



Comprehensive Annual Financial Report

PEARLAND ISD
STRONG



Pearland Independent School District
For the Fiscal Year ended June 30, 2018
Pearland, TX

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**PEARLAND
INDEPENDENT SCHOOL DISTRICT**

**1928 N. Main Street
Pearland, TX 77581**

**Comprehensive Annual Financial Report
For the Fiscal Year Ended June 30, 2018**

Issued by:

**Dr. John P. Kelly – Superintendent of Schools
Jorgannie Carter, CPA, RTSBA – Chief Financial Officer
Leslie Skweres, CPA, CTSBS – Director of Accounting
Yvette Rogers, RTSBA – Director of Budget and Compliance**

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PEARLAND INDEPENDENT SCHOOL DISTRICT

Comprehensive Annual Financial Report For the Year Ended June 30, 2018

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Introductory Section



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October 29, 2018

To the Board of Trustees and Citizens of the Pearland Independent School District:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) for the Pearland Independent School District (the “District”) for the fiscal year ended June 30, 2018. The report was prepared by the District’s Business Office. The basic financial statements have been audited by the independent accounting firm of Kennemer, Masters and Lunsford, LLC, whose report is included herein. The financial data appearing in this report has been prepared in accordance with generally accepted accounting principles and reporting standards as promulgated by the Governmental Accounting Standards Board (“GASB”).

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the District. We believe the data, as presented, is accurate in all material respects and is presented in a manner which daily sets forth the financial position and results of operations of the District. Furthermore, we believe that all disclosures necessary to enable the reader to gain the maximum understanding of the District’s financial activities have been included.

United States generally accepted accounting principles (GAAP) require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management’s Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The District’s MD&A can be found immediately following the report of the independent auditors.

Reporting Entity

The District is a political subdivision of the State of Texas located within Brazoria and Harris Counties. The District is governed by a seven-member Board of Trustees (the “Board”). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District.

The District is not included in any other governmental reporting entity as defined by Governmental Accounting Standards Board Statement No. 14. As required by GAAP, the financial statements of the reporting entity include those of the District (the primary government) and its component unit in conformity with GASB Statement No. 14, The Financial Reporting Entity. The District is not reporting component units.

The Board is required to adopt an initial budget for the fiscal year no later than June 30 preceding the beginning of the fiscal year on July 1. This annual budget serves as the foundation for the District’s financial planning and control. The budget is prepared and approved at least at the fund and function levels to comply with the state’s legal level of control mandates.

Services Provided

Through all the years of growth in Pearland, the school district has consistently been the heart of the town. The first school, built in 1893, was a one-room wood structure with a wood-burning stove and 23 students taught by Miss Nannie Rogers. More than a century later, the district has 23 campuses, including 11 elementary schools serving grades Pre-K-4, four middle schools serving grades 5-6, four junior high schools serving grades 7-8, three high schools serving grades 9-12, and an alternative school of choice serving over 21,000 students.

Pearland ISD strives to offer a world-class education that develops every child's unique gifts and talents. Our diverse programs challenge and equip students for future success:

- Gifted and Talented Academy
- Dual Language Pilot Program (dual English/Spanish classrooms)
- IB World School (Massey Ranch Elementary)
- Turner College and Career High School
- Career and Technical Education workforce learning and career pathways
- Dual credit/dual degrees through local colleges
- Associate degrees
- Professional certifications
- Championship athletic programs
- Premier drama, choral, band and art programs
- Special Olympics

The comprehensive academic program in grades K-12 provides students the opportunity to reach their full potential. Special Programs, bilingual/ESL, Gifted and Talented and pre-K services are offered to students who qualify.

At the secondary level (grades 7-12), the pre-AP/AP programs serve as the GT program in addition to a GT Academy option for students in grades 5-8. With the State Board of Education-approved Texas Essential Knowledge and Skills (TEKS), the entire K-12 curriculum has real-life application and integrates technology. The district also has an extensive Career and Technical Education program that makes connections with the business community.

Enrollment

Our enrollment for school year 2017-2018 was 21,662 students of which 6,951 students were enrolled at the high school level, 3,364 at the junior high school level, 3,329 at the middle school level, and 8,018 at the elementary level.

Approximately 34% of our students are classified as economically disadvantaged, 9% as Bilingual, 10.4% as Special Education, and 10.7% participate in Gifted and Talented courses. In addition, 21.6% of high school students take Career and Technology courses.

District's Purpose

Mission Statement

In partnership with the community, Pearland ISD shall prepare students to perform at their highest potential and produce global citizens of tomorrow.

Our Call to Action

Establish a community of learning that empowers 100% of students to graduate and equips them with grit, skills and a mindset necessary to be successful, productive citizens able to adapt to an ever-changing society.

District Beliefs

- We believe students come first.
- We believe all students are unique and valuable learners.
- We believe successful education includes engaged students, staff, parents and community.
- We believe that a positive culture and learning environment is critical for success of all learners.

District Strategic Goals

- We will strategically and collaboratively manage all District resources and funding to maximize the educational outcomes for every student.
- We will provide technological opportunities to facilitate learning.
- We will capitalize on the strengths, resources, and talents of our diverse community to engage students and parents.
- We will capitalize on the resources and talents of our business community to increase collaboration and expand opportunities for students to gain real world experiences.
- We will develop a system where student learning will be measured through application and transference from one discipline to another.
- We will meet the social and emotional needs of all students.

Education Foundation

The Pearland ISD Education Foundation has been created to support the educational programs for both the students and staff of Pearland ISD. The foundation will provide funds for educational programs and activities that either have not been funded or have been under-funded by the normal operating budget. These funds will be used to facilitate student achievement and skill development, to recognize and encourage staff excellence and to expand community involvement from individuals, businesses and civic organizations. Grant awards range from up to \$ 2,000 for teacher or classroom projects, with four grants being awarded up to \$ 5,000. During 2017-2018, 65 grants were awarded totaling \$ 106,076 to improve services to students. The Foundation has awarded over \$ 344,000 in grants since it began in 2014. The Foundation does not meet the criteria for inclusion in the District's financial statements under the provisions of GASB Statement No. 39.

Economic Condition and Outlook

The District is located in a residential and agricultural area that includes the City of Pearland, Texas, with a reported 2010 population of 91,252, a commercial center located 15 miles south of downtown Houston at the intersection of State Highway 35 and Farm to Market Road 518 in the northeast corner of Brazoria County, with a small portion in Harris County. Pearland is one of the fastest growing cities in Texas, positioned on a growth curve that extends well into the 21st century. Also included within the district is the Town of Brookside Village with a reported 2010 population of 1,523.

A Pearland economic and demographic profile prepared for the Pearland Economic Development Corporation shows Pearland's population growing rapidly since its incorporation, and especially since the year 2000. The 2010 US Census counted the city's population at 91,252, a 142.4% increase since the 2000 Census. The number of housing units also increased during this time, to 41,537, a 198.9% increase. As of January 2018, Pearland's population is an estimated 125,000, an increase of 37% since 2010. From 2010 to 2017, Pearland ranked as the 10th fastest growing city in the U.S., compared to other cities with a population of 50,000 or more in 2010.

The District has added 2,012 students in the last five years, representing a 5-year growth rate of 10.2%; peak enrollment during the 2017-2018 school year was 21,662 students. Average daily attendance (ADA) drives school funding and it currently averages 96.7%.

The District's financial position has experienced surpluses over the past years with the fund balance remaining stable as an indicator of sound financial management.

Local Economy

The Brazoria County economy is largely based upon manufacturing and construction. Brazoria County was the first capital of the Republic of Texas, which proves the county's roots run rich with Texas history. Some of Pearland's largest employers are energy service companies and include such companies as Baker-Hughes, Weatherford International and Dover Energy. Pearland is located close to the Texas Medical Center and its 50 medical institutions. Kelsey Seybold relocated its administrative headquarters to Pearland in 2013. Also, new to Pearland is FloWorks International, a specialty industrial supplier of pipe, valves and fittings.

Financial Policies and Long-Term Financial Planning

On November 8, 2016, voters of the District passed a \$ 220 million bond election by almost a two-thirds vote majority. This is the first bond election Pearland ISD has held since 2006.

The bond package addresses facility issues identified as top priorities by the District's Long Range Planning Community Advisory Committee, campus and district personnel, and architects and engineers. It also prepares for anticipated enrollment growth of 2,000 students in the next decade; including significant enrollment growth at Dawson High School, which was built for 2,000 students and currently has 2,500 as well as 16 portable classrooms.

In addition to addressing enrollment growth issues by building additions to the high schools, building a new Career and Technology Education center and two ROTC facilities, and increasing the seating and parking at the football stadium, the bond package includes safety and security needs throughout the district, technology needs, and campus renovations.

The District sold \$ 105 million of these bonds on July 6, 2017 and is moving forward with renovations and upgrades, with highest-priority items completed first. All bond projects are expected to be completed within an estimated four years.

For the first three years, it is foreseen that the impact of the bond will be a 0-cent tax increase, which is estimated to rise to a total maximum of 6 cents in succeeding years.

It is the responsibility of the Business Office to oversee all finance related issues, including the investment of construction funds and other funds for maximization of interest earnings, and to provide financial status reports to the Board with the objective of assisting in the accountability and decision-making process.

Accounting System

The Business Office is responsible for providing all District financial services including financial accounting and reporting, payroll and accounts payable disbursement functions, cash and investment management, debt management budgeting, procurement, and special financial and policy analyses to District management. The Chief Financial Officer, appointed by the Superintendent, has oversight responsibility for the division's operations.

The District utilizes the Tyler Munis suite of financial and human resources software, which includes a system of internal accounting controls. Such controls have been designed and are continually being reevaluated to provide reasonable, but not absolute, assurance for the safeguarding of assets against loss from unauthorized use or disposition and the reliability of financial records for preparing financial statements and maintaining accountability over the District's assets.

The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived, and the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within this framework and are believed to adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Accounting records for governmental fund types are maintained on a modified accrual basis with revenues recorded when services or goods are received and the liabilities are incurred. Accounting records for trust funds are maintained on the accrual basis.

Budgetary Financial Control

State law requires that every local education agency in Texas prepare and file an annual budget of anticipated revenues and expenditures with the Texas Education Agency. The annual budget serves as the foundation for the District's financial planning and control. The budget process must include budgeting for the General Fund, Debt Service Fund, and the Child Nutrition Fund.

Each year, the Board of Trustees and the Superintendent begin the budget process by reviewing the goals that establish the basis for budgeting available resources. Considering the fast-growth environment, the economic conditions, the changes in accountability standards and the change in student population, the District makes it a priority to analyze and adjust the programmatic structure to best meet the needs of the students.

As the budgets are developed by each campus and department, the District and Campus Improvement Plans are considered in the needs assessments. The budgets represent a balance between the educational needs of the students and programs and the ability of the community and the State of Texas (State) to provide the necessary financial resources.

Each year, the budget process officially begins in November with the preparation of the budget calendar for the upcoming year. During November, the demographer study allows the District to begin looking at growth rates, trends, and economic conditions affecting the district. The forecasting then is able to be utilized in staffing allotments and in campus budget financial allotments. Through the course of the spring each year, the campuses and departments begin formulating the needs assessments and requests for the following budget. Consolidated budgeting information is then presented to the Superintendent's Cabinet and to the Board of Trustees in various workshops and meetings. With a July 1 fiscal start date, the budget must be approved by June 30th each year.

Subsequent budget amendments must be approved by the Board for the General Fund budget. For Special Revenue Funds, budget amendments are subject to the approval by the granting agency. All departments are required to operate within their budgetary constraints. The operating budgets are amended prior to expenditure, and the accounting system provides a strong budgetary control over expenditures.

Independent Audit

The Texas Education Agency requires that an annual audit of the books of account, financial records, and transactions of all administrative departments of the school district be performed by an independent certified public accountant(s). The firm of Kennemer, Masters & Lunsford, LLC, was selected by the District and approved by the Board. In addition to meeting the requirements set forth in the state and local policies, the audit was also designed to meet the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The auditor's report on the basic financial statements and schedules are included in a separate report. The auditor's report related specifically to the single audit is included in the Federal Awards Section of the report.

Awards

School FIRST Superior Achievement

The School FIRST (Financial Accountability Rating System of Texas) program, a financial accountability system for Texas school districts was developed by the Texas Education Agency in response to Senate Bill 218 of the 77th Texas Legislature in 2001. The TEA has awarded the District a rating of "Superior Achievement" for the year ended June 30, 2017. The District has been awarded the "A" rating for "Superior Achievement" under Texas' Schools FIRST financial accountability rating system for fifteen of the sixteen years since inception. The rating is based upon an analysis of student and staff data reported for the 2016-2017 school year and budgetary and actual financial data for the fiscal year ended June 30, 2017.

The primary goal of FIRST is to achieve quality performance in the management of school districts financial resources, a goal made more significant due to the complexity of accounting associated with the Texas school finance system. The "Superior Achievement" rating is the state's highest financial rating, demonstrating the quality of Pearland ISD's sound fiscal management.

GFOA Certificate of Achievement

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the District for its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

ASBO Certificate of Excellence

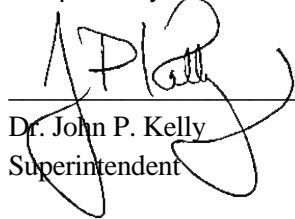
The District received the Association of School Business Officials' (ASBO) Certificate of Excellence in Financial Reporting for the fiscal year ended June 30, 2017. This award certifies that the Comprehensive Annual Financial Report for the fiscal year ended June 30, 2017, substantially conforms to the principles and standards of financial reporting as recommended and adopted by the ASBO. We believe that our current Comprehensive Annual Financial Report continues to meet the Certificate of Excellence Program's requirements and we are submitting it to the ASBO to determine its eligibility for another certificate.

Acknowledgments


The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff in the Business Office and the leadership of the Superintendent. In addition, we would like to express our appreciation to other divisions, departments, schools and individuals who assisted in its preparation.

We would also like to acknowledge the thorough professional and timely manner in which the audit was conducted by our independent auditors, Kennemer, Masters & Lunsford, LLC. Furthermore, we would like to especially acknowledge the President of the Board and the Board of Trustees for supporting the school district's goals of excellence in all aspects of financial management.

Respectfully submitted,



Dr. John P. Kelly
Superintendent



Jorgannie G. Carter, CPA, RTSBA
Chief Financial Officer

CERTIFICATE OF BOARD

Pearland
Independent School District
Name of School District

Brazoria
County

020-908
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 June 30, 2018, at a meeting of the board of trustees of such school district on the 13th day of November 2018.



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 if necessary):



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Pearland Independent School District
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

**The Certificate of Excellence in Financial Reporting
is presented to**

Pearland Independent School District

**for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended June 30, 2017.**

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards.



Charles E. Peterson, Jr., SFO, RSBA, MBA
President

John D. Musso, CAE
Executive Director

**PEARLAND INDEPENDENT SCHOOL DISTRICT
BOARD OF TRUSTEES AND ADMINISTRATION**

BOARD OF TRUSTEES

Rebecca Decker, President
Adjunct professor for University of Houston – Clear Lake

Charles Gooden Jr., Vice President
Part owner and COO of Charles D. Gooden Consulting Engineers, Inc.

Jeff Barry, Secretary
President of Barry Insurance Group

Lance Botkin, Member
Outside sales and part owner of Floyd's on the Water Seafood Restaurant

Crystal Carbone, Member
Licensed Specialist in School Psychology

Mikael Floyd, Member
Student at the University of Houston Honors College

Sean Murphy, Member
Vice President of Home Town Bank of Pearland

ADMINISTRATION

Dr. John Kelly, Superintendent of Schools

Nanette Weimer, Deputy Superintendent

Jorgannie Carter, CPA, Chief Financial Officer

Cary Partin, Senior Assistant Superintendent for Support Services

Sonia Serrano, Senior Assistant Superintendent for Intermediate Education

Dr. Brenda Waters, Senior Assistant Superintendent for Elementary Education

Dr. Nyla Watson, Senior Assistant Superintendent of Instructional Programs

David Moody, Assistant Superintendent for Human Resource Services

Kim Hocott, Executive Director of Communications

Tanya Dawson, General Counsel

Greg Bartay, Chief Technology Officer

Dr. Lisa Nixon, Executive Director of Special Programs

Don Tillis, Director of Facilities and Planning

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Financial Section



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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

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Lake Jackson, Texas 77566
979-297-4075

Angleton Office:
2801 N. Velasco Suite C
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979-849-8297

El Campo Office:
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El Campo, Texas 77437
979-543-6836

Houston Office:
10850 Richmond Ave., Ste 135
Houston, Texas 77042
281-974-3416

Independent Auditor's Report

To the Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

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 Pearland Independent School District (the "District") as of and for the year ended June 30, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

www.kmandl.com – Email: kmkw@kmandl.com

Members: American Institute of Certified Public Accountants, Texas Society of Certified Public Accountants,
Partnering for CPA Practice Success

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 the Pearland Independent School District, as of June 30, 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

As described in Note 2 to the financial statements, in the year ended June 30, 2018, the District adopted new accounting guidance, GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*. 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 analysis on pages 5 through 15, budgetary comparison information on page 68, required pension schedules on pages 69 through 70, and required OPEB schedules on pages 71 through 72 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 District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, required Texas Education Agency schedule, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Other Information – (Continued)

The combining and individual nonmajor fund financial statements, required Texas Education Agency schedules, and the schedule of expenditures of federal awards are the responsibility of management and were 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 combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 the District's internal control over financial reporting and compliance.

Kennemer, Masters & Rungford, LLC

Lake Jackson, Texas
October 29, 2018

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PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

As management of the Pearland Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent period by \$ 9,602,211 (*net position*). Of this amount, unrestricted net position is a deficit of \$ 79,423,632.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 149,372,468. Approximately 20.23 percent of this total amount, \$ 30,212,343, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 30,212,343, or 17.87 percent of the total general fund expenditures.
- The District reported net pension liability of \$ 36,245,657 and a net OPEB liability of \$ 61,916,791, at June 30, 2018, with the implementation of GASB Statements Nos. 68, 71, and 75. With the addition of these non-current liabilities on an accrual basis, the District reported a deficit unrestricted position in the amount of \$ 79,423,632.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 16 through 17 of this report.

PEARLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, government fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the government fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains twenty-two (22) governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, each of which are considered to be major funds. Data from the other nineteen (19) governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, food service special revenue fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 18 through 21 of this report.
- **Proprietary funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded workers' compensation insurance program. The basic proprietary fund financial statements can be found on pages 22 through 24 of this report.

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- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position that can be found on page 25. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 27 through 65 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 68 through 72 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 74 through 81 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$ 9,602,211 as of June 30, 2018. Deficit net position of the District's governmental activities decreased from \$ 31,908,939 to \$ 9,602,211.

The District's Net Position

	June 30, 2018	Restated June 30, 2017
Current and other assets	\$ 192,945,283	\$ 96,512,205
Capital assets	<u>362,416,150</u>	<u>326,290,985</u>
Total assets	<u>555,361,433</u>	<u>422,803,190</u>
Deferred outflows of resources	<u>32,717,325</u>	<u>38,249,854</u>
Long-term liabilities outstanding	512,622,858	459,163,122
Other liabilities	<u>48,040,559</u>	<u>26,294,681</u>
Total liabilities	<u>560,663,417</u>	<u>485,457,803</u>
Deferred inflows of resources	<u>37,017,552</u>	<u>7,504,180</u>
Net Position:		
Net investment in capital assets	47,413,133	31,924,248
Restricted	22,408,288	32,597,373
Unrestricted	<u>(79,423,632)</u>	<u>(96,430,560)</u>
Total net position	<u>\$ (9,602,211)</u>	<u>\$ (31,908,939)</u>

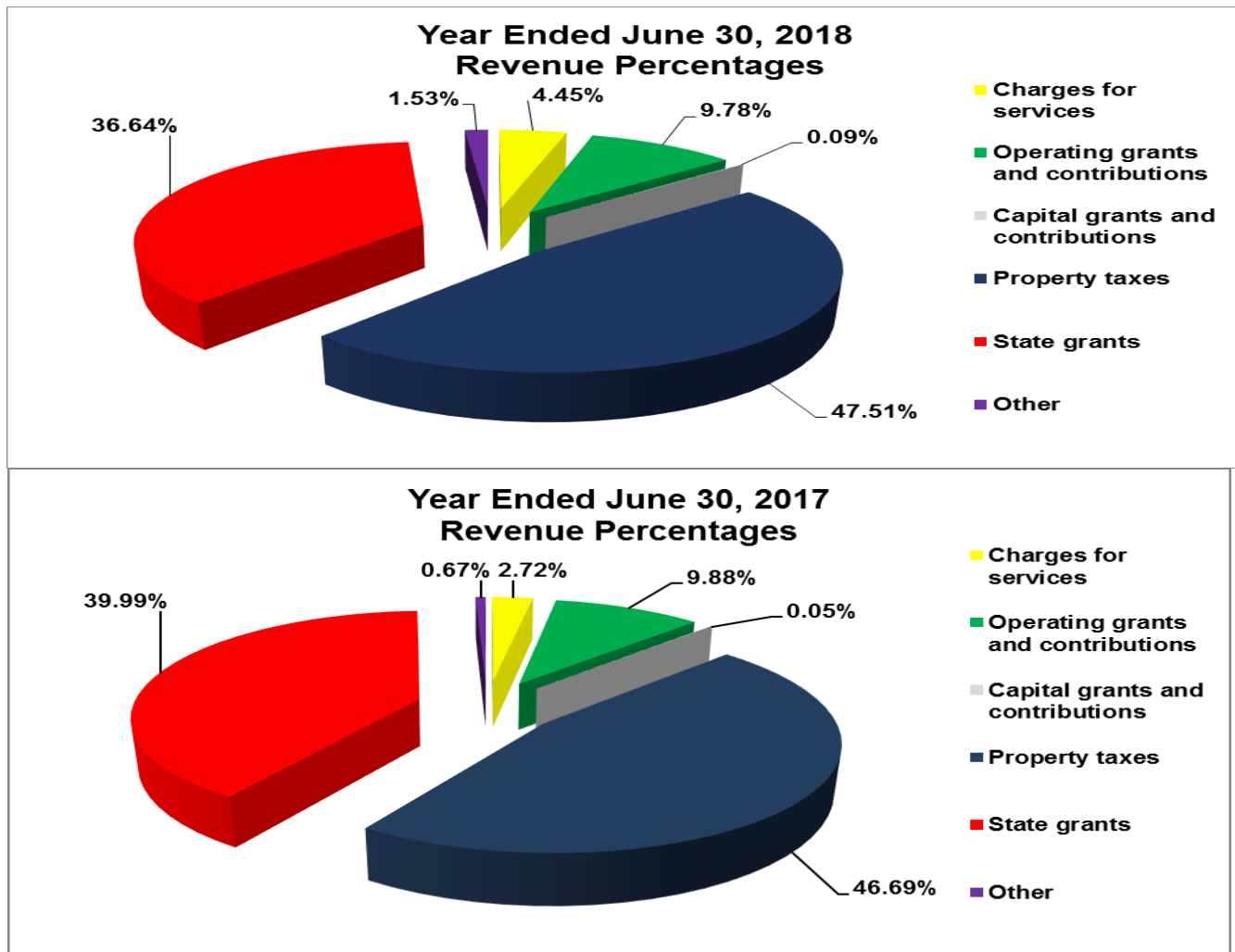
PEARLAND INDEPENDENT SCHOOL DISTRICT

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Investment in capital assets (e.g., land, buildings and improvements, furniture, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding is \$ 47,413,133. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Restricted net position represents resources that are subject to external restrictions on how they may be used amounted to \$ 22,408,288. The remaining balance is a deficit of \$ 79,423,632, which represents unrestricted net position. This deficit is not an indication that the District does not have significant resources available to meet financial obligations next year, but rather the result of having long-term commitments, specifically the net pension liability and net OPEB liability, that are more than currently available resources.

