
	Total Support Services - Student (Pupil)	<u>485,818</u>	<u>403,818</u>	<u>282,499</u>	<u>121,319</u>
Administrative Support Services:					
0041	General Administration	311,928	321,928	298,084	23,844
	Total Administrative Support Services	<u>311,928</u>	<u>321,928</u>	<u>298,084</u>	<u>23,844</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	657,789	667,789	614,413	53,376
0052	Security and Monitoring Services	6,300	6,300	3,570	2,730
0053	Data Processing Services	29,378	39,378	28,719	10,659
	Total Support Services - Nonstudent Based	<u>693,466</u>	<u>713,466</u>	<u>646,702</u>	<u>66,764</u>
Ancillary Services:					
0061	Community Services	5,500	5,500	4,198	1,302
	Total Ancillary Services	<u>5,500</u>	<u>5,500</u>	<u>4,198</u>	<u>1,302</u>
Capital Outlay:					
0081	Capital Outlay	--	4,589	--	4,589
	Total Capital Outlay	<u>--</u>	<u>4,589</u>	<u>--</u>	<u>4,589</u>
0099	Other Intergovernmental Charges	245,000	280,000	259,525	20,475
	Total Intergovernmental Charges	<u>245,000</u>	<u>280,000</u>	<u>259,525</u>	<u>20,475</u>
6030	Total Expenditures	<u>3,863,039</u>	<u>3,869,828</u>	<u>3,467,108</u>	<u>402,720</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(563,528)</u>	<u>(959,528)</u>	<u>620,467</u>	<u>1,579,995</u>

DRISCOLL INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT G-1
Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Other Financing Sources (Uses):				
8911	<i>Transfers Out</i>	--	--	(1,700)	(1,700)
7080	Total Other Financing Sources and (Uses)	--	--	(1,700)	(1,700)
1200	Net Change in Fund Balance	(563,528)	(959,528)	618,767	1,578,295
0100	Fund Balance - Beginning	3,750,874	3,750,874	3,750,874	--
3000	Fund Balance - Ending	<u>\$ 3,187,346</u>	<u>\$ 2,791,346</u>	<u>\$ 4,369,641</u>	<u>\$ 1,578,295</u>

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

	Measurement Year Ended August 31,			
	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0017661472%	0.0017268690%	0.0015614000%	0.0012874000%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 564,719	\$ 652,558	\$ 551,934	\$ 343,883
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	1,224,863	1,430,764	1,332,489	1,074,803
Total	<u>\$ 1,789,582</u>	<u>\$ 2,083,322</u>	<u>\$ 1,884,423</u>	<u>\$ 1,418,686</u>
District's Covered Payroll	\$ 2,246,866	\$ 2,117,668	\$ 1,912,482	\$ 1,884,239
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	25.13%	30.81%	28.86%	18.25%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

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

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

	Fiscal Year Ended August 31,			
	2018	2017	2016	2015
Contractually Required Contribution	\$ 59,202	\$ 57,479	\$ 54,860	\$ 46,080
Contribution in Relation to the Contractually Required Contribution	<u>(59,202)</u>	<u>(57,479)</u>	<u>(54,860)</u>	<u>(46,080)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 2,243,942	\$ 2,246,866	\$ 2,117,668	\$ 1,912,482
Contributions as a percentage of Covered Payroll	2.64%	2.56%	2.59%	2.41%

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

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

	Measurement Year Ended August 31, 2017
District's Proportion of the Net OPEB Liability (Asset)	0.0027039757%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 1,175,858
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	1,727,806
Total	\$ 2,903,664
District's Covered Payroll	\$ 2,246,866
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	52.33%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.91%

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

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

	Fiscal Year Ended August 31, 2018
Contractually Required Contribution	\$ 18,712
Contribution in Relation to the Contractually Required Contribution	(18,712)
Contribution Deficiency (Excess)	\$ -
District's Covered Payroll	\$ 2,243,942
Contributions as a percentage of Covered Payroll	0.83%

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

DRISCOLL INDEPENDENT SCHOOL DISTRICT

*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2018*

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms

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

Changes of assumptions

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

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FOR THE YEAR ENDED AUGUST 31, 2018

Year Ended August 31	1 Tax Rates		2 Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
2009 and Prior Years	\$ Various	\$ Various	\$ Various
2010	1.04	.1993	135,290,637
2011	1.04	.21	138,390,038
2012	1.04	.225	123,998,758
2013	1.04	.225	130,251,779
2014	1.04	.225	114,764,080
2015	1.04	.515	114,073,848
2016	1.04	.585	94,881,208
2017	1.04	.6662	84,326,019
2018 (School Year Under Audit)	1.04	.6598	89,443,404

