

**LUMBERTON INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL  
REPORT FOR THE YEAR ENDED**

**AUGUST 31, 2018**

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CERTIFICATE OF BOARD

Lumberton Independent School District  
Name of School District

Hardin  
County

100907  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2018 at a meeting of the Board of Trustees of such school district on the 6th of December 2018.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is(are):  
(attach list as necessary)

# MITCHELL T. FONTENOTE

## CERTIFIED PUBLIC ACCOUNTANT, INC.

### Independent Auditor's Report

Lumberton Independent School District  
121 S Main  
Lumberton, Texas 77657

#### **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 Lumberton Independent School District as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Lumberton Independent School 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.

#### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Lumberton Independent School District, as of August 31, 2018, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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MITCHELL@MTFCPAS.COM

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4-9 and 39, 47-48 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*

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.

The schedule of expenditures of federal awards is 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 schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2018, on our consideration of the Lumberton Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Lumberton Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Lumberton Independent School District's internal control over financial reporting and compliance.

*Mitchell T Fontenote CPA, Inc.*

Port Neches, TX  
November 30, 2018

In this section of the Annual Financial Report, we, the managers of the Lumberton Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2018. We encourage readers to consider the information presented here in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements that begin on page 10.

### FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$19,414,635 at August 31, 2018.
- During the year, the District's expenses were \$6,865,997 less than the \$42,023,479 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$6,736,797. Of this amount, \$6,736,797 is for unrestricted use by the District.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplementary information.

**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. They include the Statement of Net Position and the Statement of Activities that provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, 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. To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The *Statement of Activities* presents information showing how the government's net position changed during the current fiscal year. All changes in net position are reported for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenue 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.

**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 objects. 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 detailed information about the District's most significant funds, *not* the District as a whole.

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

## OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

The District has the following kinds of funds:

- **Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a 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 governmental funds balance sheet and the governmental funds 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 several individual governmental funds organized according to their type. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the District's most significant funds. The District's major governmental fund is the General Fund. Data for the remaining governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The Texas Education Agency also requires the District to present a budgetary comparison statement for one of its special revenue funds (food service) and the debt service fund.

- **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 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 separate Statements of Fiduciary Net Position on page 16.

**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 17-33 of this report.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on page 38-41 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Our analysis focuses on the Net Position (Table I) and Changes in Net Position (Table II) of the District's governmental activities.

The District's combined net position were \$19,414,635 at August 31, 2018. (See Table I)

**Table I**  
**Lumberton Independent School District**  
**Net Position**

	August 31, 2018	August 31, 2017
Current and Other Assets	\$ 10,429,499	\$ 7,485,362
Capital Assets	34,283,868	35,338,666
Total Assets	<u>44,713,367</u>	<u>42,824,028</u>
Deferred Outflow Related to TRS Pension	2,026,659	3,170,310
Deferred Outflow Related to TRS OPEB	160,694	-
Total Deferred Outflows of Resources	<u>2,187,353</u>	<u>3,170,310</u>
Long-term Liabilities	20,454,375	13,355,839
Other Liabilities	1,890,378	1,561,191
Total Liabilities	<u>22,344,753</u>	<u>14,917,030</u>
Deferred Inflow Related to TRS Pension	865,745	346,868
Deferred Inflow Related to TRS OPEB	4,275,587	-
Total Deferred Inflow of Resources	<u>5,141,332</u>	<u>346,868</u>
Net Position:		
Net Investment in Capital Assets	29,012,222	27,951,341
Restricted for Federal and State Programs	553,911	158,601
Restricted for Debt Service	525,782	167,762
Unrestricted	(10,677,280)	2,452,736
Total Net Position	<u>\$ 19,414,635</u>	<u>\$ 30,730,440</u>

Approximately \$29.0 million of the District's net position represent investments in capital assets net of related debt. The (\$10.8) million of unrestricted net position represents resources available to fund the programs of the District next year.

**Changes in net position.** The District's total revenues were \$42.02 million. A portion, 28 percent, of the District's revenue comes from local property taxes, 56 percent comes from grants and contributions, while only 12 percent relates to charges for services and operating grants, and the remaining 4 percent relates to investment earnings and other miscellaneous revenue.