Governmental activities. The District's total net position increased by \$ 22,306,728. The total cost of all *governmental activities* this year was \$ 201,786,727. The amount that our taxpayers paid for these activities through property taxes was \$ 106,479,262 or 52.77% of total cost. The amount of costs that were paid by those who directly benefited from the programs was \$ 9,966,273 or 4.94%. The costs that were paid by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding were \$ 21,912,229 or 10.86% and \$ 82,102,901 or 40.69%, respectively.



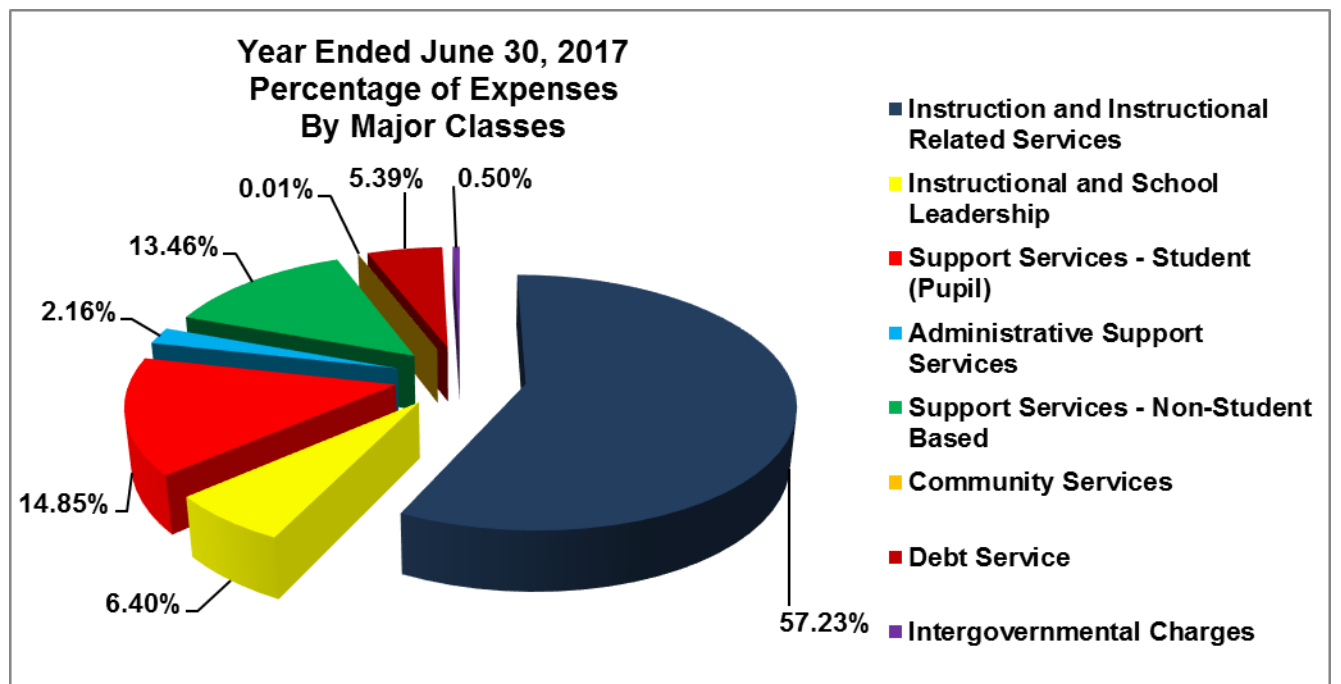
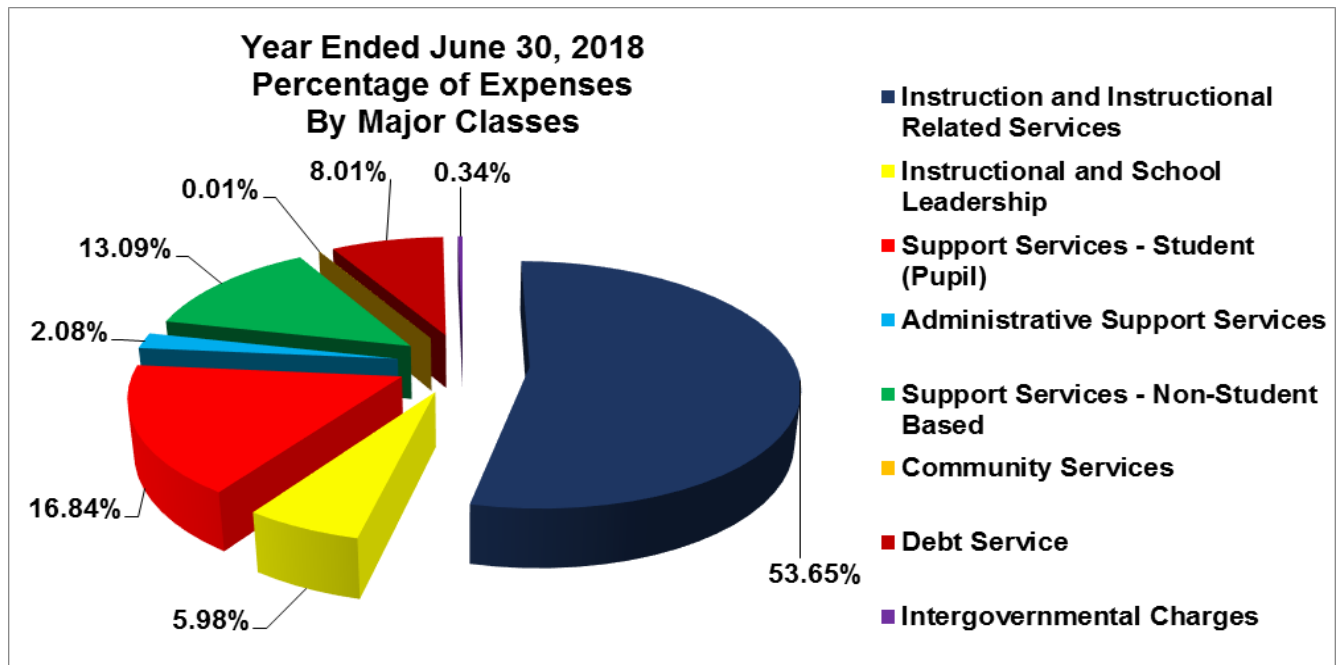
PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018

Changes in the District's Net Position

	Year Ended 6-30-18	Year Ended 6-30-17
Revenues:		
Program Revenues:		
Charges for services	\$ 9,966,273	\$ 5,776,500
Operating grants and contributions	21,912,229	21,001,150
Capital grants and contributions	194,827	111,512
General Revenues:		
Property taxes	106,479,262	99,230,772
State grants	82,102,901	84,989,975
Other	<u>3,437,963</u>	<u>1,414,507</u>
Total revenues	<u>224,093,455</u>	<u>212,524,416</u>
Expenses:		
Instruction	101,971,641	111,410,232
Instructional resources & media services	1,874,480	2,023,569
Curriculum & staff development	4,396,887	5,032,868
Instructional leadership	2,188,457	2,364,184
School leadership	9,884,886	10,889,063
Guidance, counseling & evaluation services	5,689,193	6,549,827
Social work services	594,806	564,122
Health services	1,322,930	1,470,916
Student transportation	6,707,250	7,166,128
Food services	9,539,071	9,628,376
Cocurricular/extracurricular activities	10,135,800	5,352,392
General administration	4,198,607	4,461,643
Plant maintenance and operations	19,310,843	20,600,321
Security and monitoring services	1,956,123	1,837,076
Data processing services	5,141,820	5,418,925
Community services	17,057	17,607
Debt service - Interest and fees on long-term debt	16,161,698	11,537,729
Payments to juvenile justice alternative education	44,800	17,600
Other intergovernmental charges	<u>650,378</u>	<u>627,315</u>
Total expenses	<u>201,786,727</u>	<u>206,969,893</u>
Increase in net position	22,306,728	5,554,523
Beginning net position (restated)	<u>(31,908,939)</u>	<u>71,107,256</u>
Ending net position	<u>\$ (9,602,211)</u>	<u>\$ 76,661,779</u>

The fiscal year ending June 30, 2018 net position was restated in accordance with the implementation of GASB Statement No. 75. Due to the availability of the information related to the implementation of this standard, the fiscal year ending June 30, 2017 could not be restated.

PEARLAND INDEPENDENT SCHOOL DISTRICT
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PEARLAND INDEPENDENT SCHOOL DISTRICT

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 149,372,468, an increase of \$ 76,236,947. Approximately 20.23 percent of this total amount, \$ 30,212,343 constitutes *unassigned fund balance*. The remainder of fund balance is *non-spendable, restricted, committed, or assigned* to indicate that it is not available for new spending because it has already been committed 1) for inventory \$ 326,263, 2) for prepaid items \$ 1,091,404, 3) for grant funds \$ 2,691,484, 4) capital acquisitions and contractual obligations \$ 69,007,397, 5) debt service \$ 22,350,143, 6) other \$ 3,183,434, 7) committed for construction \$ 7,500,000, and 8) assigned for other purposes \$ 13,010,000.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 30,212,343, while the total fund balance was \$ 52,069,177. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 17.87 percent of the total general fund expenditures, while total fund balance represents 30.79 percent of that same amount.

The fund balance of the District's general fund increased by \$ 1,332,395 or 2.63 percent during the current fiscal year from last year's total general fund balance of \$ 50,736,782. In late August 2017, Hurricane Harvey made landfall and traveled over the Gulf Coast of Texas. High winds, record amounts of rain, and flooding caused massive damage and affected millions of Texans, including Texas school children. During that time, the District incurred additional expenditures for operating shelters and for securing District facilities. Affected school districts were able to receive federal grant funds to help mitigate the effects of the disaster and improve student safety. The District received over \$1.2 million which were used to reclassify part of the utility costs incurred to reopen schools and to compensate personnel in schools that enrolled displaced students. Revenues increased approximately 1.54 percent from prior year from \$ 168,773,473 to \$ 171,365,301. The increase in revenues is due to an increase in property tax revenue as a result of higher property values and an increase in the interest rate for investments. Expenditures increased approximately 2.07 percent from prior year from \$ 165,665,699 to \$ 169,087,399. The increase in expenditures is mainly attributed to a 2% salary increase to all staff and a mid-year supplemental adjustment of \$ 500 for professionals and \$ 400 for paraprofessional staff.

The debt service fund has a total fund balance of \$ 22,350,143, all of which is restricted for the payment of debt service. The net increase in fund balance during the period in the debt service fund was \$ 3,197,109 from last year's balance of \$ 19,153,034. This increase is primarily due to a \$ 3.2 million premium on issuance of the 2017 bonds.

The capital projects fund has a total fund balance of \$ 69,007,397, all of which is considered restricted for capital acquisitions and contractual obligations. The net increase in fund balance during the period in the capital projects fund was \$ 71,343,216 from last year's deficit of \$ 2,335,819. This increase is due to the issuance of the 2017 Unlimited School Tax bonds

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JUNE 30, 2018

Proprietary funds. As mentioned earlier, the District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at June 30, 2018 amounted to \$ 404,694. The total decrease in net position was \$ 14,569 from last year's balance of \$ 419,263.

General Fund Budgetary Highlights

The District revised its budget two times over the course of the year. Both budget amendments consisted of minor adjustments to the General Fund at the function level with no overall impact to expenditure levels. In addition, the second budget amendment increased revenues to account for an increase of \$ 3.3 million in State revenue for State Compensatory Education funding as a result of submitting full enrollment as free and reduced for September to the Texas Department of Agriculture due to Hurricane Harvey.

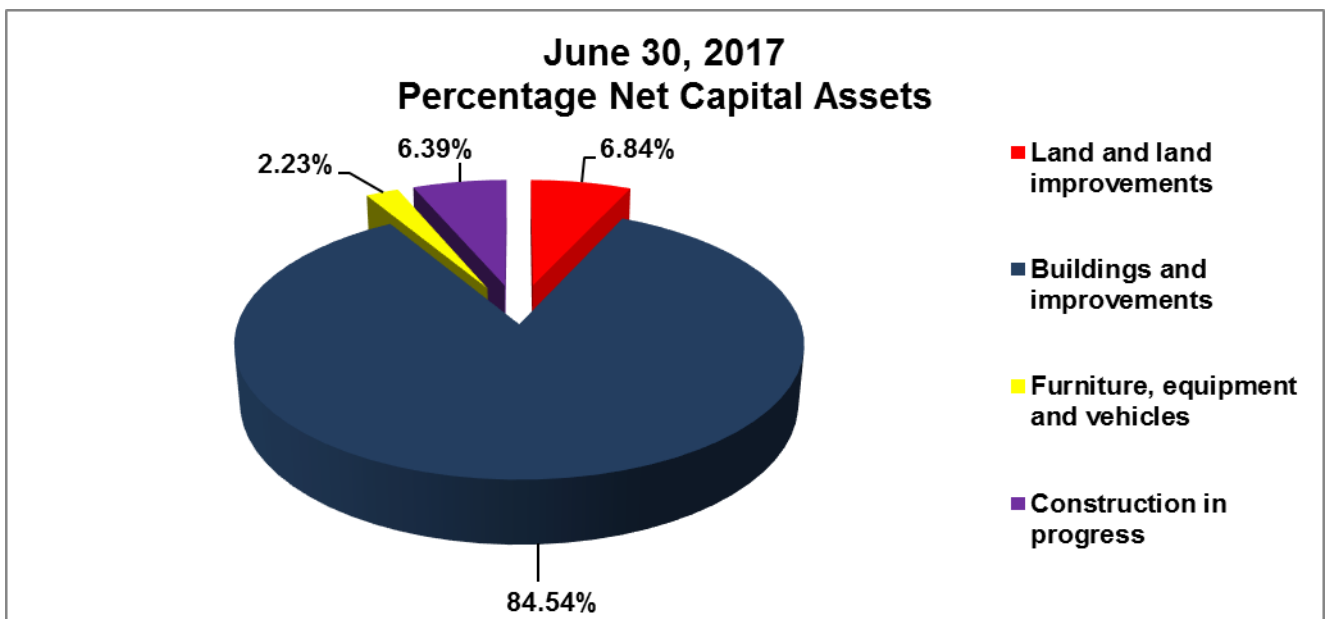
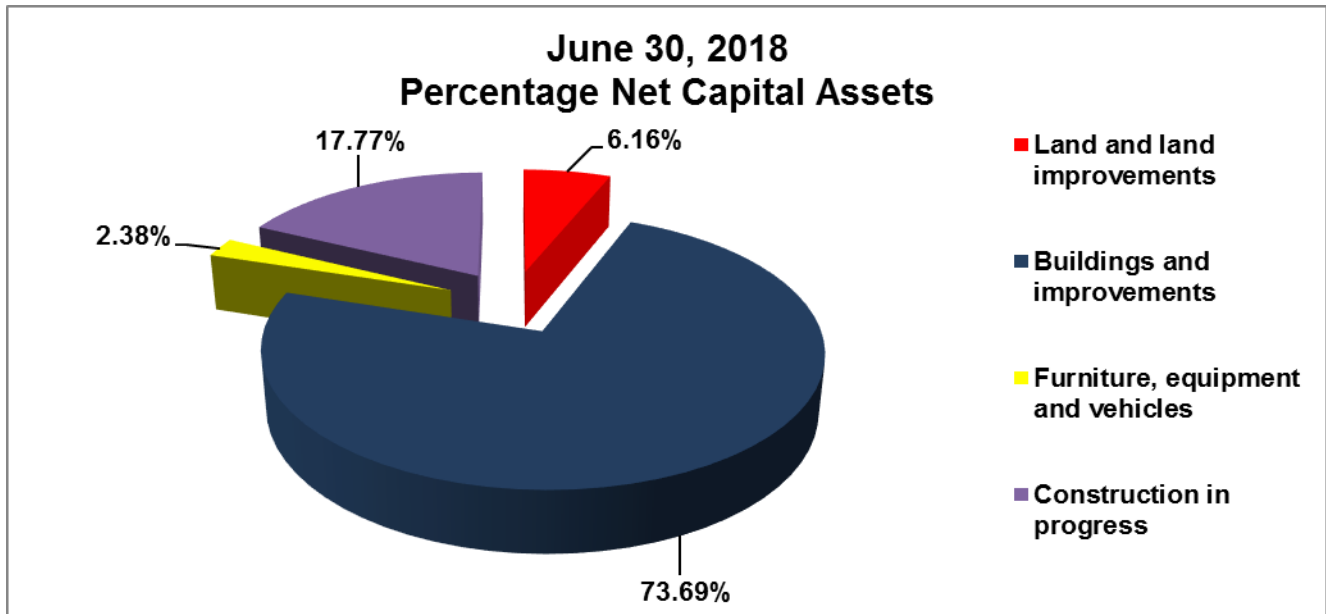
Realized revenues and other resources exceeded actual expenditures and transfers out by \$ 1,332,395. After the budget was adjusted for the events described above, the District's actual General Fund revenue and expenditure amounts differ from the final budget as reported in Exhibit G-1 of this report. The difference is primarily due to the District's conservative approach to budgeting. Actual revenues exceeded budgeted levels by \$ 2.2 million, which was attributable to higher than anticipated property values and a high rate of tax collections. Actual expenditures were less than budgeted expenditures which was primarily attributable to less than expected costs in payroll, transportation, and facilities maintenance and operations.

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2018 amounts to \$ 362,416,150 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, furniture, equipment and vehicles, and construction in progress. The increase in capital assets is due to all remaining 2016 Series Bonds projects being completed or near completion (which include renovations at Pearland High School, the expansion of Carlestone elementary, and the expansion of Lawhon elementary) and construction in progress and technology equipment purchased with 2017 Series Bonds.

District's Capital Assets (net of depreciation)

	June 30, 2018	June 30, 2017
Land	\$ 22,330,888	\$ 22,330,888
Buildings and improvements	267,074,692	275,855,818
Furniture, equipment and vehicles	8,617,473	7,267,327
Construction in progress	<u>64,393,097</u>	<u>20,836,952</u>
Total at historical cost	<u>\$ 362,416,150</u>	<u>\$ 326,290,985</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018



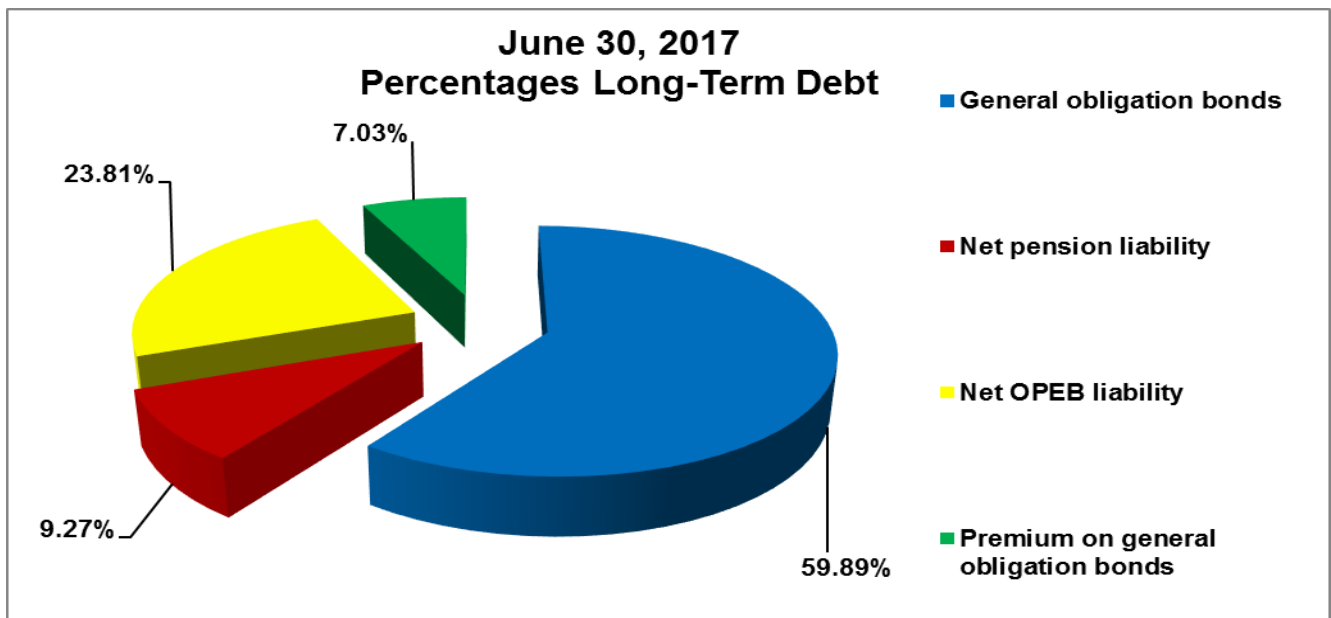
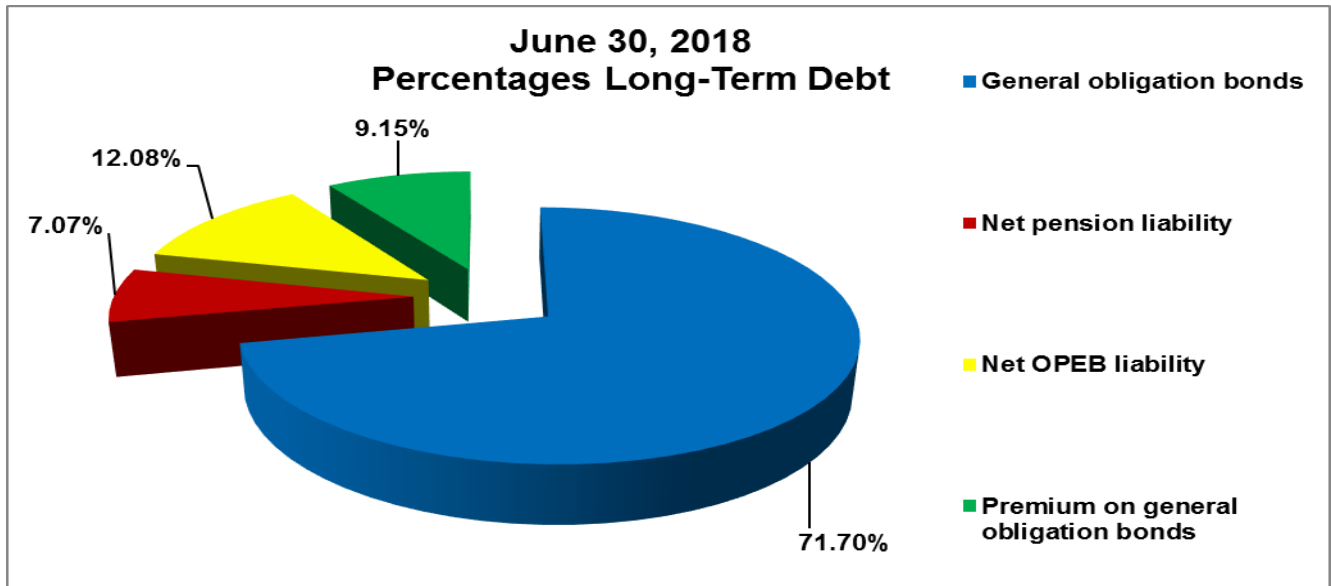
Additional information on the District's capital assets can be found in Note 6 on pages 48 through 49 of this report.