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/17	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments.	50 Ending Balance 8/31/18
\$ 49,974	\$ --	\$ 49	\$ 11	\$ (1,352)	\$ 48,562
6,051	--	245	47	--	5,759
8,028	--	58	12	--	7,958
7,301	--	243	53	--	7,005
10,726	--	228	49	--	10,449
11,157	--	243	53	--	10,861
18,760	--	4,234	2,097	1,236	13,665
30,058	--	10,531	5,924	746	14,349
69,881	--	25,760	16,498	(2,000)	25,623
--	1,483,694	862,849	547,381	--	73,464
<u>\$ 211,936</u>	<u>\$ 1,483,694</u>	<u>\$ 904,440</u>	<u>\$ 572,125</u>	<u>\$ (1,370)</u>	<u>\$ 217,695</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

DRISCOLL INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)
GENERAL FUND
AS OF AUGUST 31, 2018

EXHIBIT J-2

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2018 (Exhibit C-1 object 3000 for the General Fund only)	\$ 4,369,641
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	--
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	--
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	--
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	--
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	---
7	Estimate of two months' average cash disbursements during the fiscal year	761,170
8	Estimate of delayed payments from state sources (58XX)	925,980
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	---
10	Estimate of delayed payments from federal sources (59XX)	87,183
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
12	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)	1,774,333
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	\$ 2,595,308

If Item 11 Is a Positive Number

Explanation of need for and/or projected use of net positive Unassigned General Fund Fund Balance:

The District will utilize the funds for capital improvements, as well as set some money aside for operating expenses or an emergency.

DRISCOLL INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT J-3

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	<i>Local and Intermediate Sources</i>	\$ 32,100	\$ 32,100	\$ 29,678	\$ (2,422)
5800	<i>State Program Revenues</i>	11,452	11,452	7,668	(3,784)
5900	<i>Federal Program Revenues</i>	190,895	190,895	205,642	14,747
5020	Total Revenues	<u>234,447</u>	<u>234,447</u>	<u>242,988</u>	<u>8,541</u>
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	<i>Food Services</i>	234,447	244,447	230,675	13,772
	Total Support Services - Student (Pupil)	<u>234,447</u>	<u>244,447</u>	<u>230,675</u>	<u>13,772</u>
6030	Total Expenditures	<u>234,447</u>	<u>244,447</u>	<u>230,675</u>	<u>13,772</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(10,000)	12,313	22,313
1200	Net Change in Fund Balance	--	(10,000)	12,313	22,313
0100	Fund Balance - Beginning	33,747	33,747	33,747	--
3000	Fund Balance - Ending	<u>\$ 33,747</u>	<u>\$ 23,747</u>	<u>\$ 46,060</u>	<u>\$ 22,313</u>

DRISCOLL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	<i>Local and Intermediate Sources</i>	\$ 558,770	\$ 558,770	\$ 585,544	\$ 26,774
5800	<i>State Program Revenues</i>	22,946	22,946	68,278	45,332
5020	Total Revenues	<u>581,716</u>	<u>581,716</u>	<u>653,822</u>	<u>72,106</u>
EXPENDITURES:					
Debt Service:					
0071	<i>Principal on Long-Term Debt</i>	326,000	326,000	326,000	--
0072	<i>Interest on Long-Term Debt</i>	232,770	232,770	232,770	--
0073	<i>Bond Issuance Costs and Fees</i>	22,946	22,946	2,900	20,046
	Total Debt Service	<u>581,716</u>	<u>581,716</u>	<u>561,670</u>	<u>20,046</u>
6030	Total Expenditures	<u>581,716</u>	<u>581,716</u>	<u>561,670</u>	<u>20,046</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	92,152	92,152
1200	Net Change in Fund Balance	--	--	92,152	92,152
0100	Fund Balance - Beginning	85,540	85,540	85,540	--
3000	Fund Balance - Ending	<u>\$ 85,540</u>	<u>\$ 85,540</u>	<u>\$ 177,692</u>	<u>\$ 92,152</u>



Lovvorn & Kieschnick, LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

Board of Trustees
Driscoll Independent School District
P. O. Box 238
Driscoll, Texas 78351

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Driscoll Independent School District, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise Driscoll Independent School District's basic financial statements, and have issued our report thereon dated November 12, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Driscoll Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Lovvorn & Kieschnick, LLP

Corpus Christi, TX
November 12, 2018

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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

Yes

No

One or more significant deficiencies identified that are not considered to be material weaknesses?

Yes

None Reported

Noncompliance material to financial statements noted?

Yes

No

2. Federal Awards

A Single Audit was not required in the current year.

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

DRISCOLL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2018

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
There were no findings or questioned costs in the prior year.		

DRISCOLL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2018

There were no findings or questioned costs in the current year.