Total Cost of all programs and services was \$35,157,482. The net position of the District's governmental activities for the current year increased by \$6,865,997 (see Table II on page 7 of this report).



LUMBERTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2018

Key elements of the governmental activities of the District are reflected in the following table.

	<u>August 31, 2018</u>	<u>August 31, 2017</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 2,320,301	\$ 2,489,003
Operating Grants and Contributions	2,880,625	3,648,225
General Revenues:		
Maintenance and Operations Taxes	11,639,836	11,134,686
Debt Service Taxes	1,345,370	1,286,072
State Aid - Formula Grants	17,281,333	16,502,973
Grants and Contributions - Not Restricted to Specific Functions	6,413,192	375,257
Investment Earnings	56,358	28,597
Miscellaneous	65,439	132,268
Transfers Out	21,025	-
Total Revenue	<u>42,023,479</u>	<u>35,597,081</u>
Expenses:		
Instruction	21,099,943	19,965,602
Instructional Resources and Media Services	341,893	317,103
Curriculum/Instructional Development	45,797	37,687
Instructional Leadership	563,653	855,520
School Leadership	1,959,129	1,749,556
Guidance and Counseling Services	1,013,615	1,376,942
Social Work Services	-	-
Health Services	286,165	269,565
Student (Pupil) Transportation	1,314,586	1,412,867
Food Services	1,650,862	1,428,301
Cocurricular/Extracurricular Activities	1,111,718	1,164,187
General Administration	861,058	1,027,951
Plant Maintenance and Operations	3,489,803	3,424,556
Security and Monitoring Services	76,563	166,044
Data Processing Services	272,365	368,389
Community Services	7,866	10,497
Debt Services - Interest on Long-Term Debt	66,051	125,446
Debt Services - Bond Issuance Cost and Fees	500	500
Payments Related to Shared Services Arrangemetns	590,283	658,843
Payments to Juvenile Justice Alternative Ed Prg	26,482	26,481
Other Intergovernmental Charges	379,150	377,391
Total Expenses Governmental Activities	<u>35,157,482</u>	<u>34,763,428</u>
Increase (Decrease) in Net Position	<u>6,865,997</u>	<u>833,653</u>
Net Position - September 1 (Beginning)	30,730,440	29,896,787
Prior Period Adjustment	(18,181,802)	-
Net Position - August 31 (Ending)	<u>\$ 19,414,635</u>	<u>\$ 30,730,440</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented on page 12) reported a combined fund balance of \$7.73 million, which is an increase from last year.

Over the course of the year, the Board of Trustees revised the District's budget a number of times. These budget items fall into three categories. The first category includes amendments and supplemental appropriations that were provided shortly after the school year began. The second category involved moving funds from program areas that did not need or use all of the resources originally appropriated to them. The third category involved changes in state program revenues.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There were budget amendments for the 2017-2018 school year required to meet various needs throughout the District approved by the Board of Trustees.

**CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY**

**Capital Assets.** At August 31, 2018 the District had \$34.3 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment used for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease of \$1,054,798 (including additions and deductions) over last year.

**Lumberton Independent School District  
 Capital Assets  
 Governmental Activities**

	August 31, 2018	August 31, 2017
Land	\$ 591,954	\$ 591,954
Buildings and Improvements	72,198,705	72,171,965
Equipment	10,944,115	10,359,896
Construction in Progress	-	-
Totals at Historical Cost	83,734,774	83,123,815
Less Accumulated Depreciation:		
Buildings and Improvements	(39,927,848)	(38,536,984)
Equipment	(9,523,058)	(9,248,165)
Total Accumulated Depreciation	(49,450,906)	(47,785,149)
Net Capital Assets	\$ 34,283,868	\$ 35,338,666

**Long-Term Debt.** At year-end, the District had \$5.185 million in general obligation debt at a coupon interest rate of 1.0% to 2.69% outstanding at year-end. The District's general obligation bonds carried the highest possible rating, according to national rating agencies.

**ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES**

The District's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget and tax rate. One of those factors continues to be the economy and the unknown election results and the increasing of the local homestead exemption that will decrease the district's property value. The District's student population has increased slightly from 3969 students enrolled in 2017-2018 to 4023 students enrolled in 2018-2019. These indicators were taken into account when adopting the General Fund budget for 2019. Amounts available for appropriation in the General Fund budget are \$30.1 million which is slightly more than the final amended budget of 2018. If these estimates are realized, the District's budgetary General Fund balance is expected to stay the same by the close of 2018-2019 school year.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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 District's Superintendent, 121 S Main Street, Lumberton, TX 77657.

## BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 9,009,511
1220 Property Taxes Receivable (Delinquent)	925,048
1230 Allowance for Uncollectible Taxes	(138,757)
1240 Due from Other Governments	430,179
1267 Due from Fiduciary Funds	5,888
1290 Other Receivables, net	169,597
1410 Prepayments	28,033
Capital Assets:	
1510 Land	591,954
1520 Buildings, Net	32,270,857
1530 Furniture and Equipment, Net	1,421,057
1000 Total Assets	44,713,367
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705 Deferred Outflow Related to TRS Pension	2,026,659
1706 Deferred Outflow Related to TRS OPEB	160,694
1700 Total Deferred Outflows of Resources	2,187,353
<b>LIABILITIES</b>	
2110 Accounts Payable	211,198
2140 Interest Payable	27,710
2150 Payroll Deductions & Withholdings	(6,502)
2160 Accrued Wages Payable	1,529,252
2177 Due to Fiduciary Funds	2,797
2180 Due to Other Governments	82,222
2190 Due to Student Groups	8,217
2200 Accrued Expenses	35,147
2300 Unearned Revenue	337
Noncurrent Liabilities:	
2501 Due Within One Year	2,180,000
2502 Due in More Than One Year	3,069,985
2540 Net Pension Liability (District's Share)	4,983,094
2545 Net OPEB Liability (District's Share)	10,221,296
2000 Total Liabilities	22,344,753
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	865,745
2606 Deferred Inflow Related to TRS OPEB	4,275,587
2600 Total Deferred Inflows of Resources	5,141,332
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	29,012,222
3820 Restricted for Federal and State Programs	553,911
3850 Restricted for Debt Service	525,782
3900 Unrestricted	(10,677,280)
3000 Total Net Position	\$ 19,414,635

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

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
	Expenses	3 Charges for Services	4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position  Primary Gov. Governmental Activities

**Primary Government:**

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 21,099,943	\$ 600,449	\$ 1,704,151	\$ (18,795,343)
12 Instructional Resources and Media Services	341,893	-	-	(341,893)
13 Curriculum and Staff Development	45,797	-	-	(45,797)
21 Instructional Leadership	563,653	355,077	23,736	(184,840)
23 School Leadership	1,959,129	122,440	-	(1,836,689)
31 Guidance, Counseling and Evaluation Services	1,013,615	281,613	270,925	(461,077)
33 Health Services	286,165	-	-	(286,165)
34 Student (Pupil) Transportation	1,314,586	-	-	(1,314,586)
35 Food Services	1,650,862	795,998	881,813	26,949
36 Extracurricular Activities	1,111,718	164,724	-	(946,994)
41 General Administration	861,058	-	-	(861,058)
51 Facilities Maintenance and Operations	3,489,803	-	-	(3,489,803)
52 Security and Monitoring Services	76,563	-	-	(76,563)
53 Data Processing Services	272,365	-	-	(272,365)
61 Community Services	7,866	-	-	(7,866)
72 Debt Service - Interest on Long Term Debt	66,051	-	-	(66,051)
73 Debt Service - Bond Issuance Cost and Fees	500	-	-	(500)
93 Payments related to Shared Services Arrangements	590,283	-	-	(590,283)
95 Payments to Juvenile Justice Alternative Ed. Prg.	26,481	-	-	(26,481)
99 Other Intergovernmental Charges	379,150	-	-	(379,150)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 35,157,482	\$ 2,320,301	\$ 2,880,625	(29,956,556)