Long-term debt. At June 30, 2018, the District had total long-term debt outstanding of \$ 512,622,858, an increase of \$ 53,459,736 from the previous year. Long-term debt is made up of the following: A \$ 220 million bond referendum was passed on November 2016; on July 6, 2017, the District issued \$ 120 million in 2017 Series Bonds to fund safety and security projects, technology needs, campus expansion to accommodate student growth and fund campus renovations.

PEARLAND INDEPENDENT SCHOOL DISTRICT
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JUNE 30, 2018

District's Long-Term Debt

	June 30, 2018	June 30, 2017
General obligation bonds	\$ 367,580,000	\$ 274,992,134
Net pension liability	36,245,657	42,580,241
Net OPEB liability	61,916,791	109,310,966
Premium on general obligation bonds	<u>46,880,410</u>	<u>32,279,781</u>
Total long-term debt	<u>\$ 512,622,858</u>	<u>\$ 459,163,122</u>



Additional information on the District's long-term debt can be found in Note 7 on pages 50 through 51 of this report.

PEARLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Economic Factors and Next Year's Budgets and Rates

Economic factors may have a significant impact on the District's finances. When approving the budget and adopting the tax rate, the District's management and elected officials consider economic factors such as enrollment growth, property values, state funding, and facility needs.

- The rate of enrollment growth has slowed over the last two years as the District approaches build-out within its boundaries. Next year's enrollment is expected to reach 21,662 students which is the same as the 2017-2018 peak enrollment of 21,662. The latest demographic study conducted during the fall of 2017 projects the District's enrollment will increase to 22,831 students by the 2027-2028 school year.
- The District's taxable values are projected to increase by 2.75% next year. Absent any unforeseen events, the taxable values of the District are expected to hold stable.
- The official budget for the 2018-2019 school year continues to reflect management's conservative approach to budgeting. General fund expenditures are budgeted to increase by approximately \$ 4.8 million from the 2017-2018 estimated projection due to staffing additions of approximately \$ 900,000 and salary and benefit increases of \$ 3.9 million. The District expects to maintain a fund balance in excess of a 90-day reserve at the end of the 2018-2019 fiscal year.
- For fiscal year 2018-2019, the maintenance and operation (M&O) portion of the tax rate will increase from \$ 1.04 to \$ 1.06 per \$ 100 valuation, while the interest and sinking (I&S) portion of the rate, which funds debt service, will decrease from 0.3756 to 0.3556 cents per \$ 100 valuation; maintaining the overall tax rate of \$ 1.4156 the same as prior year. Although a tax ratification election is normally required to raise the M&O tax rate above \$ 1.04, the state code makes an exception for the year following the year in which a disaster occurs, such as hurricane Harvey.
- The one-year temporary increase to the M&O tax rate will generate an additional \$ 5.5 million in revenue by maximizing our state funding with \$ 4 million in additional state aid and \$ 1.5 million in local tax revenue. The two cent decrease to the I&S rate will be funded by remaining funds from the 2014 Bond Series projects that have been completed as well as interest revenue generated from the investment of 2017 Bond Series funds.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Chief Financial Officer, Pearland Independent School District, 1928 N. Main, Pearland, Texas 77581.

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

EXHIBIT A-1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	ASSETS:	
1110	Cash and cash equivalents	\$ 162,960,792
1220	Taxes receivable - delinquent	3,513,645
1230	Allowance for uncollectible taxes	(1,622,017)
1240	Due from other governments	24,987,583
1290	Other receivables (net)	1,687,613
1300	Inventories	326,263
1410	Deferred expenses	1,091,404
	Capital Assets:	
1510	Land	22,330,888
1520	Building, furniture and equipment, net	267,074,692
1530	Furniture, equipment and vehicles, net	8,617,473
1580	Construction in progress	<u>64,393,097</u>
1000	Total assets	<u>555,361,433</u>
	DEFERRED OUTFLOWS OF RESOURCES:	
1700	Deferred outflows of resources	<u>32,717,325</u>
	Total deferred outflows of resources	<u>32,717,325</u>
	LIABILITIES:	
2110	Accounts payable	19,749,533
2140	Accrued interest payable	6,254,836
2150	Payroll deductions and withholdings	1,268,155
2165	Accrued liabilities	18,440,912
2200	Accrued expenses	95,603
2300	Unearned revenue	2,231,520
	Noncurrent Liabilities:	
2501	Due within one year	16,648,249
2502	Due in more than one year	397,812,161
2540	Net pension liability	36,245,657
2545	Net OPEB liability	<u>61,916,791</u>
2000	Total liabilities	<u>560,663,417</u>
	DEFERRED INFLOWS OF RESOURCES:	
2600	Deferred inflows of resources	<u>37,017,552</u>
	Total deferred inflows of resources	<u>37,017,552</u>
	NET POSITION:	
3200	Net investment in capital assets	47,413,133
	Restricted For:	
3820	Federal and state programs	137,694
3840	Food service	2,762,317
3850	Debt service	16,462,537
3890	Campus activities	3,045,740
3900	Unrestricted	<u>(79,423,632)</u>
3000	Total net position	<u><u>\$ (9,602,211)</u></u>

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

EXHIBIT B-1

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	5 Capital Grants and Contributions	
	GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 101,971,641	\$ 365,685	\$ 9,634,508	\$	\$(91,971,448)
12	Instructional resources and media services	1,874,480	723	88,096		(1,785,661)
13	Curriculum and staff development	4,396,887	105	474,427		(3,922,355)
21	Instructional leadership	2,188,457	325	333,494		(1,854,638)
23	School leadership	9,884,886	1,731	500,884		(9,382,271)
31	Guidance, counseling, and evaluation services	5,689,193	886	1,104,532		(4,583,775)
32	Social work services	594,806	33	2,241,533		1,646,760
33	Health services	1,322,930	333	63,971		(1,258,626)
34	Student transportation	6,707,250	2,881	317,551		(6,386,818)
35	Food service	9,539,071	4,235,483	5,726,409	194,827	617,648
36	Extracurricular activities	10,135,800	5,349,495	163,134		(4,623,171)
41	General administration	4,198,607	545	249,839		(3,948,223)
51	Plant maintenance and operations	19,310,843	7,062	843,834		(18,459,947)
52	Security and monitoring services	1,956,123	884			(1,955,239)
53	Data processing services	5,141,820	102	161,750		(4,979,968)
61	Community services	17,057		8,267		(8,790)
71	Interest on long-term debt	16,161,698				(16,161,698)
95	Payments to juvenile justice alternative education programs	44,800				(44,800)
99	Other intergovernmental charges	<u>650,378</u>				<u>(650,378)</u>
TG	Total governmental activities	<u>\$ 201,786,727</u>	<u>\$ 9,966,273</u>	<u>\$ 21,912,229</u>	<u>\$ 194,827</u>	<u>(169,713,398)</u>
	General Revenues:					
	Taxes:					
MT	Property taxes, levied for general purposes					78,244,130
DT	Property taxes, levied for debt service					28,235,132
SF	State aid-formula grants					82,102,901
GC	Grants and contributions not restricted to specific programs					121,350
IE	Investment earnings					2,261,747
MI	Miscellaneous					1,003,357
E1	Extraordinary items – insurance recoveries					<u>51,509</u>
TR	Total general revenues, special items, and transfers					<u>192,020,126</u>
CN	Change in net position					<u>22,306,728</u>
MB	Net position – beginning					76,661,779
PA	Prior period adjustment required by GASB 75					<u>(108,570,718)</u>
NB	Net position – beginning, as restated					<u>(31,908,939)</u>
NE	Net position – ending					<u>\$(9,602,211)</u>

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2018

EXHIBIT C-1

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
	ASSETS AND DEFERRED OUTFLOW OF RESOURCES:					
	Assets:					
1110	Cash and cash equivalents	\$ 46,843,888	\$ 22,118,035	\$ 86,939,115	\$ 6,634,919	\$ 162,535,957
1220	Taxes receivable – delinquent	2,617,109	896,536			3,513,645
1230	Allowance for uncollectible taxes (credit)	(1,227,397)	(394,620)			(1,622,017)
1240	Receivables from other governments	24,109,314			878,269	24,987,583
1260	Due from other funds	493,855		151,510		645,365
1290	Other receivables	1,299,760	387,853			1,687,613
1300	Inventories	255,430			70,833	326,263
1410	Prepaid items	1,091,404				1,091,404
1000	Total assets	<u>75,483,363</u>	<u>23,007,804</u>	<u>87,090,625</u>	<u>7,584,021</u>	<u>193,165,813</u>
	Deferred Outflow of Resources:					
1700	Deferred outflows of resources					-0-
	Total deferred outflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
1000A	Total assets and deferred outflows of resources	<u>\$ 75,483,363</u>	<u>\$ 23,007,804</u>	<u>\$ 87,090,625</u>	<u>\$ 7,584,021</u>	<u>\$ 193,165,813</u>
	LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	\$ 1,473,810	\$	\$ 18,083,228	\$ 192,495	\$ 19,749,533
2150	Payroll deductions and withholdings	1,268,155				1,268,155
2160	Accrued wages payable	17,501,585			939,327	18,440,912
2170	Due to other funds	151,510			493,855	645,365
2200	Accrued expenditures	71,387			4,075	75,462
2300	Unearned revenue	1,932,571	290,431		8,518	2,231,520
2000	Total liabilities	<u>22,399,018</u>	<u>290,431</u>	<u>18,083,228</u>	<u>1,638,270</u>	<u>42,410,947</u>
	Deferred Inflow of Resources:					
	Deferred inflows of resources - property taxes	1,015,168	367,230			1,382,398
2600	Total deferred inflows of resources	<u>1,015,168</u>	<u>367,230</u>	<u>-0-</u>	<u>-0-</u>	<u>1,382,398</u>
	Fund Balances:					
3410	Non-spendable - inventories	255,430			70,833	326,263
3430	Non-spendable - prepaid items	1,091,404				1,091,404
3450	Restricted - grant funds (food service)				2,691,484	2,691,484
3470	Restricted - capital acquisitions and contractual obligations			69,007,397		69,007,397
3480	Restricted - debt service		22,350,143			22,350,143
3490	Restricted – other				3,183,434	3,183,434
3510	Committed - construction	7,500,000				7,500,000
3590	Assigned - other	13,010,000				13,010,000
3600	Unassigned	30,212,343				30,212,343
3000	Total fund balances	<u>52,069,177</u>	<u>22,350,143</u>	<u>69,007,397</u>	<u>5,945,751</u>	<u>149,372,468</u>
4000	Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 75,483,363</u>	<u>\$ 23,007,804</u>	<u>\$ 87,090,625</u>	<u>\$ 7,584,021</u>	<u>\$ 193,165,813</u>

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
JUNE 30, 2018

EXHIBIT C-1R

Total fund balances – governmental funds balance sheet (C-1)	\$ 149,372,468
Amounts reported for <i>governmental activities</i> in the statement of net position (A-1) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements but are reported in the governmental activities statement of net position. Capital assets include \$ 523,466,948 in assets less \$ 161,050,798 in accumulated depreciation.	362,416,150
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 1,015,168 and \$ 367,230, respectively.	1,382,398
The assets and liabilities of internal service funds are included in governmental activities in the statement of net position.	404,694
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. This is the bond refunding costs which are amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. This amount is bond refunding costs of \$ 17,056,559 less accumulated costs of \$ 6,152,495, and is reported as a deferred outflow of resources.	10,904,064
Pension and OPEB deferred outflows of resources of \$ 21,813,261 less deferred inflows of resources of \$ 37,017,552.	(15,204,291)
Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increase long-term liabilities in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 46,880,410 (premium on sale of bonds of \$ 58,527,009 less amortization costs of \$ 11,646,599).	(46,880,410)
Net pension liability	(36,245,657)
Net OPEB liability	(61,916,791)
Payables for general obligation bond principal are not reported in the funds.	(367,580,000)
Payables for bond interest are not reported in the funds.	(<u>6,254,836</u>)
Net position of governmental activities – statement of net position (A-1)	<u><u>\$ (9,602,211)</u></u>

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

EXHIBIT C-2

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
	REVENUES:					
5700	Local and intermediate sources	\$ 80,607,502	\$ 28,478,680	\$ 1,255,390	\$ 9,376,112	\$ 119,717,684
5800	State program revenues	88,381,545	813,747		2,558,560	91,753,852
5900	Federal program revenues	<u>2,376,254</u>			<u>10,033,532</u>	<u>12,409,786</u>
5020	Total revenues	<u>171,365,301</u>	<u>29,292,427</u>	<u>1,255,390</u>	<u>21,968,204</u>	<u>223,881,322</u>
	EXPENDITURES:					
	Current:					
0011	Instruction	99,220,920		3,629,032	5,429,422	108,279,374
0012	Instructional resources and media services	1,805,340			76	1,805,416
0013	Curriculum and staff development	4,732,487			300,155	5,032,642
0021	Instructional leadership	2,203,154			241,310	2,444,464
0023	School leadership	11,179,202		83,968	54,148	11,317,318
0031	Guidance, counseling, and evaluation services	5,692,280			842,164	6,534,444
0032	Social work services	567,832			79,280	647,112
0033	Health services	1,499,201			152	1,499,353
0034	Student transportation	7,101,491			41,000	7,142,491
0035	Food Service				9,554,503	9,554,503
0036	Extracurricular activities	4,227,183		1,542	5,047,213	9,275,938
0041	General administration	4,609,335				4,609,335
0051	Plant maintenance and operations	19,740,935		2,097,861	1,001,385	22,840,181
0052	Security and monitoring services	1,810,517		158,836	870	1,970,223
0053	Data processing services	3,993,554		2,035,434	5,417	6,034,405
0061	Community services	8,790			8,267	17,057
0071	Principal on long-term debt		12,945,000			12,945,000
0072	Interest and fees on long-term debt		16,367,370			16,367,370
0080	Capital outlay			41,905,501		41,905,501
0095	Pymts. to juvenile justice alt. education programs	44,800				44,800
0099	Other intergovernmental charges	<u>650,378</u>				<u>650,378</u>
6030	Total expenditures	<u>169,087,399</u>	<u>29,312,370</u>	<u>49,912,174</u>	<u>22,605,362</u>	<u>270,917,305</u>
1100	Excess (deficiency) of revenues over expenditures	<u>2,277,902</u>	<u>(19,943)</u>	<u>(48,656,784)</u>	<u>(637,158)</u>	<u>(47,035,983)</u>
	OTHER FINANCING SOURCES (USES):					
7911	Issuance of general obligation bonds			105,510,000		105,510,000
7912	Sale of real and personal property	4,369				4,369
7915	Transfers in				1,001,385	1,001,385
7916	Premium on issuance of bonds		3,217,052	14,490,000		17,707,052
8911	Transfers out	<u>(1,001,385)</u>				<u>(1,001,385)</u>
	Total other financing sources and (uses)	<u>(997,016)</u>	<u>3,217,052</u>	<u>120,000,000</u>	<u>1,001,385</u>	<u>123,221,421</u>
	EXTRAORDINARY ITEMS:					
7919	Insurance recoveries	<u>51,509</u>				<u>51,509</u>
1200	Net change in fund balances	1,332,395	3,197,109	71,343,216	364,227	76,236,947
0100	Fund balances – beginning	<u>50,736,782</u>	<u>19,153,034</u>	<u>(2,335,819)</u>	<u>5,581,524</u>	<u>73,135,521</u>
3000	Fund balances – ending	<u>\$ 52,069,177</u>	<u>\$ 22,350,143</u>	<u>\$ 69,007,397</u>	<u>\$ 5,945,751</u>	<u>\$ 149,372,468</u>

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-2R

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Net change in fund balances – total governmental funds (from C-2) \$ 76,236,947

Amounts reported for *governmental activities* in the statement of activities (B-1) are different because:

Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$ 47,117,559 was more than depreciation of \$ 10,964,318 in the current period. 36,153,241

Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Deferred property tax revenues increased for the general fund and the debt service fund amounted to \$ 97,593 and \$ 31,528, respectively. 129,121

Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activities but is not reported in governmental funds. (22,866)

Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 14,600,629 (premium on the sale of bonds of \$ 17,707,052 less amortization of \$ 3,106,423). (14,600,629)

Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term proceeds in the governmental fund were \$ 105,510,000. (105,510,000)

Deferred refunding cost is another use in the governmental funds, but the costs increase long-term assets in the statement of net position. This amount is amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. The current amortization of refunded bond costs is \$ 1,213,586. (1,213,586)

Governmental funds report pension and OPEB payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated actuarially and involves multiple factors. The amount of pension and OPEB expense reported was \$ 19,896,444 more than the amount reported in the funds. 19,896,444

Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. This amount was for general obligation bonded debt \$ 12,945,000. 12,945,000

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount of accrued interest on long-term debt of \$ 1,664,299. (1,664,299)

Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the basis in assets retired in the amount of \$ 28,076 (\$ 1,013,488 in asset cost less accumulated depreciation of \$ 985,412). (28,076)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported in the governmental activities statement of activities (see D-2) (14,569)

Change in net position of governmental activities (see B-1) \$ 22,306,728

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2018

EXHIBIT D-1

<u>Data Control Codes</u>		<u>Governmental Activities Internal Service Fund - Workers Compensation</u>
	ASSETS:	
	Current Assets:	
1110	Cash and cash equivalents	\$ <u>424,835</u>
	Total assets	<u>424,835</u>
	DEFERRED OUTFLOWS OF RESOURCES:	
1700	Deferred outflows	<u> </u>
	Total deferred outflows of resources	<u>-0-</u>
	Total assets and deferred outflows of resources	\$ <u><u>424,835</u></u>
	LIABILITIES:	
	Current Liabilities:	
2165	Accrued expenses payable	\$ <u>20,141</u>
	Total liabilities	<u>20,141</u>
	DEFERRED INFLOWS OF RESOURCES:	
2600	Deferred inflows of resources	<u> </u>
	Total deferred inflows of resources	<u>-0-</u>
	NET POSITION:	
3900	Unrestricted net position	<u>404,694</u>
	Total net position	<u>404,694</u>
	Total liabilities, deferred inflows of resources, and net position	\$ <u><u>424,835</u></u>

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

EXHIBIT D-2

	Governmental Activities Internal Service Fund – Workers Compensation
Operating Revenues:	
Charges for services	\$ <u>27,521</u>
Total operating revenues	<u>27,521</u>
Operating Expenses:	
Insurance claims and expenses	<u>46,072</u>
Total operating expenses	<u>46,072</u>
Operating loss	(<u>18,551</u>)
Nonoperating Revenues (Expenses):	
Interest and investment revenue	<u>3,982</u>
Total nonoperating revenues (expenses)	<u>3,982</u>
Changes in net position	(<u>14,569</u>)
Net position – beginning	<u>419,263</u>
Net position – ending	\$ <u><u>404,694</u></u>

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

EXHIBIT D-3

	Governmental Activities Internal Service Fund – Workers Compensation
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from insurance	\$ 27,521
Payments to other funds	58,824
Claims paid	(44,236)
Net cash provided by operating activities	<u>42,109</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Net cash provided by noncapital financing activities	<u>-0-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Net cash provided by capital and related financing activities	<u>-0-</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends	<u>3,982</u>
Net cash provided by investing activities	<u>3,982</u>
Net increase in cash and cash equivalents	46,091
Balances – beginning of year	<u>378,744</u>
Balances – end of year	<u>\$ 424,835</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Operating income (loss)	\$(18,551)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Changes in Assets and Liabilities:	
Due from other funds	58,824
Accrued expenses payable	<u>1,836</u>
Net cash used by operating activities	<u>\$ 42,109</u>

The notes to the financial statements are an integral part of this statement.

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

EXHIBIT E-1

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 510,992
Receivables:	
Other receivables	<u>10,070</u>
Total assets	<u>\$ 521,062</u>
 LIABILITIES:	
Accounts payable	\$ 3,882
Amounts due to student groups	<u>517,180</u>
Total liabilities	<u>\$ 521,062</u>

The notes to the financial statements are an integral part of this statement.

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PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources; and it complies with the requirements of the appropriate version of Texas Education Agency's (the "TEA") *Financial Accountability System Resource Guide* (the "Resource Guide" or "FASRG") and the requirements of contracts and grants of agencies from which it receives funds.

Reporting Entity

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

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34". The District receives support from various PTO, booster clubs and foundation organizations. None of these organizations meet the criteria specified by GASB 61 to be included in the District's financial statements. Therefore, there are no component units included within the reporting entity.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenues and intergovernmental revenues. The District has no *business-type activities* that rely, to a significant extent, on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Interfund activities between governmental funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. Interfund services provided and used are not eliminated in the consolidation of funds for the Statement of Activities. All interfund transactions that do not represent services provided and used between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements.

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

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation

The government-wide financial statements (the statement of net position and the statement of activities) are prepared using the economic resources measurement focus and the accrual basis of accounting and the information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation (Continued)

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas 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.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

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

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the Foundation School Program and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal and state government, food service, debt service, and capital projects.

The *debt service* fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. Major revenue sources include local property taxes, state aid, and interest earnings. Expenditures include all costs associated with related debt service.

The *capital projects* fund accounts for the resources accumulated and made for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation (Continued)

The District reports the following proprietary funds:

The *internal service fund* accounts for the District's self-funded workers' compensation program. The revenues of this fund are received from the general funds, and the expenses are comprised of claims paid on behalf of the District. The general fund is contingently liable for liabilities of this fund. See Note 14 for additional discussion of the District's self-insurance workers' compensation plan.

The workers' compensation program provides for incurred but not reported costs for workers' compensation claims through the establishment of undiscounted liability accounts and net position. As of June 30, 2018, undiscounted liabilities totaled \$ 20,141 and net position of the workers' compensation program was \$ 404,694. The District chose to switch to a fully insured workers' compensation program with Texas Mutual Insurance Company as of July 1, 2013. The above liability is from claims before July 1, 2014 from the self-insured program which have not been closed out as of June 30, 2018.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Additionally, the District reports the following fiduciary funds:

The *agency funds* account for resources held in a custodial capacity by the District, and consists of funds that are the property of students or others.

Cash and Investments

The District considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity of greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The District had no advances between funds. See Note 5 for additional discussion of interfund receivables and payables.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the district in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years.

Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on August 1, 2017, upon which the levy for the 2017-18 fiscal year was based, was \$ 7,361,661,103. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended June 30, 2018, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 1.0400 and \$ 0.3756 per \$ 100 valuation, respectively, for a total of \$ 1.4156 per \$ 100 valuation.

Current tax collections for the year ended June 30, 2018 were 98.68% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the general and debt service funds are based on historical experience in collecting 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. As of June 30, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 1,389,712 and \$ 501,916 for the general and debt service funds, respectively.

Inventories

The consumption method is used to account for inventories (food products, school supplies and athletic equipment) of governmental funds. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Governmental fund inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their market value is recorded as inventory and deferred revenue when received in the governmental funds. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Depreciation

Capital assets, which include land, buildings and improvements, and furniture, equipment and vehicles, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

<u>Assets</u>	<u>Years</u>
Buildings and building improvements	5-50
Furniture and equipment	5-10
Vehicles	5-10

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Compensated Absences

Compensated absences are absences for which employees will be paid. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental funds, compensated absences are reported only if they have matured. The remainder of the compensated absences liability is reported in long-term liabilities on the statement of net position.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. The District's sick leave policy allows employees to carryover unused sick days to subsequent years. Any employee who retires from the District through the Teacher Retirement System of Texas shall at the end of the last year of employment receive a lump-sum payment of unused sick leave up to a maximum of one hundred days determined by formula (number of unused local sick leave multiplied by final year contract salary divided by twice the number of days on contract multiplied by number of years in district divided by twenty). If the calculated lump-sum payment is less than \$ 100, no payment will be made. A summary of changes in the accumulated sick leave liability follows:

A summary of changes in the accumulated sick leave liability follows:

	<u>2018</u>	<u>2017</u>
Balance, July 1,	\$ 1,286,813	\$ 1,443,563
Additions – net unused	261,331	220,258
Deductions – payments	(311,606)	(377,008)
Balance, June 30,	\$ <u>1,236,538</u>	\$ <u>1,286,813</u>

The amounts attributable to the current and non-current portions on the liability resulting from this policy can only be estimated. As such, the entire amount of the liability is accounted for in the general fund in the amount of \$ 1,189,161 and the National School Lunch and Breakfast Program Fund in the amount of \$ 47,377.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are unearned and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as or expenses in the current period. Net pension obligation is reported as long term liabilities and pension expense, based upon actuarial data, is reported as expenses within functional categories.

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

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions

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

Other Post-Employment Benefits (OPEB)

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

Budgetary Data

Formal budgetary accounting is employed for all required governmental funds, as outlined in TEA's FASRG, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to June 20 of the preceding fiscal year for the subsequent fiscal year beginning July 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund and the food service (special revenue fund).

The remaining special revenue funds and the capital projects fund (if utilized) adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget was properly amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

The Official Budget was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to June 30, 2017. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures.

Encumbrance Accounting

The District utilizes encumbrance accounting in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executor contracts), and are used to control expenditures for the period and to enhance cash management. A school district often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does not represent an expenditure for the period, only a commitment to expend resources.

Prior to the end of the current period, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the current period end, the school district likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the current period. If the school district allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually re-appropriated in the following year's budget. Open encumbrances at current period-end are included in restricted, committed or assigned fund balance, as appropriate.

At June 30, 2018, the District had no encumbrances outstanding.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances

The District's Board of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District's Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees. Fund Balance of the District may be committed for a specific source by formal action of the District's Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by board resolution by the District's Board of Trustees. When it is appropriate for fund balance to be assigned, the Board of Trustees delegates authority to the Superintendent or the Chief Financial Officer. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Beginning with fiscal 2011, the District implemented GASB Statement No. 54, "Fund Balance, Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of spending constraints:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of board resolution by the Board of Trustees.

Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which an amount had been restricted, committed or assigned.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances(Continued)

As of June 30, 2018, non-spendable fund balances includes \$ 255,430 for inventories, and \$ 1,091,404 for prepaid items in the General fund. The National School Breakfast and Lunch Program special revenue fund non-spendable fund balance includes \$ 70,883 for inventories. Restricted fund balances included \$ 69,007,397 for capital acquisitions and contractual obligations in the Capital Projects Fund, \$ 22,350,143 for Debt Service fund, \$ 2,691,484 for the National School Breakfast and Lunch Program (special revenue fund), \$ 8,994 for Advanced Placement Incentives (special revenue fund), \$ 128,700 for State Textbook Fund (special revenue fund), and \$ 3,045,740 for Campus Activities (special revenue fund). Committed fund balance includes \$ 7,500,000 for construction in the General fund. Assigned fund balance includes \$ 13,010,000 for other purposes in the General fund. Unassigned fund balance includes \$ 30,212,343 in the General fund.

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

Use of Estimates

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

New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. This statement was implemented and impacted the District's financial statements as described in Note 2. This statement is effective for periods beginning after June 15, 2017.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

GASB No. 83 "Certain Asset Retirement Obligations" was issued in November 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2018.

GASB No. 84 "Fiduciary Activities" was issued in January 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2018.

GASB No. 85 "Omnibus 2017" was issued in March 2017. This statement was implemented and did not have a material effect on the District's financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 86 "Certain Debt Extinguishment Issues" was issued in May 2017. This statement was implemented and did not have a material effect on the District's financial statements. The requirements of this Statement are effective for periods beginning after June 15, 2017.

GASB No. 87 "Leases" was issued in June 2017. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2019.

GASB No. 88 "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements" was issued in April 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 89 "Accounting for Interest Cost Incurred before the End of a Construction Period" was issued in June 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB No. 90 "Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61" was issued in August 2018. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 2. CHANGE IN ACCOUNTING PRINCIPLE AND PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2018, the District implemented GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions". This statement replaces the requirements of Statements No. 45 and No. 57 and requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position. It establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expenditures. It requires a government employer to recognize a net OPEB liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a government employer makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, it requires that the government recognize its contribution as a deferred outflow of resources. The following represents the retroactive restatement of net position as a result of implementation of GASB Statement No. 75 and prior period adjustment as noted above:

	<u>2017</u>
<u>Governmental Activities</u>	
Net position, June 30, previously reported	\$ 76,661,779
Addition of Outflows of Resources – Subsequent OPEB Contributions	740,248
Addition of net OPEB liability	<u>(109,310,966)</u>
Net position, June 30, restated	<u>\$ (31,908,939)</u>

This change in accounting principle had no effect on governmental funds fund balance or changes in fund balance.

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has a maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of a year or more.

See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**

Cash and cash equivalents as reported on the statement of net position at June 30, 2018 are as follows:

	Governmental Funds	Proprietary (Internal Service) Funds	Fiduciary Funds	Total
Cash and Cash Equivalents:				
Cash (petty cash accounts)	\$ 21,325	\$	\$	\$ 21,325
Financial Institution Deposits:				
Demand deposits	11,395,305	125,356	510,992	12,031,653
Local Government Investment Pool:				
Texpool	75,786,342	299,479		76,085,531
Texpool Prime	20,103,687			20,103,687
Texas CLASS	30,172,629			30,172,629
Texas Daily	56,959			56,959
Texas Term CP	25,000,000			25,000,000
	<u>\$162,535,957</u>	<u>\$ 424,835</u>	<u>\$ 510,992</u>	<u>\$163,471,784</u>

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

At June 30, 2018, in addition to petty cash of \$ 21,325, the carrying amount of the District's cash, savings, and time deposits was \$ 12,031,653. The financial institutions balances were \$ 13,070,325 at June 30, 2018. Bank balances of \$ 250,000 were covered by federal depository insurance, and \$ 12,820,325 was covered by collateral pledged in the District's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent.

In addition the following is disclosed regarding coverage of combined balances on the date of highest deposit:

Depository:

- Name of bank: Wells Fargo Bank, Pearland, Texas.
- Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 36,223,895.
- Largest cash, savings and time deposit combined account balance amounted to \$ 36,473,895 and occurred on February 9, 2018.
- Total amount of FDIC coverage at the time of the largest combined balance was \$ 250,000.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes an "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes it complied with the requirements of the PFIA and the District's investment policy.

The District's Investment Officer submits an investment report each quarter to the Board of Trustees. The report details the investment positions of the District and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

The District invests in Texpool, Texpool Prime, Texas CLASS, Texas DAILY and Texas Term to provide its liquidity needs. Texpool and Texpool Prime is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool and Texpool Prime is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool and Texpool Prime are rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

Texas CLASS was created as a local government investment pool pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. Per State Code, entities may pool any of their funds, or funds under their control, to preserve principal, maintain the liquidity of the funds and maximize yield. The Texas CLASS agreement is an agreement of indefinite term regarding the investment, reinvestment, and withdrawal of local government funds. Texas CLASS seeks to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texas CLASS is rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

Texas DAILY and Texas Term is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texas DAILY and Texas Term is a 2(a)7 like fund, meaning that it is structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texas DAILY and Texas Term are rated AAAM from Standard and Poors and AAAf from Fitch, respectively, and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

The District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

All of the District's investments are insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial credit risk.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)****Investments (Continued)**

The following table includes the portfolio balances of all investment types of the District at June 30, 2018.

	<u>Market Value</u>	<u>Weighted Average Maturity (in Days)</u>
Local Government Investment Pool:		
Texpool:		
Texpool	\$ 76,085,531	24
Texpool Prime	20,103,687	35
Texas CLASS	30,172,629	50
Texas Term:		
Texas Daily	56,959	38
Texas Term CP	<u>25,000,000</u>	75
Total local government investment pool	<u>\$ 151,418,806</u>	39

Credit Risk – As of June 30, 2018, the local government investment pool (which represents 100% of the unrestricted portfolio) are rated AAAM by Standard and Poor's and AAAf by Fitch.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements.

Fair Value – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2018, the District had no assets or liabilities within the fair value hierarchy established by GASB No. 72.

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the year ended June 30, 2018, and holds no direct investments in derivatives at June 30, 2018.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 3. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)****Receivables and Allowances**

Receivables as of June 30, 2018, for the government's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Receivables:				
Property taxes	\$ 2,617,109	\$ 896,536	\$	\$ 3,513,645
Receivables from other governments	24,109,314		878,269	24,987,583
Other receivables	<u>1,299,760</u>	<u>387,853</u>		<u>1,687,613</u>
Gross receivables	28,026,183	1,284,389	878,269	30,188,841
Less: allowance for uncollectibles	<u>1,227,397</u>	<u>394,620</u>		<u>1,622,017</u>
Total net receivables	<u>\$26,798,786</u>	<u>\$ 889,769</u>	<u>\$ 878,269</u>	<u>\$28,566,824</u>

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES**Receivables/Payables 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. All federal grants shown below are passed through the TEA or other state agency and are reported on the combined financial statements as either Receivable from or to Other Governments, as applicable.

Amounts due from federal, state, and local governments as of June 30, 2018 are summarized below.

Fund	State Entitlements	Federal Grants	State Grants and Other	Total
Major Governmental Funds:				
General fund	\$24,051,411	\$ 57,903	\$	\$24,109,314
Other funds		<u>837,869</u>	<u>40,400</u>	<u>878,269</u>
Total	<u>\$24,051,411</u>	<u>\$ 895,772</u>	<u>\$ 40,400</u>	<u>\$24,987,583</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)****Deferred Outflows and Inflows of Resources/Unearned Revenue****Governmental Funds**

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of June 30, 2018, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	<u>Deferred Inflows of Resources</u>	<u>Unearned Revenue</u>
Delinquent property taxes receivable (general fund)	\$ 1,015,168	\$
Delinquent property taxes receivable (debt service fund)	367,230	
Advance Funding:		
State entitlements		2,208,344
State grants		8,518
Co-curricular	<u> </u>	<u>14,658</u>
Total deferred/unearned revenue from governmental funds	<u>\$ 1,382,398</u>	<u>\$ 2,231,520</u>

Governmental Activities

Governmental activities defer the recognition of pension and OPEB expense for contributions made from the measurement date (August 31, 2017) to the current year-end of June 30, 2018 and report these as deferred outflows of resources. Governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2018

NOTE 4. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES, AND UNEARNED REVENUES (Continued)**Deferred Outflows and Inflows of Resources/Unearned Revenue (Continued)**

As of June 30, 2018, the various components of deferred inflows and outflows of resources and unearned revenue reported in the governmental activities were as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Unearned Revenue</u>
TRS pension deferred outflows and inflows	\$ 17,713,263	\$ 11,117,642	\$
TRS-Care OPEB deferred outflows and inflows	9,691	25,899,910	
TRS pension contributions subsequent to the measurement date	3,235,764		
TRS-Care OPEB contributions subsequent to the measurement date	854,543		
Bond refunding costs net of amortization	10,904,064		
Advance Funding:			
State entitlements			2,208,344
State grants			8,518
Co-curricular			<u>14,658</u>
Totals	<u>\$32,717,325</u>	<u>\$37,017,552</u>	<u>\$ 2,231,520</u>

NOTE 5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**Interfund Receivables and Payables**

Interfund balances at June 30, 2018 consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>6-30-18</u>
General	Other governmental	\$ 493,855
Capital Projects	General	<u>151,510</u>
		<u>\$ 645,365</u>

Interfund Transfers

Interfund transfers for the year ended June 30, 2018 consisted of the following individual fund transfers in and transfers out:

<u>Transferring Fund</u>	<u>Receiving Fund</u>	<u>Amount</u>
General Fund	Federally Funded Special Revenue Funds	<u>\$ 1,001,385</u>

The transfers were caused by expenditures incurred in the General Fund that were subsequently transferred to the Federally Funded Special Revenue Funds.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2018

NOTE 6. CAPITAL ASSETS**Changes in Capital Assets and Accumulated Depreciation**

The following provides a summary of changes in capital assets and accumulated depreciation for the year ended June 30, 2018:

	Balance July 1, 2017	Additions	Retirements	Balance June 30, 2018
Non-Depreciated Capital Assets:				
Land	\$ 22,330,888	\$	\$	\$ 22,330,888
Construction in progress	<u>20,836,952</u>	<u>43,556,145</u>		<u>64,393,097</u>
Total non-depreciated	<u>43,167,840</u>	<u>43,556,145</u>	<u>-0-</u>	<u>86,723,985</u>
Depreciated Capital Assets:				
Buildings & improvements	404,848,968	245,691		405,094,659
Furniture, equipment & vehicles	<u>29,346,069</u>	<u>3,315,723</u>	<u>1,013,488</u>	<u>31,648,304</u>
Total depreciated	<u>434,195,037</u>	<u>3,561,414</u>	<u>1,013,488</u>	<u>436,742,963</u>
Total additions/transfers and retirements		<u>\$ 47,117,559</u>	<u>\$ 1,013,488</u>	
Accumulated Depreciation:				
Buildings & improvements	(128,993,150)	\$(9,026,817)	\$	(138,019,967)
Furniture, equipment & vehicles	<u>(22,078,742)</u>	<u>(1,937,501)</u>	<u>985,412</u>	<u>(23,030,831)</u>
Total accumulated depreciation	<u>(151,071,892)</u>	<u>\$(10,964,318)</u>	<u>\$ 985,412</u>	<u>(161,050,798)</u>
Net depreciated assets	<u>283,123,145</u>			<u>275,692,165</u>
Net capital assets	<u>\$ 326,290,985</u>			<u>\$ 362,416,150</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2018

NOTE 6. CAPITAL ASSETS (Continued)**Depreciation Expense**

In accordance with requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, depreciation expense of the governmental activities was charged to functions as follows:

<u>Data Control Codes</u>	<u>Function</u>	<u>Amount</u>
0011	Instruction	\$ 6,454,905
0012	Instructional resources and media services	264,179
0021	Instructional leadership	80,375
0023	School leadership	11,499
0031	Guidance, counseling, and evaluation services	11,817
0032	Social work services	14,888
0033	Health services	9,170
0034	Student transportation	950,214
0035	Food service	661,325
0036	Extracurricular activities	1,295,800
0041	General administration	93,192
0051	Plant maintenance and operations	185,959
0052	Security and monitoring services	9,743
0053	Data processing services	<u>921,252</u>
	Total depreciation expense	<u>\$ 10,964,318</u>

Construction Commitments

	<u>Projects Authorized</u>	<u>Expended To Date</u>	<u>Commitment</u>
June 30, 2018:			
Lawhorn and Carlestone Elementary Renovations	\$ 21,748,421	\$ 20,957,927	\$ 790,494
Dawson HS Additions/Renovations-Pkg A791	39,812,120	13,017,201	26,794,919
Pearland HS Renovations-Pkg B792	40,313,173	10,971,708	29,341,465
Turner HS Renovations-Pkg C793	28,588,515	3,200,917	25,387,598
Pkg D794 Renovations	53,108,665	14,950,699	38,157,966
Pkg E795 Renovations	24,996,677	824,208	24,172,469
Pkg F796 Renovations	13,835,850	2,641,834	11,194,016
Pkg G797 Infrastructure & Technology	<u>19,345,000</u>	<u>7,808,246</u>	<u>11,536,754</u>
Total governmental activities	<u>\$ 241,748,421</u>	<u>\$ 74,372,740</u>	<u>\$ 167,375,681</u>

As of June 30, 2018, no further financing was required on the construction commitments.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 7. LONG-TERM DEBT****Loans**

Short-term debts are accounted for through the appropriate fund, and consist of notes made in accordance with the provisions of the Texas Education Code. The District was not a party to any loan transactions during the year ended June 30, 2018.

General Obligation Bonds

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, contractual obligations and loans. Contractual obligations are issued at parity with general obligation bonds, but carry a secondary revenue stream pledge; however, all certificates of obligation are tax, not revenue, supported. This debt, unlike other tax-supported debt, can be issued without a vote of the citizens. Bond premiums and discounts, and gains and losses on refunding are amortized using the straight-line method.

The following is a summary of the District's general obligation bonded debt as of June 30, 2018:

<u>Date of Issue</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Date Callable</u>	<u>% Rates</u>	<u>Outstanding Balance</u>
2001B	\$ 22,500,000	2025	2021	4.125 - 4.750	\$ 22,500,000
2011	8,740,000	2027	2021	4.000	8,690,000
2012	62,845,000	2029	2021	3.000 - 5.000	57,000,000
2013A	15,490,000	2029	2023	3.000 - 5.000	12,825,000
2013B	38,155,000	2029	2023	2.000 - 5.000	30,170,000
2014	30,540,000	2029	2024	2.000 - 5.000	28,475,000
2014B	28,655,000	2039	2024	2.000 - 5.000	23,135,000
2016	41,335,000	2032	2026	5.000 - 5.250	41,335,000
2016A	42,200,000	2032	2026	2.000 - 5.000	37,940,000
2017	<u>105,510,000</u>	2042	2026	3.000 - 5.000	<u>105,510,000</u>
Total	<u>\$ 395,970,000</u>				<u>\$ 367,580,000</u>

Presented below is a summary of general obligation bond requirements to maturity:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2019	\$ 13,530,000	\$ 16,824,566	\$ 30,354,566
2020	14,280,000	16,190,066	30,470,066
2021	14,410,000	15,511,766	29,921,766
2022	16,740,000	14,901,866	31,641,866
2023	18,425,000	14,110,916	32,535,916
2024-2028	117,095,000	56,424,191	173,519,191
2029-2033	122,315,000	26,923,624	149,238,624
2034-2038	29,515,000	9,773,600	39,288,600
2039-2042	<u>21,270,000</u>	<u>2,532,500</u>	<u>23,802,500</u>
Totals	<u>\$ 367,580,000</u>	<u>\$ 173,193,095</u>	<u>\$ 540,773,095</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2018

NOTE 7. LONG-TERM DEBT (Continued)**General Obligation Bonds (Continued)**

Bond indebtedness of the District is recorded in the governmental activities statement of net position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Proceeds of long-term issues are reflected as "Other Resources" in the operating statement of the recipient fund.

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2018.

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2018 was as follows:

	Balance 07-01-17	Additions	Retirements	Balance 06-30-18	Due Within One Year
Long-Term Debt:					
General obligation bonds	\$ 274,992,133	\$105,532,867	\$ 12,945,000	\$ 367,580,000	\$ 13,530,000
Net pension liability	42,580,241	3,338,995	9,673,579	36,245,657	
Net OPEB liability	109,310,966	9,515,083	56,909,258	61,916,791	
Premium on general obligation bonds	<u>32,279,781</u>	<u>17,707,052</u>	<u>3,106,423</u>	<u>46,880,410</u>	<u>3,118,249</u>
	<u>\$ 459,163,121</u>	<u>\$136,093,997</u>	<u>\$ 82,634,260</u>	<u>\$ 512,622,858</u>	<u>\$ 16,648,249</u>

The General Fund has been used to liquidate the net pension liability and net OPEB liability.

NOTE 8. LEASES**Operating Leases**

Commitments under operating lease (non-capital) agreements for copier equipment, telephone equipment, security systems, and postage machines provide for minimum future rental payments as of June 30, 2018 as follows:

Year Ended June 30	Amount
2019	\$ 454,844
2020	328,247
2021	249,011
2022	191,996
2023	<u>1,861</u>
Total minimum rentals	<u>\$ 1,225,959</u>

Rental expenditures on the above-mentioned equipment for the year ended June 30, 2018 were \$ 1,075,635.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLANS

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-supposed education institutions in Texas who are employed for one-half or more of the standard work load who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

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

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credit 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 above.

Contributions

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

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 9. DEFINED BENEFIT PENSION PLANS - Continued****Contributions (Continued)**

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

Contribution Rates

	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer # 1427 – 2017 Employer Contributions	\$	3,715,201
Employer # 1427 – 2017 Member Contributions	\$	3,675,684
Employer # 1427 – 2017 NECE On-behalf Contributions	\$	6,379,181
Employer # 1427 – 2018 Medicare Part D	\$	593,261

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 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.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLANS - Continued

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

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

Actuarial Assumptions

The total pension liability in the August 31, 2017 actuarial valuation was 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	8.00%
Long-term expected Investment	
Rate of Return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
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.

Discount Rate

The discount rate used to measure the total pension liability was 8.00%. 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 the 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:

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 9. DEFINED BENEFIT PENSION PLANS - Continued

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 and 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	<u>100%</u>		<u>8.7%</u>

* 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 Long-Term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2017 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the Net pension liability	\$ <u>61,103,017</u>	\$ <u>36,245,657</u>	\$ <u>15,547,871</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 9. DEFINED BENEFIT PENSION PLANS - Continued****Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2018, the District reported a liability of \$ 36,245,657 for its proportionate share of TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 36,245,657
State's proportionate share that is associated with the District	<u>18,781,290</u>
Total	<u>\$ 55,026,947</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 employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.1133576122% which was a decrease of 0.0953431279% from its proportion measured as of August 31, 2016.

Changes since the prior Actual Valuation

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

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

For the year ended June 30, 2018, the District recognized pension expense of \$ 4,757,061 and revenue of \$ 6,379,181 for support provided by the State.

At June 30, 2018, the District reported its proportionate share of TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 530,290	\$ 1,954,681
Changes in actuarial assumptions	1,651,047	945,186
Difference between projected and actual investment earnings	5,574,161	8,215,666
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	9,957,765	2,109
Contributions paid to TRS subsequent to the measurement date	<u>3,235,764</u>	<u> </u>
Total	<u>\$ 20,949,027</u>	<u>\$ 11,117,642</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 9. DEFINED BENEFIT PENSION PLANS - Continued**

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

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2019	\$ 1,216,101
2020	3,529,755
2021	1,038,320
2022	317,555
2023	503,326
Thereafter	(9,436)

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**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 Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

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

Benefits Provided

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

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

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - Continued**

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 with two optional plans.

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*	\$ -0-	\$ 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

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 as 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 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% 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 (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
Employer # 1427 – 2017 Employer Contributions	\$	740,248
Employer # 1427 – 2017 Member Contributions	\$	303,618
Employer # 1427 – 2017 NECE On-behalf Contributions	\$	1,229,968

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

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - Continued

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

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 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 which were adopted by the Board in 2015 and are based on the 2014 actuarial experience study by 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,

Rates of Retirement, Rates of Termination, Rates of Disability Incidence, General Inflation, Wage Inflation and Expected Payroll Growth.

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
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.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - Continued

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

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, the single discount rate is equal to the prevailing municipal bond rate. The projected of cash flows used to determine the discount rate is 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 project to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of the Net OPEB Liability	\$ <u>73,077,184</u>	\$ <u>61,916,791</u>	\$ <u>52,946,351</u>

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

At June 30, 2018, the District reported a liability of \$ 61,916,791 for its proportionate share of 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	\$ 61,916,791
State's proportionate share that is associated with the District	<u>36,184,923</u>
Total	\$ <u>98,101,714</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - Continued

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

At August 31, 2017 the employer's proportion of the collective net OPEB liability was 0.1423824600%, which was the same proportion measured as of August 31, 2016.

Changes since the prior Actual Valuation

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

1. Significant plan changes were adopted during 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.
2. The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
3. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

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

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

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.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2018

NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS - Continued

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 provisions 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 June 30, 2018, the District recognized OPEB expense of \$ (20,756,889) and revenue of \$ 1,229,968 for support provided by the State.

At June 30, 2018, the District reported its proportionate share of TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$	\$ 1,292,560
Changes in actuarial assumptions		24,607,350
Difference between projected and actual investment earnings	9,405	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	286	
Contributions paid to TRS subsequent to the measurement date	<u>854,543</u>	
Total	\$ <u><u>864,234</u></u>	\$ <u><u>25,899,910</u></u>

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

<u>Year Ended June 30,</u>	<u>OPEB Expense Amount</u>
2019	\$ (3,416,244)
2020	(3,416,244)
2021	(3,416,244)
2022	(3,416,244)
2023	(3,418,596)
Thereafter	(8,806,647)

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED JUNE 30, 2018

NOTE 11. GENERAL FUND FEDERAL SOURCE REVENUES

Following is a schedule of federal source revenue recorded in the General Fund.

<u>Program or Source</u>	<u>CFDA #</u>	<u>Total</u>
Direct Costs:		
School Health and Related Services (SHARS)	---	\$ 2,127,722
Medicaid Administrative Claiming Program (MAC)	93.778	13,259
ROTC Salary Aid	12.000	<u>162,711</u>
Total direct		<u>2,303,692</u>
Indirect Costs:		
Texas Support for Homeless Education	84.196	281
ESEA, Title I, Part A - Improving Basic Programs	84.010	20,241
IDEA, Part B, Formula	84.027	38,299
IDEA, Part B, Preschool	84.173	707
IDEA, Part B, Discretionary	84.027	445
Vocational Education, Basic Grant	84.048	2,102
Title II, Part A - Teacher/Principal	84.367	3,541
Title III, Part A - English Language Education Program	84.365	3,378
Title VI, Part A, Subpart 1 Improving Academic Achievement	84.424	449
Temporary Emergency Impact Aid for Displaced Students	84.938	<u>3,119</u>
Total indirect		<u>72,562</u>
Total		<u>\$ 2,376,254</u>

The School Health and Related Services (SHARS) funds are not considered federal financial assistance for inclusion in the Schedule of Federal Financial Assistance.

NOTE 12. LOCAL AND INTERMEDIATE REVENUES

During the year ended June 30, 2018, local and intermediate revenues for governmental funds consisted of the following:

	<u>Major Funds</u>			<u>Other</u>	
	<u>General</u>	<u>Debt</u>	<u>Capital</u>	<u>Governmental</u>	
	<u>Fund</u>	<u>Service</u>	<u>Projects</u>	<u>Funds</u>	<u>Total</u>
Property Taxes	\$ 77,637,105	\$ 28,037,473	\$	\$	\$ 105,674,578
Food sales				4,233,320	4,233,320
Investment income	724,034	275,076	1,255,390	3,265	2,257,765
Penalties, interest and other tax related income	509,432	166,131			675,563
Other tuition and fees from patrons	328,259				328,259
Co-curricular income	285,315			5,091,858	5,377,173
Rent	386,341				386,341
Contributions	120,000				120,000
Other	<u>617,016</u>			<u>47,669</u>	<u>664,685</u>
Total	<u>\$ 80,607,502</u>	<u>\$ 28,478,680</u>	<u>\$ 1,255,390</u>	<u>\$ 9,376,112</u>	<u>\$ 119,717,684</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2018****NOTE 13. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 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.

NOTE 14. SELF-INSURED WORKERS' COMPENSATION

Beginning September 1, 1991, the District established its self-funding Workers' Compensation program. The accrued liability for the Workers' Compensation self-insurance program is projected to be \$ 20,141 as of June 30, 2018. The District claim history does not allow for a credible projection of loss adjustment expenses (LAE), data from other self-insured and insurance entities suggests costs for these items may be in the neighborhood of 5% of the liability for losses. As of September 1, 2012, the District chose to switch to a fully insured workers' compensation program with Texas Mutual Insurance Company. The above liability is from claims before July 1, 2014 from the self-insured program which have not been closed out as of June 30, 2018.

This liability reported in the fund at June 30, 2018, is based on the requirements of Governmental Accounting Standards Board Statement No. 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 as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

Changes in the workers' compensation claim liability amounts in fiscal years 2016-2017 and 2017-2018 are represented below:

	Beginning of Fiscal-Period Liability	Current-Period Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Period-End
2016-2017 Year Ended Workers' Compensation	\$ 32,211	\$ 19,868	\$ 33,774	\$ 18,305
2017-2018 Year Ended Workers' Compensation	\$ 18,305	\$ 46,072	\$ 44,236	\$ 20,141

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

NOTE 15. LITIGATION AND CONTINGENCIES

The District participates in numerous state and Federal 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, if any, refunds of any money received may be required and the collect ability of any related receivable at June 30, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE 16. JOINT VENTURES-SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Brazoria County Juvenile Justice Alternative Education Program with six other school districts. Although a percentage of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Brazoria County, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The expenditures attributable to the District's participation totaled \$ 44,800 and were coded to 6223 Student tuition - other than to public schools.

The District participates in a joint venture arrangement between Communities in Schools (CIS), and Southwest Harris County (SHC) Afterschool Centers on Education (ACE). The intent of both parties is to bring the resources of Communities in Schools ACE (CIS-ACE) to facilitate the academic achievement and personal success of students by providing the full range of CIS-ACE services to those students and their families by creating, implementing and managing two (2) CIS-ACE programs. Specifically, these services will 1) implement Cycle 9 - 21st Century ACE programs at Magnolia Elementary and Pearland Jr. High South with a cost of \$ 30,000 to the District, annually, and, 2) provide CIS services to Carlston Elementary, Cockrell Elementary, Jamison Middle, Lawhon Elementary, Pearland Jr. High South, and Sablatura Middle schools with a cost of \$ 138,000 to the District annually. The expenditures attributable to the District's participation totaled \$ 138,000 and were coded to 6299 Miscellaneous Contract Services in Function 32 Social Work Services.

NOTE 17. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 29, 2018, the date which the financial statements were available to be issued.

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REQUIRED SUPPLEMENTARY INFORMATION

PEARLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2018**

Data Control Codes		General Fund			Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 78,609,248	\$ 78,294,248	\$ 80,607,502	\$ 2,313,254
5800	State program revenues	85,795,876	88,595,876	88,381,545	(214,331)
5900	Federal program revenues	<u>1,366,000</u>	<u>2,269,000</u>	<u>2,376,254</u>	<u>107,254</u>
5020	Total revenues	<u>165,771,124</u>	<u>169,159,124</u>	<u>171,365,301</u>	<u>2,206,177</u>
	EXPENDITURES:				
	Current:				
0011	Instruction	100,903,746	100,903,746	99,220,920	1,682,826
0012	Instructional resources and media services	1,740,093	1,840,093	1,805,340	34,753
0013	Curriculum and staff development	5,089,455	5,089,455	4,732,487	356,968
0021	Instructional leadership	2,210,793	2,210,793	2,203,154	7,639
0023	School leadership	11,208,647	11,353,647	11,179,202	174,445
0031	Guidance, counseling, and evaluation services	5,644,013	5,804,013	5,692,280	111,733
0032	Social work services	606,566	606,566	567,832	38,734
0033	Health services	1,469,665	1,529,665	1,499,201	30,464
0034	Student transportation	8,207,276	7,982,276	7,101,491	880,785
0036	Extracurricular activities	4,467,780	4,532,780	4,227,183	305,597
0041	General administration	4,506,375	4,736,375	4,609,335	127,040
0051	Plant maintenance and operations	23,057,528	22,317,528	19,740,935	2,576,593
0052	Security and monitoring services	2,118,163	2,118,163	1,810,517	307,646
0053	Data processing services	4,301,895	4,466,895	3,993,554	473,341
0061	Community services	12,856	12,856	8,790	4,066
0095	Payments to juvenile justice alternative education programs	123,672	123,672	44,800	78,872
0099	Other intergovernmental charges	<u>638,420</u>	<u>678,420</u>	<u>650,378</u>	<u>28,042</u>
6030	Total expenditures	<u>176,306,943</u>	<u>176,306,943</u>	<u>169,087,399</u>	<u>7,219,544</u>
1100	Excess (deficiency) of revenues over expenditures	(10,535,819)	(7,147,819)	<u>2,277,902</u>	<u>9,425,721</u>
	OTHER FINANCING SOURCES (USES):				
7912	Sale of real and personal property			4,369	4,369
8911	Transfers out			(1,001,385)	(1,001,385)
	Total other financing sources (uses)	<u>-0-</u>	<u>-0-</u>	<u>(997,016)</u>	<u>(997,016)</u>
	EXTRAORDINARY ITEMS				
7919	Insurance recoveries			<u>51,509</u>	<u>51,509</u>
1200	Net change in fund balances	(10,535,819)	(7,147,819)	1,332,395	8,480,214
0100	Fund balances – beginning	<u>50,736,782</u>	<u>50,736,782</u>	<u>50,736,782</u>	<u>-0-</u>
3000	Fund balances – ending	\$ 40,200,963	\$ 43,588,963	\$ 52,069,177	\$ 8,480,214

PEARLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-2

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
RELATED RATIOS – COST SHARING EMPLOYER PLAN
JUNE 30, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017
FOR THE PRIOR TEN YEARS (1)**

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
District's proportion of the net pension liability (asset)	0.0608658%	0.1064410%	0.1126804%	0.1133576%
District's proportionate share of the net pension liability (asset)	\$ 16,258,097	\$ 37,625,477	\$ 42,580,241	\$ 36,245,657
State's proportionate share of the net pension liability (asset) associated with the District	<u>9,818,511</u>	<u>20,222,708</u>	<u>22,456,121</u>	<u>18,781,290</u>
Total	<u>\$ 26,076,608</u>	<u>\$ 57,848,185</u>	<u>\$ 65,036,362</u>	<u>\$ 55,026,947</u>
District's covered payroll	\$ 103,284,170	\$ 111,507,045	\$ 125,800,864	\$ 129,610,826
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	15.74%	33.74%	33.85%	27.96%
Plan fiduciary net position as a percentage of total pension liability	83.25%	78.43%	78.00%	82.17%

(1) – The first TRS actuarial report was completed for the year ended August 31, 2014 (measurement date), therefore only four years of required supplementary information is available.

PEARLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-3

SCHEDULE OF REQUIRED CONTRIBUTIONS – COST SHARING EMPLOYER PLAN

JUNE 30, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017

FOR THE PRIOR TEN YEARS (1)

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contributions	\$ 1,543,117	\$ 3,151,764	\$ 3,580,141	\$ 3,715,201
Contributions in relation to the contractually required contribution	<u>1,543,117</u>	<u>3,151,764</u>	<u>3,580,141</u>	<u>3,715,201</u>
Contribution deficiency (excess)	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>
District's covered payroll	\$ 103,264,170	\$ 111,507,045	\$ 125,800,864	\$ 129,610,826
Contributions as a percentage of covered-employee payroll	1.49%	2.83%	2.85%	2.87%

(1) – The first TRS actuarial report was completed for the year ended August 31, 2014 (measurement date), therefore only four years of required supplementary information is available.

PEARLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-4

**SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
AND RELATED RATIOS - COST SHARING EMPLOYER PLAN
FOR THE PRIOR TEN YEARS (1)
JUNE 30, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017**

	<u>2018</u>
District's proportion of the net OPEB liability (asset)	0.1423824600%
District's proportionate share of the net OPEB liability (asset)	\$ 61,916,791
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>36,184,923</u>
Total	<u>\$ 98,101,714</u>
District's covered payroll	\$ 129,610,826
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	47.77%
Plan fiduciary net position as a percentage of total OPEB liability	0.91%

(1) The amounts presented for each fiscal year were determined as of the calendar year-end that occurred within the fiscal year. This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED OPEB CONTRIBUTIONS - COST SHARING
EMPLOYER PLAN FOR THE PRIOR TEN YEARS (1)
JUNE 30, 2018 WITH MEASUREMENT DATE OF AUGUST 31, 2017

EXHIBIT G-5

	<u>2018</u>
Contractually required contributions	\$ 740,248
Contributions in relation to the contractually required contribution	<u>740,248</u>
Contribution deficiency (excess)	\$ <u>-0-</u>
District's covered payroll	\$ 129,610,826
Contributions as a percentage of covered-employee payroll	0.57%

(1) This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is complied, the District will present information for those years for which information is available.

OTHER SUPPLEMENTARY INFORMATION

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

Data Control Codes		Special				
		206 ESEA, Title X, Part C-Education for the Homeless Children and Youth	211 ESEA Title I Part A Improving Basic Programs	224 IDEA Part B Formula	225 IDEA Part B Preschool	226 IDEA Part B Discretionary
	ASSETS AND OUTFLOWS OF RESOURCES					
	Assets:					
1110	Cash and cash equivalents	\$	\$	\$ 40,338	\$	\$
1240	Receivables from other governments	625	199,750	188,934	4,843	168,760
1300	Inventories					
1000	Total assets	626	199,750	229,272	4,843	168,760
	Deferred Outflow of Resources:					
1700	Deferred outflows of resources					
	Total deferred outflows of resources	-0-	-0-	-0-	-0-	-0-
1000A	Total assets and deferred outflows of resources	\$ 625	\$ 199,750	\$ 229,272	\$ 4,843	\$ 168,760
	LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES:					
	Liabilities:					
2110	Accounts payable	\$	\$	\$ 18,264	\$	\$
2160	Accrued wages payable		143,093	211,008	2,954	
2170	Due to other funds	625	56,657		1,889	168,760
2200	Accrued expenditures					
2300	Unearned revenue					
2000	Total liabilities	625	199,750	229,272	4,843	168,760
	Deferred Inflows of Resources:					
1700	Deferred inflows of resources					
	Total deferred inflows of resources	-0-	-0-	-0-	-0-	-0-
	Fund Balances:					
3410	Non-spendable - Inventories					
3450	Restricted - food service					
3490	Restricted - other					
3000	Total fund balances	-0-	-0-	-0-	-0-	-0-
4000	Total liabilities, deferred inflows of resources, and fund balances	\$ 625	\$ 199,750	\$ 229,272	\$ 4,843	\$ 168,760

Revenue Funds							
240	244	255	263	265	289	383	397
National School Lunch and Breakfast Program	Career and Technical Basic Grant	ESEA, Title II Part A-Teacher and Principal Training and Recruiting	Title III, Part A English Language Acquisition and Language Program	Title IV Part B 21 st Century Community Learning Centers	Improving Academic Achievement	Federally Funded Special Revenue Funds	Professional Staff Development
\$ 3,185,649	\$ 4,945	\$ 10,190	\$ 39,803	\$ 51,568	\$	\$ 168,451	\$ 20,366
70,833							
3,256,482	4,945	10,190	39,803	51,568	-0-	168,451	20,366
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
\$ 3,256,482	\$ 4,945	\$ 10,190	\$ 39,803	\$ 51,568	\$ -0-	\$ 168,451	\$ 20,366
\$ 24,591	\$ 3,294	\$ 758	\$	\$ 1,448	\$	\$	\$ 11,848
465,499		9,032	15,536	10,277			
	1,651	400	24,267	39,843		168,451	
4,075							8,518
494,165	4,945	10,190	39,803	51,568	-0-	168,451	20,366
-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
70,833							
2,691,484							
2,762,317	-0-	-0-	-0-	-0-	-0-	-0-	-0-
\$ 3,256,482	\$ 4,945	\$ 10,190	\$ 39,803	\$ 51,568	\$ -0-	\$ 168,451	\$ 20,366

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

		Special Revenue				
		397	410	429	427	461
Data Control Codes		Advanced Placement Incentives	State Textbook Fund	Truancy Intervention Program	Expanding the 3 E's Grant Program	Campus Activities
ASSETS AND OUTFLOWS OF RESOURCES						
Assets:						
1110	Cash and cash equivalents	\$ 8,994	\$ 145,960	\$	\$	\$ 3,233,612
1240	Receivables from other governments			38,681	1,719	
1300	Inventories					
10000	Total assets	<u>8,994</u>	<u>145,960</u>	<u>38,681</u>	<u>1,719</u>	<u>3,233,612</u>
DEFERRED OUTFLOWS OF RESOURCES						
1700	Deferred outflows of resources					-0-
	Total deferred outflows of resources		-0-	-0-	-0-	-0-
1000A	Total assets and deferred outflows of resources	<u>\$ 8,994</u>	<u>\$ 145,960</u>	<u>\$ 38,681</u>	<u>\$ 1,719</u>	<u>\$ 3,233,612</u>
LIABILITIES AND FUND BALANCES:						
Liabilities:						
2110	Accounts payable	\$	\$ 17,260	\$ 84	\$	\$ 114,948
2160	Accrued wages payable			9,004		72,924
2170	Due to other funds			29,593	1,719	
2200	Accrued expenditures					
2300	Unearned revenue					
2000	Total liabilities	<u>-0-</u>	<u>17,260</u>	<u>38,681</u>	<u>1,719</u>	<u>187,872</u>
Deferred Inflows of Resources:						
1700	Deferred inflows of resources					-0-
	Total deferred inflows of resources	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:						
3410	Non-spendable - Inventories					
3450	Restricted - food service					
3490	Restricted - other	<u>8,994</u>	<u>128,700</u>			<u>3,045,740</u>
3000	Total fund balances	<u>8,994</u>	<u>128,700</u>	<u>-0-</u>	<u>-0-</u>	<u>3,045,740</u>
4000	Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,994</u>	<u>\$ 145,960</u>	<u>\$ 38,681</u>	<u>\$ 1,719</u>	<u>\$ 3,233,612</u>

<u>Funds</u>	
481	
<u>Community Foundation Of Texas - Harvey</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$ 6,634,919
	878,269
	<u>70,833</u>
<u>-0-</u>	<u>7,584,021</u>
<u>-0-</u>	<u>-0-</u>
<u>\$ -0-</u>	<u>\$ 7,584,021</u>
\$	\$ 192,495
	939,327
	493,855
	4,075
	<u>8,518</u>
<u>-0-</u>	<u>1,638,270</u>
<u>-0-</u>	<u>-0-</u>
	70,833
	2,691,484
	<u>3,183,434</u>
<u>-0-</u>	<u>5,945,751</u>
<u>\$ -0-</u>	<u>\$ 7,584,021</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

Data Control Codes		206	211	224	225	Special 226
		ESEA, Title X, Part C-Education for the Homeless Children and Youth	ESEA Title I Part A Improving Basic Programs	IDEA Part B Formula	IDEA Part B Preschool	IDEA Part B Discretionary
	REVENUES:					
5700	Local and intermediate sources	\$	\$	\$	\$	\$
5800	State program revenues					
5900	Federal program revenues	15,514	1,113,464	2,500,418	40,124	168,760
5020	Total revenues	15,514	1,113,464	2,500,418	40,124	168,760
	EXPENDITURES:					
	Current:					
0011	Instruction	9,414	1,077,316	1,435,546	40,124	168,760
0012	Instructional resources and media services					
0013	Curriculum and staff development		27,077	16,990		
0021	Instructional leadership			205,526		
0023	School leadership					
0031	Guidance, counseling, and evaluation services			842,164		
0032	Social work services	6,100	804			
0033	Health services			152		
0034	Student transportation					
0035	Food service					
0036	Extracurricular activities			40		
0051	Plant maintenance and operations					
0052	Security and monitoring services					
0063	Data processing services					
0061	Community services		8,267			
6030	Total expenditures	15,514	1,113,464	2,500,418	40,124	168,760
1100	Excess (deficiency) of revenues over expenditures	-0-	-0-	-0-	-0-	-0-
	OTHER FINANCING SOURCES (USES):					
7915	Transfers in					
	Total other financing sources and (uses)	-0-	-0-	-0-	-0-	-0-
1200	Net changes in fund balances	-0-	-0-	-0-	-0-	-0-
0100	Fund balances - beginning					
3000	Fund balances - ending	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Revenue Funds							
240	244	255	263	265	289	383	397
National School Lunch and Breakfast Program	Career and Technical Basic Grant	ESEA, Title II Part A-Teacher and Principal Training and Recruiting	Title III, Part A English Language Acquisition and Language Program	Title IV Part B 21 st Century Community Learning Centers	Improving Academic Achievement	Federally Funded Special Revenue Funds	Professional Staff Development
\$ 4,236,585	\$	\$	\$	\$	\$	\$	\$
229,374							15,867
<u>5,308,946</u>	<u>115,629</u>	<u>194,797</u>	<u>185,884</u>	<u>187,301</u>	<u>24,747</u>	<u>177,948</u>	
<u>9,774,905</u>	<u>115,629</u>	<u>194,797</u>	<u>185,884</u>	<u>187,301</u>	<u>24,757</u>	<u>177,948</u>	<u>15,867</u>
	76,895	79,997	120,451	133,153		177,948	
	2,950	114,800	65,433		24,747		15,867
	35,784			54,148			
9,554,503						1,001,385	
<u>9,554,503</u>	<u>115,629</u>	<u>194,797</u>	<u>185,884</u>	<u>187,301</u>	<u>24,747</u>	<u>1,179,333</u>	<u>15,867</u>
<u>220,402</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(1,001,385)</u>	<u>-0-</u>
						1,001,385	
<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,001,385</u>	<u>-0-</u>
220,402	-0-	-0-	-0-	-0-	-0-	-0-	-0-
<u>2,541,915</u>							
<u>\$ 2,762,317</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

Data Control Codes		397	410	429	427	Special Revenue 461
		Advanced Placement Incentives	State Textbook Fund	Truancy Intervention Program	Expanding the 3 E's Grant Program	Campus Activities
	REVENUES:					
5700	Local and intermediate sources	\$	\$ 6,669	\$	\$	\$ 5,091,858
5800	State program revenues	15,105	2,208,652	72,376	17,186	
5900	Federal program revenues					
5020	Total revenues	15,105	2,215,321	72,376	17,186	5,091,858
	EXPENDITURES:					
	Current:					
0011	Instruction		2,082,851			26,967
0012	Instructional resources and media services					76
0013	Curriculum and staff development	15,105			17,186	
0021	Instructional leadership					
0023	School leadership					
0031	Guidance, counseling, and evaluation services					
0032	Social work services			72,376		
0033	Health services					
0034	Student transportation					
0035	Food service					
0036	Extracurricular activities					5,047,173
0051	Plant maintenance and operations					
0052	Security and monitoring services					870
0053	Data processing services		5,417			
0061	Community services					
6030	Total expenditures	15,105	2,088,268	72,376	17,186	5,075,086
1100	Excess (deficiency) of revenues over expenditures	-0-	127,053	-0-	-0-	16,772
	OTHER FINANCING SOURCES (USES):					
7915	Transfers in					
	Total other financing sources and (uses)		-0-	-0-	-0-	-0-
1200	Net changes in fund balances	-0-	127,053	-0-	-0-	16,772
0100	Fund balances - beginning	8,994	1,647			3,028,968
3000	Fund balances - ending	\$ 8,994	\$ 128,700	\$ -0-	\$ -0-	\$ 3,045,740

<u>Funds</u>	
481	
<u>Community Foundation Of Texas - Harvey</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 41,000	\$ 9,376,112
	2,558,560
	<u>10,033,532</u>
<u>41,000</u>	<u>21,968,204</u>
	5,429,422
	76
	300,155
	241,310
	54,148
	842,164
	79,280
	152
41,000	41,000
	9,554,503
	5,047,213
	1,001,385
	870
	5,417
	<u>8,267</u>
<u>41,000</u>	<u>22,605,362</u>
<u>-0-</u>	<u>(637,158)</u>
	<u>1,001,385</u>
<u>-0-</u>	<u>1,001,385</u>
<u>-0-</u>	<u>364,227</u>
	<u>5,581,524</u>
<u>\$ -0-</u>	<u>\$ 5,945,751</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2018

Last Ten Periods Ended August 31, / June 30,	Tax Rates		Assessed/Appraised Value for School Tax Purposes	Beginning Balance July 1, 2017
	Maintenance	Debt Service		
2009 and Prior (1)	\$ -----	\$ -----	\$ -----	\$ 578,193
2010 (1)	1.0400	0.3794	5,103,026,983	99,276
2011 (1)	1.0400	0.3794	5,534,742,285	106,231
2012 (1)	1.0400	0.3794	5,364,894,533	138,892
2013 (2)	1.0400	0.3794	5,300,745,597	166,369
2014 (3)	1.0400	0.3757	5,402,049,384	203,491
2015 (3)	1.0400	0.3757	5,737,388,969	265,901
2016 (3)	1.0400	0.3756	5,867,919,610	388,176
2017 (3)	1.0400	0.3756	6,507,881,181	1,418,822
2017 School Period under Audit (3)	1.0400	0.3756	7,361,661,103	
1000 Totals				\$ <u>3,365,351</u>

(1) Year Ended August 31,

(2) Ten Months Ended June 30, 2013

(3) Year Ended June 30,

Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance June 30, 2018
\$	\$ 12,428	\$ 3,239	\$ (8,031)	\$ 554,495
	4,189	1,528	(386)	93,173
	5,770	2,105	-0-	98,356
	9,565	3,490	-0-	125,837
	30,242	11,033	22,808	147,902
	50,565	18,268	37,807	172,465
	65,023	23,492	35,975	213,361
	139,748	50,470	48,280	246,238
	594,402	214,671	(147,004)	462,745
<u>99,943,660</u>	<u>76,768,891</u>	<u>27,725,380</u>	<u>5,949,684</u>	<u>1,399,073</u>
<u>\$ 99,943,660</u>	<u>\$ 77,680,823</u>	<u>\$ 28,053,676</u>	<u>\$ 5,939,133</u>	<u>\$ 3,513,645</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND
JUNE 30, 2018
UNAUDITED

EXHIBIT J-3

Data Control Code	Explanation	Amount
1	Total General Fund Balance as of 06/30/18 (Exhibit C-1 object 3000 for the General Fund only)	\$ 52,069,177
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	1,346,834
3	Total Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	-0-
4	Total Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	7,500,000
5	Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	13,010,000
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing unearned revenues)	1,408,604
7	Estimate of two month's average cash disbursements during the fiscal year	29,235,570
8	Estimate of delayed payments from state sources (58XX) including August payment delays	-0-
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	2,199,905
10	Estimate of delayed payments from federal sources (59XX)	-0-
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)	-0-
12	Optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11)	<u>54,700,913</u>
13	Excess (deficit) unassigned General Fund balance (1 - 12)	<u>\$(2,631,736)</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - FOOD SERVICE SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2018**

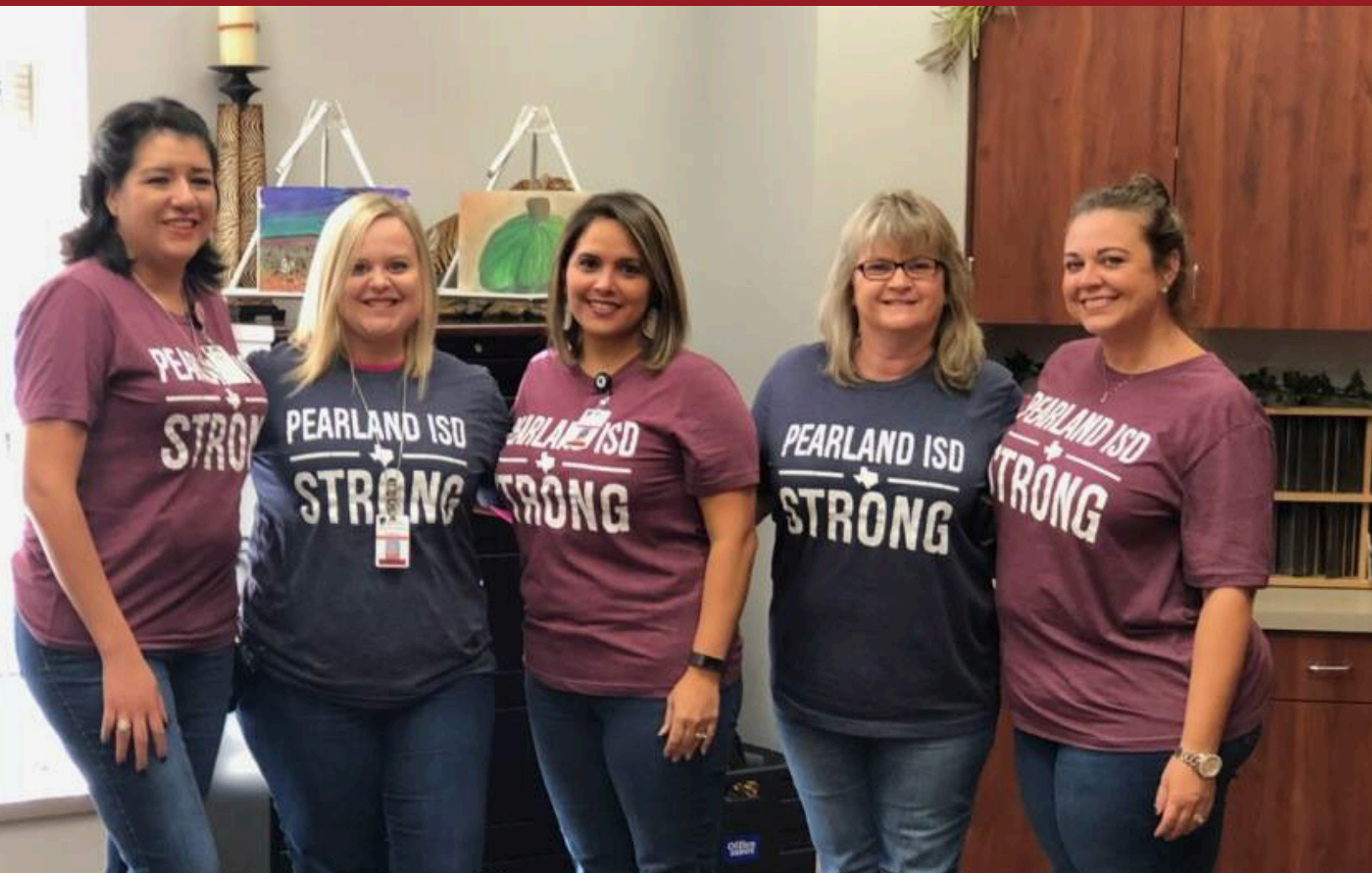
		Food Service Special Revenue Fund			Variance with Final Budget Positive (Negative)
Data Control Codes		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 5,394,500	\$ 4,300,000	\$ 4,236,585	\$(63,415)
5800	State program revenues	205,000	205,000	229,374	24,374
5900	Federal program revenues	<u>4,164,700</u>	<u>5,064,700</u>	<u>5,308,946</u>	<u>244,246</u>
5020	Total revenues	<u>9,764,200</u>	<u>9,569,700</u>	<u>9,774,905</u>	<u>205,205</u>
	EXPENDITURES:				
	Current:				
0035	Food service	<u>9,764,200</u>	<u>9,764,200</u>	<u>9,554,503</u>	<u>209,697</u>
6030	Total expenditures	<u>9,764,200</u>	<u>9,764,200</u>	<u>9,554,503</u>	<u>209,697</u>
1100	Excess (deficiency) of revenues over expenditures	<u>-0-</u>	<u>(194,500)</u>	<u>220,402</u>	<u>414,902</u>
	OTHER FINANCING SOURCES (USES):				
	Total other financing sources and (uses)	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
1200	Net change in fund balances	-0-	(194,500)	220,402	414,902
0100	Fund balances – beginning	<u>2,541,915</u>	<u>2,541,915</u>	<u>2,541,915</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 2,541,915</u>	<u>\$ 2,347,415</u>	<u>\$ 2,762,317</u>	<u>\$ 414,902</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2018

EXHIBIT J-5

		Debt Service Fund			Variance with Final Budget Positive (Negative)
Data Control Codes		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and intermediate sources	\$ 27,503,844	\$ 27,725,568	\$ 28,478,680	\$ 753,112
5800	State program revenues	<u>727,206</u>	<u>1,259,898</u>	<u>813,747</u>	<u>(446,151)</u>
5020	Total revenues	<u>28,231,050</u>	<u>28,985,466</u>	<u>29,292,427</u>	<u>306,961</u>
	EXPENDITURES:				
	Current:				
0071	Principal on long-term debt	15,319,058	12,945,000	12,945,000	-0-
0072	Interest on long-term debt	12,901,992	15,414,750	15,414,750	-0-
0073	Bond issuance costs and fees	<u>10,000</u>	<u>1,010,000</u>	<u>952,620</u>	<u>57,380</u>
6030	Total expenditures	<u>28,231,050</u>	<u>29,369,750</u>	<u>29,312,370</u>	<u>57,380</u>
1100	Excess (deficiency) of revenues over expenditures	<u>-0-</u>	<u>(384,284)</u>	<u>(19,943)</u>	<u>364,341</u>
	OTHER FINANCING SOURCES (USES):				
7916	Premium on issuance of bonds	<u></u>	<u>3,224,284</u>	<u>3,217,052</u>	<u>(7,232)</u>
	Total other financing sources and (uses)	<u>-0-</u>	<u>3,224,284</u>	<u>3,217,052</u>	<u>(7,232)</u>
1200	Net change in fund balances	-0-	2,840,000	3,197,109	357,109
0100	Fund balances – beginning	<u>19,153,034</u>	<u>19,153,034</u>	<u>19,153,034</u>	<u>-0-</u>
3000	Fund balances – ending	<u>\$ 19,153,034</u>	<u>\$ 21,993,034</u>	<u>\$ 22,350,143</u>	<u>\$ 357,109</u>

Statistical Section



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STATISTICAL SECTION

Statistical tables are used to provide detailed data on the physical, economic, and political characteristics of a government. They are intended to provide financial report users with a broader and more complete understanding of the government and its financial affairs than it is possible from the basic financial statements. The information is provided in five categories.

Financial Trends Information (tables 1-4)

Intended to assist users in understanding and assessing how a District's financial position has changed over time.

Revenue Capacity Information (tables 5-8)

Intended to assist users in understanding and assessing the factors affecting the District's ability to generate its own-source revenues.

Debt Capacity Information (tables 9-12)

Intended to assist users in understanding and assessing the District's debt burden and its ability to issue additional debt.

Demographic and Economic Information (tables 13-14)

Intended to assist users in understanding the socioeconomic environment within which the District operated and to provide information that facilitates comparisons of financial statement information over time and among other school districts.

Operating Information (tables 15-18)

Intended to provide contextual information the District's operations and resources to assist readers in using financial statement information to understand and assess the District's economic condition.

The District's statistical tables usually cover ten fiscal years and often present data from outside the accounting records. The source of information is from District data found in this report, unless indicated otherwise. The tables are unaudited due to the nature of the information contained therein.

PEARLAND INDEPENDENT SCHOOL DISTRICT

Net Position by Component - Last Ten Fiscal Years

(accrual basis of accounting)

(Unaudited)

	<u>2009</u>	<u>2010⁽⁵⁾</u>	<u>2011</u>	<u>2012⁽⁴⁾</u>	<u>2013</u>
Governmental Activities:					
Net investment in capital assets	\$ 12,904,121	\$ 34,723,829	\$ 33,405,783	\$ 16,762,579	\$ 15,946,723
Restricted	9,310,095	9,033,173	8,393,854	17,954,836	22,536,155
Unrestricted	<u>5,368,407</u>	<u>8,928,992</u>	<u>16,043,287</u>	<u>20,880,554</u>	<u>29,483,989</u>
Total Primary Government Net Position	<u>\$ 27,582,623</u>	<u>\$ 52,685,994</u>	<u>\$ 57,842,924</u>	<u>\$ 55,597,969</u>	<u>\$ 67,966,867</u>

- (1) The District implemented GASB Statement No. 75 in 2018. The effects of this statement were not applied to previous years.
- (2) Restated 2016 – Prior Period Adjustment in Agency Funds.
- (3) The District implemented GASB Statement No. 68 in 2015. The effects of this statement were not applied to previous years.
- (4) The District implemented GASB Statement No. 65 in 2013, which resulted in a retroactive restatement of Net Position in 2012.
- (5) Restated 2010 – Prior Period Adjustment and Change in Accounting Estimate in building depreciation from 30 to 50 years life.

Table 1

<u>2014</u>	<u>2015⁽³⁾</u>	<u>2016⁽²⁾</u>	<u>2017</u>	<u>2018⁽¹⁾</u>
\$ 18,897,541	\$ 17,282,340	\$ 23,401,439	\$ 31,924,248	\$ 47,413,133
22,519,103	23,587,767	30,576,858	32,597,373	22,408,288
<u>34,680,706</u>	<u>21,468,018</u>	<u>17,128,959</u>	<u>12,140,158</u>	<u>(79,423,632)</u>
<u>\$ 76,097,350</u>	<u>\$ 62,338,125</u>	<u>\$ 71,107,256</u>	<u>\$ 76,661,779</u>	<u>\$ (9,602,211)</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT

Statement of Activities - Last Ten Fiscal Years

(accrual basis of accounting)

(Unaudited)

	2009	2010	2011	2012	2013
Expenses					
Governmental Activities:					
Instruction	\$ 80,117,245	\$ 84,472,430	\$ 81,548,870	\$ 80,497,321	\$ 76,616,490
Instructional resources and media services	2,290,872	1,975,321	1,674,598	1,684,201	1,596,399
Curriculum and staff development	3,032,462	4,005,145	3,720,990	3,307,258	3,231,292
Instructional leadership	2,573,231	1,961,544	1,791,046	1,764,562	1,532,989
School leadership	7,896,680	8,490,448	8,387,538	8,083,392	7,873,688
Guidance and counseling services	4,467,083	4,527,280	4,209,541	4,440,673	4,512,404
Social work services	208,852	264,452	322,953	318,057	282,937
Health services	1,349,619	1,408,357	1,274,915	1,186,173	1,129,578
Student (pupil) transportation	6,116,222	6,435,026	5,913,327	6,337,619	5,581,988
Child nutrition services	7,927,994	7,960,909	8,281,869	8,758,214	8,046,156
Co-curricular activities	5,004,299	5,405,580	5,094,316	5,523,241	4,324,185
General administration	3,680,059	3,688,701	3,821,622	3,445,382	2,860,991
Plant maintenance and operations	16,199,128	14,549,456	13,097,062	13,089,155	11,583,898
Security and monitoring services	1,430,836	1,316,846	1,259,194	1,265,546	1,389,484
Data processing services	3,039,543	3,772,124	3,066,501	4,239,364	5,354,227
Community services	109,888	177,710	67,999	241,622	32,860
Interest and fiscal charges	15,528,460	14,976,980	14,845,085	13,846,845	11,405,911
Bond issuances costs and fees	42,725	43,355	24,898	187,277	586,019
Shared service arrangements	5,565,208	4,990,347	4,960,051	4,608,101	4,082,692
Alternative education	21,518	12,300	800	2,600	20,100
Other intergovernmental charges	<u>523,323</u>	<u>548,387</u>	<u>568,461</u>	<u>558,860</u>	<u>408,183</u>
Total primary government expenses	<u>\$167,125,247</u>	<u>\$170,982,698</u>	<u>\$163,931,636</u>	<u>\$163,385,463</u>	<u>\$152,452,471</u>
Program Revenues					
Governmental Activities:					
Charges for Services:					
Instructional	\$ 2,878,758	\$ 3,075,127	\$ 268,719	\$ 265,391	\$ 236,203
Child nutrition services	4,226,085	4,940,509	4,928,457	5,069,888	4,766,315
Co-curricular activities	255,591	332,556	446,404	459,306	349,925
General administration	80,046	73,648	7,526	82	19
Other activities	1,131,845	1,205,290	45,390	2,158	30,968
Operating grants and contributions	14,599,559	17,817,538	22,037,720	14,151,769	16,906,922
Capital grants and contributions	<u>32,419</u>	<u>433,314</u>	<u>573,609</u>	<u>344,944</u>	<u>121,961</u>
Total primary government program revenues	<u>23,204,303</u>	<u>27,877,982</u>	<u>28,307,815</u>	<u>20,293,538</u>	<u>22,412,313</u>
Net primary government expense	<u>\$(143,920,944)</u>	<u>\$(143,104,716)</u>	<u>\$(135,623,821)</u>	<u>\$(143,091,925)</u>	<u>\$(130,040,158)</u>

(continued)

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 90,613,629	\$ 96,418,084	\$108,018,146	\$111,410,232	\$101,971,641
1,830,154	1,748,551	1,892,690	2,023,569	1,874,480
3,790,285	4,420,330	4,798,357	5,032,868	4,396,887
1,916,644	2,022,634	2,117,324	2,364,184	2,188,457
9,010,467	9,340,019	10,145,554	10,889,063	9,884,886
5,127,407	5,511,460	6,212,844	6,549,827	5,689,193
392,206	446,637	528,261	564,122	594,806
1,246,878	1,336,795	1,452,554	1,470,916	1,322,930
6,927,329	6,768,116	6,920,831	7,166,128	6,707,250
9,617,535	9,314,602	9,640,501	9,628,376	9,539,071
5,161,116	4,993,563	5,297,839	5,352,392	10,135,800
3,547,964	3,819,145	4,148,299	4,461,643	4,198,607
14,638,541	15,370,044	20,729,037	20,600,321	19,310,843
1,677,065	1,740,251	1,907,967	1,837,076	1,956,123
3,554,845	3,927,450	4,267,205	5,418,925	5,141,820
16,074	13,829	9,337	17,607	17,057
12,943,492	13,576,209	11,868,707	11,152,833	15,209,078
6,387	635,620	437,905	384,896	952,620
4,428,939	4,605,539	11,379		
7,200	14,500	20,000	17,600	44,800
<u>546,652</u>	<u>566,318</u>	<u>597,519</u>	<u>627,315</u>	<u>650,378</u>
<u>\$177,000.809</u>	<u>\$186,589.696</u>	<u>\$201,022.256</u>	<u>\$206,969.893</u>	<u>\$201,786.727</u>

\$ 253,799	\$ 237,221	\$ 271,748	\$ 346,793	\$ 365,685
4,984,064	4,784,658	5,069,315	4,973,390	4,235,483
421,770	422,991	396,299	436,099	5,349,495
1,544	939	721	507	545
40,214	24,450	18,776	19,711	15,065
20,632,311	19,750,202	23,923,153	21,001,150	21,912,229
<u>78,193</u>	<u>91,482</u>	<u>72,335</u>	<u>111,512</u>	<u>194,827</u>
<u>26,411,895</u>	<u>25,311,943</u>	<u>29,752,347</u>	<u>26,889,162</u>	<u>32,073,329</u>
<u>\$(150,588.914)</u>	<u>\$(161,277.753)</u>	<u>\$(171,269.909)</u>	<u>\$(180,080.731)</u>	<u>\$(169,713.398)</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT

Statement of Activities - Last Ten Fiscal Years (Continued)

(accrual basis of accounting)

(Unaudited)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Governmental Revenues and Other Changes in Net Position:					
Governmental Activities:					
Property taxes – maintenance and operations	\$ 57,233,068	\$ 58,460,553	\$ 57,961,231	\$ 57,911,874	\$ 58,423,733
Property taxes – debt service	20,824,553	21,299,380	21,126,157	21,107,056	21,312,482
State aid – formula grants	51,010,149	57,286,699	57,075,582	58,481,482	61,729,034
Other grants and contributions not restricted	4,613,860	2,177,319	3,685,816	4,547,211	400,529
Investment earnings	779,268	126,797	89,393	91,822	77,126
Miscellaneous	603,517	892,744	842,572	604,694	466,152
Special item/gain on sale		(3,485,408)		12,707	
	<u>135,064,415</u>	<u>136,758,084</u>	<u>140,780,751</u>	<u>142,756,846</u>	<u>142,409,056</u>
Total primary government general revenues					
	<u>135,064,415</u>	<u>136,758,084</u>	<u>140,780,751</u>	<u>142,756,846</u>	<u>142,409,056</u>
Total primary government change in net position	<u>\$ (8,856,529)</u>	<u>\$ (6,346,632)</u>	<u>\$ 5,156,930</u>	<u>\$ (335,079)</u>	<u>\$ 12,368,898</u>

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 59,785,723	\$ 63,077,455	\$ 65,527,661	\$ 72,912,075	\$ 78,244,130
21,585,188	22,772,073	23,638,974	26,318,697	28,235,132
75,904,945	79,599,546	85,600,906	84,989,975	82,102,901
663,162	146,102	143,358	144,820	121,350
68,493	77,851	171,783	359,826	2,261,747
709,666	697,906	790,255	909,861	1,003,357
<u>2,220</u>	<u>28,348</u>	<u>1,156,502</u>		<u>51,509</u>
<u>158,719,397</u>	<u>166,399,281</u>	<u>177,029,439</u>	<u>185,635,254</u>	<u>192,020,126</u>
<u>\$ 8,130,483</u>	<u>\$ 5,121,528</u>	<u>\$ 5,759,530</u>	<u>\$ 5,554,523</u>	<u>\$ 22,306,728</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT

Fund Balances – Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(Unaudited)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
General Fund:					
Non-spendable	\$ 2,265,695	\$ 1,659,225	\$ 1,432,471	\$ 1,783,714	\$ 1,829,626
Committed	8,315,744	7,159,744	7,500,000	7,500,000	7,500,000
Assigned	3,325,000	5,825,000	4,688,000	12,888,000	12,888,000
Unassigned	<u>9,372,479</u>	<u>13,235,716</u>	<u>21,803,839</u>	<u>17,795,984</u>	<u>22,099,193</u>
Total General Fund	<u>\$ 23,278,918</u>	<u>\$ 27,879,685</u>	<u>\$ 35,424,310</u>	<u>\$ 39,967,698</u>	<u>\$ 44,316,819</u>
All Other Governmental Funds:					
Non-spendable	\$ 1,689,094	\$ 371,220	\$ 355,846	\$ 269,818	\$ 226,429
Restricted	17,872,028	16,101,743	13,682,882	9,485,437	15,249,516
Committed	253,641				
Unassigned	<u>95,792</u>	<u>30,605</u>		<u>(3,353)</u>	
Total All Other Governmental Funds	<u>\$ 19,910,555</u>	<u>\$ 16,503,568</u>	<u>\$ 14,038,728</u>	<u>\$ 9,751,902</u>	<u>\$ 15,475,945</u>

Source of Information: District Financial Statements

Table 3

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 1,848,036	\$ 1,585,944	\$ 1,325,206	\$ 1,542,508	\$ 1,346,834
7,500,000	7,500,000	7,500,000	7,500,000	7,500,000
13,370,000	12,954,000	13,010,000	13,010,000	13,010,000
<u>26,410,060</u>	<u>26,982,273</u>	<u>27,778,841</u>	<u>28,684,274</u>	<u>30,212,343</u>
<u>\$ 49,128,096</u>	<u>\$ 49,022,217</u>	<u>\$ 49,614,047</u>	<u>\$ 50,736,782</u>	<u>\$ 52,069,177</u>
\$ 229,309	\$ 171,651	\$ 80,175	\$ 62,004	\$ 70,833
16,146,706	45,033,702	30,926,787	24,672,554	97,232,458
<u> </u>	<u> </u>	<u> </u>	<u>(2,335,819)</u>	<u> </u>
<u>\$ 16,376,015</u>	<u>\$ 45,205,353</u>	<u>\$ 31,006,962</u>	<u>\$ 22,398,739</u>	<u>\$ 97,303,291</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT

Changes in Fund Balances – Governmental Funds

Last Ten Fiscal Years

(modified accrual basis of accounting)

(Unaudited)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Revenues:					
Local and Intermediate Revenues	\$ 83,816,122	\$ 86,486,397	\$ 86,033,628	\$ 85,384,461	\$ 85,813,263
State Program Revenues	60,104,917	63,756,285	64,735,618	68,071,017	70,729,224
Federal Program Revenues	<u>7,435,055</u>	<u>13,807,695</u>	<u>18,336,084</u>	<u>9,391,999</u>	<u>8,408,421</u>
Total revenues	<u>151,356,094</u>	<u>164,050,377</u>	<u>169,105,330</u>	<u>162,847,477</u>	<u>164,950,908</u>
Expenditures:					
Current:					
Instruction	70,128,079	73,518,858	75,645,220	71,955,957	71,595,464
Instructional resources and media services	1,932,522	1,576,972	1,488,432	1,324,124	1,370,073
Curriculum and staff development	2,960,971	3,919,492	3,731,013	3,307,696	3,230,825
Instructional leadership	2,299,524	1,682,143	1,623,080	1,617,989	1,438,860
School leadership	7,681,188	8,244,100	8,380,307	8,077,039	7,854,749
Guidance, counseling and evaluation services	4,319,275	4,401,477	4,196,413	4,432,383	4,498,708
Social work services	185,412	239,467	311,869	303,051	273,348
Health services	1,300,891	1,363,602	1,265,804	1,176,379	1,120,465
Student (pupil) transportation	5,560,156	5,682,798	5,803,787	5,470,788	5,467,048
Food services	7,060,979	6,949,567	7,676,835	8,253,341	7,522,486
Extracurricular activities	3,733,752	3,741,589	3,812,466	3,764,988	3,296,014
General administration	3,491,748	3,465,022	3,721,555	3,375,679	2,781,871
Plant maintenance and operations	16,410,645	14,315,364	13,128,891	13,745,853	11,844,128
Security and monitoring services	1,364,394	1,311,972	1,295,938	1,273,963	1,418,875
Data processing services	3,550,460	3,953,767	2,861,136	4,878,313	5,227,384
Community services	109,888	177,710	67,999	56,122	32,860
Debt Service:					
Principal on long-term debt	6,625,000	7,040,000	31,085,000	9,710,000	10,060,000
Interest on long-term debt	15,343,603	14,913,748	14,746,255	13,779,992	7,126,657
Bond issuance costs and fees	42,725	43,355	263,248	741,296	586,019
Capital Outlay:					
Facilities acquisition and construction	21,387,870	951,655		102,640	3,399,607
Intergovernmental Charges:					
Fiscal agent/shared services arrangement	5,565,208	4,990,347	4,960,051	4,608,101	4,082,692
Alternative education	21,518	12,300	800	2,600	20,100
Other intergovernmental charges	<u>523,323</u>	<u>548,387</u>	<u>568,461</u>	<u>558,860</u>	<u>408,183</u>
Total expenditures	<u>181,599,131</u>	<u>163,043,692</u>	<u>186,634,560</u>	<u>162,517,154</u>	<u>154,656,516</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(30,243,037)</u>	<u>1,006,685</u>	<u>(17,529,230)</u>	<u>330,323</u>	<u>10,294,392</u>

(continued)

Table 4
Page 1 of 2

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 88,149,171	\$ 92,259,239	\$ 95,840,980	\$106,286,528	\$119,717,684
87,478,517	90,243,942	99,372,913	95,054,025	91,753,852
<u>9,521,902</u>	<u>9,166,266</u>	<u>10,219,097</u>	<u>10,991,818</u>	<u>12,409,786</u>
<u>185,149,590</u>	<u>191,669,447</u>	<u>205,432,990</u>	<u>212,332,371</u>	<u>223,881,322</u>
83,293,152	91,108,999	100,013,539	102,346,015	108,279,374
1,512,263	1,486,919	1,592,494	1,714,063	1,805,416
3,797,096	4,458,486	4,715,540	4,896,907	5,032,642
1,805,692	1,957,579	1,997,282	2,222,639	2,444,464
8,993,223	9,438,721	9,942,149	10,569,398	11,317,318
5,111,852	5,559,429	6,101,343	6,360,812	6,534,444
400,795	435,596	503,485	537,927	647,112
1,235,398	1,342,241	1,417,082	1,421,014	1,499,353
6,421,043	6,455,439	6,497,794	6,813,120	7,142,491
9,149,610	8,673,990	8,829,449	8,894,463	9,554,503
3,700,562	3,748,625	3,948,679	4,018,146	9,275,938
3,455,607	3,762,432	3,977,831	4,265,087	4,609,335
14,778,758	15,884,651	21,045,183	20,324,077	22,840,181
1,658,041	1,714,442	1,809,034	1,824,948	1,970,223
2,969,483	3,950,814	3,782,607	6,074,903	6,034,405
16,074	13,829	9,337	17,607	17,057
10,415,000	10,810,000	11,485,000	14,190,000	12,945,000
12,744,598	13,061,908	13,684,091	12,368,537	15,414,750
6,387	635,620	437,905	384,896	952,620
3,019,989	7,758,952	19,332,936	12,854,188	41,905,501
4,428,939	4,605,539	11,379		
7,200	14,500	20,000	17,600	44,800
<u>546,652</u>	<u>566,318</u>	<u>597,519</u>	<u>627,315</u>	<u>650,378</u>
<u>179,467,414</u>	<u>197,445,029</u>	<u>221,751,658</u>	<u>222,743,662</u>	<u>270,917,305</u>
<u>5,682,176</u>	<u>(5,775,582)</u>	<u>(16,318,668)</u>	<u>(10,411,291)</u>	<u>(47,035,983)</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT**Changes in Fund Balances – Governmental Funds (Continued)****Last Ten Fiscal Years****(modified accrual basis of accounting)****(Unaudited)**

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Other Financing Sources (Uses):					
Issuance of general obligation bonds	\$	\$	\$ 22,500,000	\$ 71,585,000	\$ 53,645,000
Sale of property		24,797	16,157	23456	
Sale of land					
Transfers in	2,933,302	1,174,090	26,004,202		3,717,700
Insurance recoveries	2,624,357				
Premium on issuance of bonds			181,050	11,649,616	6,148,388
Transfers out	(1,833,302)	(1,174,090)	(26,092,394)		(3,717,700)
Payment to refunded bond escrow agent				(83,331,833)	(60,014,646)
	<u>3,724,357</u>	<u>24,797</u>	<u>22,609,015</u>	<u>(73,761)</u>	<u>(221,228)</u>
Total other financing sources (uses)	<u>3,724,357</u>	<u>24,797</u>	<u>22,609,015</u>	<u>(73,761)</u>	<u>(221,228)</u>
Net change in fund balances	<u><u>\$ (26,518,680)</u></u>	<u><u>\$ 1,031,482</u></u>	<u><u>\$ 5,079,785</u></u>	<u><u>\$ 256,562</u></u>	<u><u>\$ 10,073,164</u></u>
Debt Service (Principal and Interest) as a Percentage of Non-Capital Expenditures	13.7%	13.5%	24.6%	14.5%	11.4%

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$	\$ 59,195,000	\$ 41,335,000	\$ 42,200,000	\$105,510,000
29,171	36,348	10,480	14,961	4,369
		2,625,612		
101,061	1,214,495	25,826	2,000,000	1,001,385
				51,509
	8,439,077	9,921,717	3,748,706	17,707,052
(101,061)	(1,214,495)	(154,882)	(2,000,000)	(1,001,385)
<u>29,171</u>	<u>(33,171,384)</u>	<u>(51,051,646)</u>	<u>(46,047,466)</u>	<u>17,707,052</u>
<u>29,171</u>	<u>34,499,041</u>	<u>2,712,107</u>	<u>(83,799)</u>	<u>123,272,930</u>
\$ <u>5,711,347</u>	\$ <u>28,723,459</u>	\$ <u>(13,606,561)</u>	\$ <u>(10,495,090)</u>	\$ <u>76,236,947</u>
13.1%	12.6%	12.4%	12.7%	12.4%

PEARLAND INDEPENDENT SCHOOL DISTRICT**ASSESSED VALUE AND ACTUAL VALUE OF TAXABLE PROPERTY**

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	Actual Value				
	Residential	Commercial, Industrial and Multi-Family	Acreage	Vacant Lots and Tracts	Utilities
2009	\$ 4,669,374,572	\$ 944,834,141	\$ 87,244,097	\$ 90,020,464	\$ 65,248,140
2010	4,795,916,591	1,056,450,454	97,350,369	72,329,214	63,022,420
2011	4,788,463,351	1,033,822,273	93,616,718	67,454,648	68,326,820
2012	4,800,908,652	998,430,307	98,839,808	67,645,148	65,695,640
2013	4,814,923,315	1,062,648,942	96,446,244	65,403,055	58,232,850
2014	4,816,463,600	980,418,462	64,265,533	66,228,503	61,860,580
2015	5,097,570,539	1,076,443,089	56,782,786	64,730,784	73,077,830
2016	5,774,886,025	1,282,872,798	115,859,378	75,614,012	60,409,170
2017	6,228,932,076	1,209,530,068	136,431,796	77,775,860	73,020,770
2018	7,012,527,328	1,409,384,950	63,781,479	91,685,173	97,780,110

(1) Tax rates are per \$100 of assessed value.

Source: Brazoria County (Texas) Appraisal District provides the District's tax office with appraised values for properties within the District's tax authority. Actual value equals appraised value. Actual value less exemptions equals taxable assessed value. Taxable assessed value times the tax rate set by the District's Board of Trustees each fall equals the tax levy.

Table 5

Other		Less: Exemptions	Total Taxable Assessed Value	Total Direct Rate ⁽¹⁾
\$	332,882,756	\$ 708,214,673	\$ 5,481,389,497	1.4194
	388,914,417	881,877,108	5,592,106,357	1.4194
	543,394,207	1,026,623,447	5,568,454,570	1.4194
	601,252,527	1,056,882,077	5,570,890,005	1.4194
	607,976,116	1,092,058,319	5,613,572,203	1.4194
	642,706,400	794,221,967	5,837,721,111	1.4157
	656,406,279	856,570,784	6,168,440,523	1.4157
	627,541,643	1,476,600,828	6,460,582,198	1.4156
	674,989,599	1,649,603,488	6,751,076,681	1.4156
	804,015,132	1,621,920,589	7,857,253,583	1.4156

PEARLAND INDEPENDENT SCHOOL DISTRICT**PROPERTY TAX RATES - DIRECT AND OVERLAPPING GOVERNMENTS**

(PER \$100 OF ASSESSED VALUATION)

Last Ten Fiscal Years

(Unaudited)

	2009 Tax Rate	2010 Tax Rate	2011 Tax Rate	2012 Tax Rate	2013 Tax Rate
Brazoria County	0.390	0.426	0.463	0.473	0.486
Brazoria County MUD No. 2	0.500	0.500	0.500	0.500	0.490
Brazoria County MUD No. 3	0.630	0.630	0.630	0.630	0.630
Brazoria County MUD No. 6	0.630	0.630	0.630	0.630	0.630
Brazoria County MUD No. 16	0.950	0.950	0.950	0.950	0.940
Brazoria County MUD No. 17	0.630	0.600	0.547	0.547	0.544
Brazoria County MUD No. 18	0.570	0.560	0.550	0.545	0.530
Brazoria County MUD No. 19	0.660	0.630	0.620	0.600	0.580
Brazoria County MUD No. 23	0.820	0.800	0.770	0.630	0.610
Brazoria County MUD No. 28	0.820	0.820	0.820	0.820	0.820
Harris County	0.389	0.391	0.388	0.391	0.400
Harris County Department of Education	0.006	0.060	0.007	0.007	0.007
Harris County Flood Control District	0.031	0.029	0.029	0.028	0.028
Harris County Hospital District	0.192	0.192	0.192	0.192	0.182
Harris-Brazoria Counties MUD No. 50	N/A	N/A	N/A	N/A	N/A
City of Pearland	0.653	0.653	0.665	0.685	0.705
Port of Houston Authority	0.018	0.016	0.021	0.019	0.020
Pearland ISD Direct Rates:					
Maintenance & Operations	1.0400	1.0400	1.0400	1.0400	1.0400
Debt Service	<u>0.3794</u>	<u>0.3794</u>	<u>0.3794</u>	<u>0.3794</u>	<u>0.3756</u>
Total District Direct Rates	<u><u>1.4194</u></u>	<u><u>0.4194</u></u>	<u><u>1.4194</u></u>	<u><u>1.4194</u></u>	<u><u>1.4156</u></u>

Note: An individual resident of Pearland ISD resides in only one county and one utility district. Therefore, the total taxes applicable to the individual resident are insignificantly less than the sum of the taxes shown.

Table 6

<u>2014</u> <u>Tax Rate</u>	<u>2015</u> <u>Tax Rate</u>	<u>2016</u> <u>Tax Rate</u>	<u>2017</u> <u>Tax Rate</u>	<u>2018</u> <u>Tax Rate</u>
0.492	0.499	0.486	0.440	0.440
0.490	0.490	0.440	0.400	0.400
0.630	0.630	0.620	0.590	0.590
0.630	0.630	0.600	0.600	0.600
0.940	0.940	0.940	0.940	0.940
0.544	0.520	0.460	0.410	0.380
0.510	0.470	0.390	0.350	0.310
0.550	0.510	0.450	0.400	0.380
0.600	0.580	0.540	0.480	0.470
0.820	0.820	0.820	0.820	0.820
0.415	0.417	0.419	0.417	0.418
0.006	0.006	0.005	0.005	0.005
0.028	0.027	0.027	0.283	0.028
0.170	0.170	0.170	0.172	0.171
0.850	0.850	0.850	0.850	0.850
0.705	0.712	0.705	0.681	0.685
0.017	0.015	0.013	0.013	0.013
1.0400	1.0400	1.0400	1.0400	1.0400
<u>0.3756</u>	<u>0.3757</u>	<u>0.3757</u>	<u>0.3794</u>	<u>0.3794</u>
<u>1.4156</u>	<u>1.4157</u>	<u>1.4157</u>	<u>1.4194</u>	<u>1.4194</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT

PRINCIPAL PROPERTY TAXPAYERS

Current Year and Nine Years Ago

(Amounts in thousands)

Table 7

Taxpayer	Type of Property	Fiscal Year Ended June 30, 2018			Fiscal Year Ended June 30, 2009		
		Taxable Assessed Valuation ⁽¹⁾	Rank	Percentage of Total Assessed Valuation ⁽²⁾	Taxable Assessed Valuation ⁽¹⁾	Rank	Percentage of Total Assessed Valuation ⁽³⁾
Weatherford US Inc.	Oil Field Equipment	\$ 45,442,990	1	0.59%	\$ 58,636,172	1	0.76%
Pearland Dunhill 1, LLC	Retail Center	33,930,730	2	0.44%			
Centerpoint Energy	Electric Utility	32,458,940	3	0.42%	26,163,610	2	0.34%
VR St. Andrew LP	Apartments	30,703,630	4	0.40%			
Wal-Mart Real Estate Trust	Department Store	29,400,000	5	0.38%	24,373,700	4	0.31%
USA Tranquility Lake	Apartments	23,800,000	6	0.31%	16,756,130	8	0.22%
Southwind Pearland Investors, LLC	Apartments	23,378,500	7	0.30%	16,775,000	7	0.22%
Flowworks	Industrial	21,299,020	8	0.28%			
Westlake Residential Apartments	Apartments	20,050,110	9	0.26%			
Wal-Mart Stores, Inc.	Department Store	19,367,390	10	0.25%	22,171,570	5	0.29%
VR St. Andrew LP	Apartments				25,000,000	3	0.32%
The Apartments at Summerwind, LP	Apartments				14,567,350	9	0.19%
Shawcorp Pipe Protection, LLC	Industrial				14,146,230	10	0.18%
Aggreko Inc.	Industrial				19,687,010	6	0.25%
Total of Top Ten Taxpayers		<u>\$ 279,832,310</u>		<u>3.61%</u>	<u>\$ 238,276,772</u>		<u>3.08%</u>

(1) Taxable assessed value equals appraised value after exemption

(2) Net Taxable Value \$ 7,744,189,101

(3) Net Taxable Value \$ 5,590,638,613

Source; Brazoria County (Texas) Appraisal District

PEARLAND INDEPENDENT SCHOOL DISTRICT
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
(Unaudited)

Table 8

Fiscal Year June 30	Net Tax Levy for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Net Tax Levy		Amount	Percentage of Total Tax Collections
2009	\$ 77,354,439	\$ 76,112,329	98.39%	\$ 1,147,070	\$ 77,259,399	99.88%
2010	79,007,457	78,027,516	98.76%	886,768	78,914,284	99.88%
2011	78,589,124	77,678,292	98.84%	812,476	78,490,768	99.87%
2012	78,623,411	77,772,903	98.92%	724,671	78,497,574	99.84%
2013	79,509,130	78,244,832	98.41%	1,116,396	79,361,228	99.81%
2014	80,891,038	79,737,865	98.57%	980,708	80,718,573	99.79%
2015	85,400,235	84,071,053	98.44%	1,115,821	85,186,874	99.75%
2016	88,576,876	87,364,047	98.63%	966,591	88,330,638	99.72%
2017	98,968,277	97,550,381	98.57%	955,151	98,505,532	99.53%
2018	105,893,344	104,494,272	98.68%	-0-	104,494,272	98.68%

PEARLAND INDEPENDENT SCHOOL DISTRICT**OUTSTANDING DEBT BY TYPE**

Last Ten Fiscal Years

(Unaudited)

Table 9

Fiscal Year Ended June 30	General Obligation Bonds	Ratio of Debt to Assessed Value ⁽¹⁾	Debt per ADA ⁽²⁾	Debt per Capita ⁽³⁾	Percentage of Personal Income ⁽³⁾
2009	\$ 345,179,685	6.30%	\$ 20,735	\$ 3,728	11.73%
2010	338,064,617	6.05%	19,520	3,651	10.99%
2011	329,618,448	5.92%	18,492	3,391	11.08%
2012	329,046,200	5.91%	17,938	3,297	10.24%
2013	321,511,552	5.73%	17,138	3,088	9.04%
2014	310,017,354	5.31%	16,201	2,900	8.11%
2015	334,863,345	5.43%	17,085	2,982	8.24%
2016	323,447,812	5.01%	16,012	2,762	6.97%
2017	307,271,914	4.55%	14,918	2,529	7.14%
2018	414,460,410	5.27%	20,066	N/A	N/A

(1) See Table 5 for assessed value date.

(2) See Table 16 for student enrollment date.

(3) See Table 13 for population and income information. Personal Income date not available for 2018.
Population data not available for 2018.

PEARLAND INDEPENDENT SCHOOL DISTRICT**RATIOS OF NET GENERAL OBLIGATION BONDED DEBT OUTSTANDING**

Table 10

Last Ten Fiscal Years
(Unaudited)

Fiscal Year Ended June 30	General Obligation Bonds ⁽¹⁾	Less Restricted for Retirement of Bonded Debt ⁽²⁾	Net Bonded Debt	Ratio of Debt to Assessed Value ⁽³⁾	Debt per ADA ⁽⁴⁾
2009	\$ 345,179,685	\$ 5,843,469	\$ 339,336,216	6.19%	\$ 20,384
2010	338,064,617	6,303,875	331,760,742	5.93%	19,156
2011	329,618,448	5,105,959	324,512,489	5.83%	18,205
2012	329,046,200	4,564,005	324,482,195	5.82%	17,689
2013	321,511,552	11,046,490	310,465,062	5.53%	16,549
2014	310,017,354	13,159,629	296,857,725	5.09%	15,513
2015	334,863,345	14,986,658	319,876,687	5.19%	16,320
2016	323,447,812	16,847,686	306,600,126	4.75%	15,178
2017	307,271,914	19,153,034	288,118,880	4.27%	13,988
2018	414,460,410	22,350,143	392,110,267	4.99%	18,984

(1) Details regarding the District's outstanding debt can be found in the Notes to the Financial Statements.

(2) This is the amount restricted for debt service on the governmental funds financial statements.

(3) See Table 5 for assessed value data.

(4) See Table 16 for student enrollment data.

PEARLAND INDEPENDENT SCHOOL DISTRICT
LEGAL DEBT MARGIN INFORMATION
Last Ten Fiscal Years
(Unaudited)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Debt Limit ⁽¹⁾	\$ 548,138,950	\$ 559,210,636	\$ 556,845,457	\$ 557,089,001	\$ 561,357,220
Total Net Debt Applicable to Limit	<u>334,922,239</u>	<u>327,769,910</u>	<u>556,845,457</u>	<u>309,521,690</u>	<u>292,056,315</u>
Legal debt Margin	213,216,711	231,440,726	236,164,397	247,567,311	269,300,905
Total Net Debt Applicable to the Limit As a Percentage of Debt limit	61.10%	58.61%	57.59%	55.56%	52.03%

Legal Debt Margin Calculation for Fiscal Year 2018

Assessed Value ⁽²⁾	7,857,253,583
Debt Limit Percentage of Assessed Value	<u>10.00%</u>
Debt Limitation ⁽¹⁾	785,725,358
Debt Applicable to Debt Limitation:	
Total Bonded Debt	367,580,000
Less: Amount set aside for repayment of bonds ⁽³⁾	<u>22,350,143</u>
Total Amount of Debt Applicable to Debt Limitation	<u>345,229,857</u>
Legal Debt Margin	440,495,501

- (1) Although there is no legal debt limit in the State of Texas, most school business officials in the State hold the opinion that the Attorney General would not approve bonded indebtedness in excess of 10 percent of assessed value.
(2) See Table 5 for assessed value date.
(3) See restricted for debt service at the fund level.

Table 11

<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 583,772,111	\$ 616,844,052	\$ 646,058,220	\$ 675,107,668	\$ 785,725,358
<u>279,315,718</u>	<u>296,069,224</u>	<u>275,086,780</u>	<u>255,839,100</u>	<u>345,229,857</u>
304,456,393	320,774,828	370,971,440	419,268,568	440,495,501
47.85%	48.00%	42.58%	37.90%	43.94%

PEARLAND INDEPENDENT SCHOOL DISTRICT**COMPUTATION OF ESTIMATED DIRECT AND OVERLAPPING DEBT**

Table 12

As of June 30, 2018

(Unaudited)

<u>Taxing Jurisdiction</u>	<u>Gross Tax Debt</u>	<u>Percent Overlapping (A)</u>	<u>Amount Overlapping</u>
Brazoria County	\$ 76,230,000	19.37%	\$ 14,765,751
Brazoria County MUD #2	3,135,000	99.50%	3,119,325
Brazoria County MUD #6	17,615,000	86.08%	15,162,992
Brazoria County MUD #16	13,780,000	98.59%	13,585,702
Brazoria County MUD #17	21,835,000	99.37%	21,697,440
Brazoria County MUD #18	22,230,000	51.83%	11,521,809
Brazoria County MUD #19	26,715,000	99.49%	26,578,754
Brazoria County MUD #23	14,265,000	100.00%	14,265,000
Brazoria County MUD #28	57,645,000	78.26%	45,112,977
Brazoria County Toll Road Authority	83,538,313	19.37%	16,181,371
Harris County	2,200,173,022	0.04%	880,069
Harris County Department of Education	6,555,000	0.04%	2,622
Harris County Flood Control District	83,075,000	0.04%	33,230
Harris County Hospital District	59,490,000	0.04%	23,796
Harris-Brazoria Counties MUD #509	21,635,000	26.22%	5,672,697
Pearland, City of	324,770,000	59.05%	191,776,685
Port of Houston Authority	613,699,397	0.04%	<u>245,480</u>
Total Overlapping Debt			380,625,699
The District			<u>414,460,410</u>
Total Direct and Overlapping Debt			<u>\$ 795,086,109</u>

(A) The percentage of overlapping debt is estimated using taxable assessed property values. Percentages were estimated by determining the portion of the overlapping taxing authority's taxable assessed value that is within the District's boundaries and dividing it by the overlapping taxing authority's total taxable assessed value.

Source: District's Financial Advisor

PEARLAND INDEPENDENT SCHOOL DISTRICT*DEMOGRAPHIC AND ECONOMIC STATISTICS*

Last Ten Fiscal Years

(Unaudited)

Table 13

<u>Fiscal Year Ended June 30</u>	<u>Population</u>	<u>Total Personal Income</u>	<u>Per Capita Personal Income(1)</u>	<u>Unemployment Rate(2)</u>
2018	(3)	\$ (3)	\$ (3)	3.9%
2017	121,500	4,305,839,000	35,439	4.3%
2016	117,100	4,637,394,000	39,602	3.8%
2015	112,300	4,063,014,000	36,180	3.3%
2014	106,900	3,822,958,222	35,762	4.3%
2013	104,100	3,555,431,000	34,154	5.0%
2012	99,800	3,213,184,000	32,196	5.6%
2011	97,200	2,974,785,000	30,605	6.9%
2010	92,600	3,076,788,000	33,227	6.9%
2009	92,600	2,941,717,000	31,768	6.5%

(1) Source: Pearland Economic Development Corporation

(2) Source: Bureau of Labor Statistics

(3) Information not available at this time

Note: Data is for City of Pearland.

PEARLAND INDEPENDENT SCHOOL DISTRICT

PRINCIPAL EMPLOYERS

Current Year and Nine Years Ago
(Unaudited)

Table 14

Employer	2018(a)			2009(a)		
	Number of Employees	Rank	% of Total County Employment	Number of Employees	Rank	% of Total County Employment
Pearland ISD	2,518	1	4.47%	2,291	1	9.14%
Kelsey Seybold	827	2	1.47%			
City of Pearland	735	3	1.31%	543	3	2.17%
Alvin ISD	635	4	1.13%			
Memorial Houston	450	5	0.80%			
Merit Medical	330	6	0.59%			
Pearland Medical Center	300	7	0.53%			
Dover Energy	212	8	0.38%			
Kemlon	200	9	0.36%	200	9	0.80%
Third Coast Terminals	185	10	0.33%			
Wal-Mart				800	2	3.19%
HEB				500	4	1.99%
Weatherford				325	5	1.30%
TurboCare				280	6	1.12%
Randall's				250	7	1.00%
Home Depot				225	8	0.90%
EMS Pipeline				195	10	0.78%
Total	<u>6,392</u>		<u>11.35%</u>	<u>5,609</u>		<u>22.37%</u>

Source: Pearland Economic Development Commission

PEARLAND INDEPENDENT SCHOOL DISTRICT

FULL-TIME EQUIVALENT DISTRICT EMPLOYEES BY FUNCTION

Table 15

Last Ten Fiscal Years
(Unaudited)

Function	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Teachers:										
Total Teaching Staff	<u>1,079</u>	<u>1,087</u>	<u>1,109</u>	<u>1,083</u>	<u>1,120</u>	<u>1,208</u>	<u>1,239</u>	<u>1,306</u>	<u>1,343</u>	<u>1,323</u>
Professional Support:										
Athletic Trainer	4	2	5	5	5	5	6	6	6	7
Counselor	40	35	30	30	34	38	37	42	39	43
Educational Diagnostician	2	1	2	2	3	2	2	3	3	3
Librarian	23	19	16	15	15	14	15	15	16	16
LSSP/Psychologist	18	14	16	17	16	19	22	23	21	22
Other Campus Professional	24	26	7	4	8	8	7	8	9	13
Other Non-Instructional	59	82	78	86	94	105	111	118	98	98
School Nurse	22	21	17	13	13	13	13	14	14	13
Speech Therapist/Speech-Language Pathologist	9	7	12	13	14	16	12	15	14	16
Truant Officer	<u>2</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>--</u>	<u>3</u>
Total Professional Staff	<u>203</u>	<u>208</u>	<u>185</u>	<u>187</u>	<u>205</u>	<u>222</u>	<u>227</u>	<u>246</u>	<u>219</u>	<u>234</u>
Administrative Staff:										
Assistant Principal	32	31	31	29	32	33	32	33	30	43
Asst/Assoc/Deputy Superintendent	6	5	5	5	6	5	5	5	7	7
Athletic Director	2	2	1	1	--	--	--	--	--	1
Business Manager	1	1	1	1	1	1	1	1	2	1
Director of Personnel/HR	1	1	1	1	1	1	1	1	1	1
Dist Instr Program Director or Executive Director	2	2	16	6	7	5	5	6	10	7
Principal	22	23	23	22	20	22	23	23	22	21
Registrar	8	8	3	2	2	3	3	3	3	3
Superintendent	1	1	1	1	1	1	1	1	1	1
Teacher Supervisor	--	--	--	--	1	--	--	--	--	--
Total Administrative Staff	<u>75</u>	<u>74</u>	<u>82</u>	<u>68</u>	<u>71</u>	<u>71</u>	<u>71</u>	<u>73</u>	<u>76</u>	<u>85</u>
Total Professional Staff	<u>1,357</u>	<u>1,369</u>	<u>1,376</u>	<u>1,338</u>	<u>1,396</u>	<u>1,501</u>	<u>1,537</u>	<u>1,625</u>	<u>1,638</u>	<u>1,642</u>
ParaProfessional Staff:										
Educational Aide	<u>113</u>	<u>119</u>	<u>86</u>	<u>130</u>	<u>139</u>	<u>151</u>	<u>148</u>	<u>171</u>	<u>167</u>	<u>163</u>
Total ParaProfessional Staff	<u>113</u>	<u>119</u>	<u>86</u>	<u>130</u>	<u>139</u>	<u>151</u>	<u>148</u>	<u>171</u>	<u>167</u>	<u>163</u>
Auxillary:										
Auxillary	<u>668</u>	<u>679</u>	<u>749</u>	<u>665</u>	<u>647</u>	<u>747</u>	<u>647</u>	<u>698</u>	<u>711</u>	<u>694</u>
Total Auxillary	<u>668</u>	<u>679</u>	<u>749</u>	<u>665</u>	<u>647</u>	<u>747</u>	<u>647</u>	<u>698</u>	<u>711</u>	<u>694</u>
Total Personnel	<u>2,138</u>	<u>2,167</u>	<u>2,211</u>	<u>2,133</u>	<u>2,182</u>	<u>2,399</u>	<u>2,332</u>	<u>2,494</u>	<u>2,516</u>	<u>2,499</u>

Source: Texas Education Agency (TEA), Staff FTE Counts and Salary Reports.

PEARLAND INDEPENDENT SCHOOL DISTRICT
OPERATING STATISTICS
Last Ten Fiscal Years
(Unaudited)

<u>Fiscal Year-end June 30</u>	<u>Average Daily Attendance</u>	<u>Operating Expenditures⁽¹⁾</u>	<u>Cost Per Student</u>	<u>Percentage Change</u>	<u>Government Wide Expenses</u>	<u>Cost Per Student</u>	<u>Percentage Change</u>
2018	20,655	\$ 199,699,434	\$ 9,668	8.85%	\$ 201,786,727	\$ 9,769	(2.78%)
2017	20,597	182,946,041	8,882	1.48%	206,969,893	10,019	0.97%
2016	20,200	176,811,726	8,753	3.86%	201,022,256	9,952	4.53%
2015	19,600	165,178,549	8,427	5.21%	186,589,696	9,520	2.92%
2014	19,136	153,281,440	8,010	12.57%	177,000,809	9,250	13.82%
2013	18,760	133,484,233	7,115	(5.54%)	152,452,471	8,216	(8.76%)
2012	18,344	138,183,226	7,533	(4.46%)	163,385,463	8,907	(3.15%)
2011	17,825	140,540,057	7,884	(2.53%)	163,931,636	9,197	(6.85%)
2010	17,319	140,094,934	8,089	(2.56%)	170,982,698	9,873	(1.66%)
2009	16,647	138,199,933	8,302	--	167,125,247	10,039	--

(1) Operating expenditures are total governmental fund expenditures, less debt service and capital outlays.

(2) Enrollment is the total number of students in the District who were reported to the Texas Education Agency (TEA) as of the last Friday of October.

Source: Texas Education Agency (TEA), Texas Student Data System (TSDS), Public Education Information Management System (PEIMS) and District records.

Table 16

<u>Teaching Staff</u>	<u>Enrollment⁽²⁾</u>	<u>Student to Teacher Ratio</u>	<u>Percentage of Students in Free/Reduced Lunch Program</u>
1,324	21,633	16.34	26.71%
1,343	21,585	16.07	28.10%
1,306	21,093	16.15	26.32%
1,239	20,550	16.59	26.69%
1,208	20,034	16.58	27.44%
1,120	19,650	17.54	27.26%
1,083	19,205	17.73	26.81%
1,109	18,769	16.92	26.39%
1,087	18,308	16.84	24.44%
1,079	17,640	16.35	23.10%

PEARLAND INDEPENDENT SCHOOL DISTRICT
TEACHER BASE SALARIES
Last Ten Fiscal Years
(Unaudited)

Table 17

Fiscal Year Ended June 30	Minimum Salary ⁽¹⁾	Maximum Salary ⁽¹⁾	Average Salary ⁽²⁾	Region 4 Average Salary ⁽³⁾	Statewide Average Salary ⁽³⁾
2018	\$ 53,000	\$ 68,020	\$ 56,630	\$ (4)	\$ (4)
2017	52,000	70,000	55,999	55,992	52,525
2016	51,200	70,000	54,833	55,580	51,891
2015	50,000	70,000	52,863	54,157	50,715
2014	47,000	61,495	50,181	52,222	49,692
2013	45,750	59,995	49,510	50,968	48,821
2012	44,600	58,695	48,311	50,383	48,375
2011	44,685	58,695	48,781	50,616	48,638
2010	44,335	58,195	48,294	50,129	48,263
2009	43,000	56,500	45,082	49,186	47,159

(1) Source: District records based on new teacher entry schedule.

(2) Source: Texas Education Agency (TEA), Texas Academic Performance Report (TAPR).

(3) Source: Texas Education Agency (TEA), Texas Performance Reporting System (TPRS).

(4) 2018 TAPR data will not be released until December 1, 2018

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PEARLAND INDEPENDENT SCHOOL DISTRICT

SCHOOL BUILDING INFORMATION

Last Ten Fiscal Years
(Unaudited)

Table 18
Page 1 of 2

School Name	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
High Schools:										
Pearland ⁽¹⁾										
Square Feet	623,380	623,380	623,380	623,380	623,380	623,380	623,380	623,380	623,380	683,768
Capacity	3,850	3,850	3,850	3,850	3,850	3,850	3,850	3,850	3,850	3,850
PEIMS Enrollment	3,293	3,009	3,141	3,261	3,288	2,896	2,920	2,969	2,982	3,056
PACE										
Square Feet	34,411	34,411	34,411	34,411	34,411	34,411	34,411	34,411	34,411	34,411
Capacity	300	300	300	300	300	300	300	300	300	300
PEIMS Enrollment	62	121	124	110	101	103	128	120	102	86
Glenda Dawson										
Square Feet	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000	360,000
Capacity	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000
PEIMS Enrollment	1,424	1,956	2,004	2,020	2,148	2,114	2,257	2,407	2,466	2,518
Robert Turner College & Career										
Square Feet	--	--	--	--	--	219,548	219,548	219,548	219,548	219,548
Capacity	--	--	--	--	--	1,250	1,250	1,250	1,250	1,250
PEIMS Enrollment	--	--	--	--	--	701	848	1,001	1,169	1,200
Junior High Schools:										
Junior High East										
Square Feet	96,947	96,947	96,947	96,947	96,947	96,947	96,947	96,947	96,947	96,947
Capacity	900	900	900	900	900	900	900	900	900	900
PEIMS Enrollment	677	90	671	647	682	668	674	716	798	782
Junior High West										
Square Feet	146,907	146,907	146,907	146,907	146,907	146,907	146,907	146,907	146,907	146,907
Capacity	900	900	900	900	900	900	900	900	900	900
PEIMS Enrollment	537	537	567	699	726	773	848	844	830	816
Junior High South										
Square Feet	219,548	219,548	219,548	219,548	219,548	219,548	219,548	219,548	219,548	219,548
Capacity	875	875	875	875	875	875	875	875	875	875
PEIMS Enrollment	685	678	688	748	829	849	802	853	863	890
Berry Miller										
Square Feet	169,774	169,774	169,774	169,774	169,774	169,774	169,774	169,774	169,774	169,744
Capacity	900	900	900	900	900	900	900	900	900	900
PEIMS Enrollment	698	738	791	820	851	895	961	956	906	906
Middle Schools:										
Sam Jamison:										
Square Feet	86,950	86,950	86,950	86,950	86,950	86,950	86,950	86,950	86,950	86,950
Capacity	925	925	925	925	925	925	925	925	925	925
PEIMS Enrollment	728	748	772	795	782	818	814	852	836	814
Leon Sablatura										
Square Feet	92,174	92,174	92,174	92,174	92,174	92,174	92,174	92,174	92,174	92,174
Capacity	900	900	900	900	900	900	900	900	900	900
PEIMS Enrollment	504	590	594	733	815	825	805	892	896	830
Rogers										
Square Feet	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000
Capacity	925	925	925	925	925	925	925	925	925	925
PEIMS Enrollment	747	839	899	892	928	823	889	896	853	814
Alexander										
Square Feet	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000	112,000
Capacity	925	925	925	925	925	925	925	925	925	925
PEIMS Enrollment	656	690	715	617	622	660	691	615	705	806

(continued)

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHOOL BUILDING INFORMATION
Last Ten Fiscal Years
(Unaudited)

Table 18
Page 2 of 2

School Name	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Elementary Schools:										
E.A. Lawson										
Square Feet	73,290	73,290	73,290	73,290	73,290	73,290	73,290	73,290	73,290	73,290
Capacity	990	990	990	990	990	990	990	990	990	990
PEIMS Enrollment	584	592	631	615	686	682	690	716	809	818
C.J. Harris										
Square Feet	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688
Capacity	770	770	770	770	770	770	770	770	770	770
PEIMS Enrollment	694	679	676	680	678	676	731	741	685	637
Shadycrest										
Square Feet	64,866	64,866	64,866	64,866	64,866	64,866	64,866	64,866	64,866	64,866
Capacity	748	748	748	748	748	748	748	748	748	748
PEIMS Enrollment	609	618	594	575	578	583	588	613	698	683
H.C. Carleston										
Square Feet	62,651	62,651	62,651	62,651	62,651	62,651	62,651	62,651	62,651	62,651
Capacity	990	990	990	990	990	990	990	990	990	990
PEIMS Enrollment	77	795	826	795	780	788	787	793	771	815
Challenger										
Square Feet	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688
Capacity	770	770	770	770	770	770	770	770	770	770
PEIMS Enrollment	718	718	739	705	690	671	660	662	688	683
Rustic Oak										
Square Feet	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688
Capacity	770	770	770	770	770	770	770	770	770	770
PEIMS Enrollment	614	569	649	578	568	560	559	543	678	706
Silverlake										
Square Feet	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688	77,688
Capacity	770	770	770	770	770	770	770	770	770	770
PEIMS Enrollment	797	777	794	773	705	711	718	719	709	731
Silvercrest										
Square Feet	86,963	86,963	86,963	86,963	86,963	86,963	86,963	86,963	86,963	86,963
Capacity	814	814	814	814	814	814	814	814	814	814
PEIMS Enrollment	786	870	936	839	850	832	803	773	747	727
Massey Ranch										
Square Feet	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867
Capacity	858	858	858	858	858	858	858	858	858	858
PEIMS Enrollment	797	727	657	737	726	695	721	717	705	681
Barbara Cockrell										
Square Feet	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867
Capacity	858	858	858	858	858	858	858	858	858	858
PEIMS Enrollment	608	731	758	787	818	805	846	863	807	767
Magnolia										
Square Feet	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867	86,867
Capacity	858	858	858	858	858	858	858	858	858	858
PEIMS Enrollment	641	649	638	775	792	802	808	825	878	867

(1) Including 37,000 ft. for Ag Facility
Source: District Records

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FEDERAL AWARDS SECTION

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Kennemer, Masters & Lunsford

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281-974-3416

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*

To the Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

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 Pearland Independent School District (the "District"), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2018.

Internal Control over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

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Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

Compliance and Other Matters

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

Purpose of this Report

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.

Kennemer, Masters & Hungford, LLC

Lake Jackson, Texas
October 29, 2018

Kennemer, Masters & Lunsford

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Independent Auditor's Report

On Compliance for Each Major Program and on Internal Control
over Compliance Required by the Uniform Guidance

To the Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

Report on Compliance for Each Major Federal Program

We have audited the Pearland Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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Opinion on Each Major Federal Program

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Kennemer, Masters & Hunsford, LLC

Lake Jackson, Texas
October 29, 2018

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Page 1 of 1

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No internal control findings, that were required to be reported in this schedule, were disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control findings, that were required to be reported in this schedule, were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unmodified.
6. Did the audit disclose findings, which are required to be reported in accordance with 2 CFR 200.516(a): No.
7. Major programs include:
 - Cluster Program:
 - National School Breakfast Program - CFDA 10.553
 - National School Lunch Program - CFDA 10.555
 - Commodity Supplement Program - CFDA 10.555
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000.
9. Low risk auditee: Yes.

II. Findings related to the financial statements.

The audit disclosed the following finding required to be reported:

None.

III. Findings and questioned costs related to the federal awards.

The audit disclosed the following finding required to be reported:

None.

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED JUNE 30, 2018

Page 1 of 1

None.

PEARLAND INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2018

Page 1 of 1

None.

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

EXHIBIT K-1
Page 1 of 2

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass Through Entity Identifying Number	Expenditures Indirect Costs or Award Amount
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
ESEA, Title I Part A, Improving Basic Programs	84.010A	17610101020908	\$ 21,893
ESEA, Title I Part A, Improving Basic Programs	84.010A	18610101020908	1,111,812
			<u>1,133,705</u>
IDEA Part B, Formula*	84.027	176600010209086600	96,616
IDEA Part B, Formula*	84.027	186600010209086600	2,442,100
IDEA Part B, High Cost*	84.027	186610010209086680	169,206
			<u>2,707,922</u>
Vocational Education, Basic Grant	84.048	07420006020908	3,286
Vocational Education, Basic Grant	84.048	08420006020908	114,445
			<u>117,731</u>
IDEA Part B, Preschool*	84.173	176610010209086610	1,202
IDEA Part B, Preschool*	84.173	186610010209086610	39,629
			<u>40,831</u>
Title IV, Part B 21 st Century Program	84.287	17-6950197110013	7,421
Title IV, Part B 21 st Century Program	84.287	18-6950197110013	179,880
			<u>187,301</u>
Title III, Part A Language Education Program	84.365A	17671001020908	35,670
Title III, Part A Language Education Program	84.365A	18671001020908	153,365
Title III, Part A Language Education Program – Immigrant	84.365A	17671003020908	227
			<u>189,262</u>
ESEA, Title II, Part A - Teacher/ Principal	84.367A	18694501020908	198,338
Title VI, Part A, Summer School LEP	84.369	69551702	9,497
Title VI, Part A, Subpart 1 Improving Academic Achievement	84.424	18680101020908	25,196
Temporary Emergency Impact Aid for Displaced Students	84.938	---	171,570
Passed Through Region 4 Education Service Center:			
Texas Support for Homeless Education	84.196	17-060	242
Texas Support for Homeless Education	84.196	18-060	15,553
			<u>15,795</u>
TOTAL DEPARTMENT OF EDUCATION			\$ <u>4,797,148</u>
<u>U.S. Department of Agriculture</u>			
Direct Program:			
Commodity Supplement Program**	10.555	020908	\$ 624,569
Passed Through State Department of Education:			
School Breakfast Program**	10.553	7131801	799,127
National School Lunch Program**	10.555	7141801	3,885,250
			<u>4,684,377</u>
TOTAL DEPARTMENT OF AGRICULTURE			\$ <u>5,308,946</u>

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

EXHIBIT K-1
Page 2 of 2

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Entity Identifying Number</u>	<u>Expenditures Indirect Costs or Award Amount</u>
<u>U.S. Department of Defense</u>			
Direct Programs:			
ROTC	12.000	020908	\$ <u>162,711</u>
<u>U.S. Department of Health & Human Services</u>			
Passed Through La Porte Independent School District:			
Medicaid Administrative Claiming Program - MAC	93.778	020908	\$ <u>13,259</u>
 TOTAL FEDERAL ASSISTANCE			 \$ <u>10,282,064</u>
* IDEA Cluster Programs			
** National School Lunch Cluster Programs			
 RECONCILIATION:			
Federal program revenues (Exhibit C-2)			\$ 12,409,786
Less: School Health and Related Services (SHARS) not considered federal revenue for the Schedule of Federal Awards			<u>2,127,722</u>
Total federal financial assistance (Schedule of expenditures of Federal Awards)			\$ <u>10,282,064</u>

See Notes to Supplement Schedule of Expenditures of Federal Awards

PEARLAND INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED JUNE 30, 2018

NOTE 1 – BASIS OF ACCOUNTING

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

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

Commodity Supplement (CFDA 10.555) received like kind goods and no grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of goods received was \$ 624,569, while the monetary value of goods used and recognized as income and expenditures was \$ 624,569.

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended June 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 3 – RECONCILIATION TO BASIC FINANCIAL STATEMENTS

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-2:

Total shown on Schedule of Expenditures of Federal Awards (Exhibit K-1)	\$ 12,409,786
Federal Revenue Not Included in the Schedule of Federal Awards:	
School Health and Related Services (SHARS)	<u>2,127,722</u>
Total federal revenue (Exhibit C-2)	<u>\$ 10,282,064</u>

NOTE 4 – FEDERAL INDIRECT RATE

The District has elected to use the 10 percent de minimis indirect cost rate.

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