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		11,639,836
DT	Property Taxes, Levied for Debt Service		1,345,370
SF	State Aid - Formula Grants		17,281,333
GC	Grants and Contributions not Restricted		6,413,192
IE	Investment Earnings		56,358
MI	Miscellaneous Local and Intermediate Revenue		65,439
FR	Transfers In (Out):		21,025
TR	Total General Revenues & Transfers		36,822,553
CN	Change in Net Position		6,865,997
NB	Net Position - Beginning		30,730,440
PA	Prior Period Adjustment		(18,181,802)
NE	Net Position--Ending		\$ 19,414,635

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

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 4,333,489	\$ 3,630,817	\$ 1,045,205	\$ 9,009,511
1220 Property Taxes - Delinquent	834,182	90,866	-	925,048
1230 Allowance for Uncollectible Taxes (Credit)	(125,127)	(13,630)	-	(138,757)
1240 Receivables from Other Governments	229,183	-	200,996	430,179
1260 Due from Other Funds	4,891,501	-	304,574	5,196,075
1290 Other Receivables	169,597	-	-	169,597
1410 Prepayments	-	-	28,033	28,033
1000 Total Assets	<u>\$ 10,332,825</u>	<u>\$ 3,708,053</u>	<u>\$ 1,578,808</u>	<u>\$ 15,619,686</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 97,501	\$ -	\$ 113,697	\$ 211,198
2150 Payroll Deductions and Withholdings Payable	(6,502)	-	-	(6,502)
2160 Accrued Wages Payable	1,393,056	-	136,196	1,529,252
2170 Due to Other Funds	1,397,813	3,108,653	686,518	5,192,984
2180 Due to Other Governments	-	-	82,222	82,222
2190 Due to Student Groups	8,217	-	-	8,217
2200 Accrued Expenditures	28,883	-	6,264	35,147
2300 Unearned Revenues	337	-	-	337
2000 Total Liabilities	<u>2,919,305</u>	<u>3,108,653</u>	<u>1,024,897</u>	<u>7,052,855</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	676,723	73,618	-	750,341
2600 Total Deferred Inflows of Resources	<u>676,723</u>	<u>73,618</u>	<u>-</u>	<u>750,341</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	553,911	553,911
3480 Retirement of Long-Term Debt	-	525,782	-	525,782
3600 Unassigned Fund Balance	6,736,797	-	-	6,736,797
3000 Total Fund Balances	<u>6,736,797</u>	<u>525,782</u>	<u>553,911</u>	<u>7,816,490</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 10,332,825</u>	<u>\$ 3,708,053</u>	<u>\$ 1,578,808</u>	<u>\$ 15,619,686</u>

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

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

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	7,816,490
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$83,123,815 and the accumulated depreciation was (\$35,338,666). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. Note: Beginning Balances related to TRS are NOT included in this amount.		27,973,002
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2017 capital outlays and debt principal payments is to increase net position.		2,698,928
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$2,026,659, a Deferred Resource Inflow in the amount of \$865,745 and a net pension liability in the amount of \$4,983,094. The impact of this on Net Position is (3,822,180). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$3,194,443). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$3,822,180) .		(3,822,180)
4 The District implemented GASB 75 reporting requirements for the OPEB benefit plan through TRS. Since this is the first year of implementation, a prior period adjustment had to be made in the amount of (\$17,922,980). The District's share of the TRS plan resulted in a net OPEB liability of \$10,221,296, a deferred outflow of \$160,694 and a deferred inflow of \$4,275,587. This resulted in a difference between the ending fundbalance and the ending net position of (14,336,189).		(14,336,189)
5 The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,665,757)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		750,341
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>19,414,635</u></b>

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



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

Data Control Codes		10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 11,978,028	\$ 1,368,807	\$ 2,024,982	\$ 15,371,817
5800	State Program Revenues	18,616,670	531,213	450,070	19,597,953
5900	Federal Program Revenues	402,228	-	2,427,065	2,829,293
5020	Total Revenues	<u>30,996,926</u>	<u>1,900,020</u>	<u>4,902,117</u>	<u>37,799,063</u>
EXPENDITURES:					
Current:					
0011	Instruction	17,182,186	-	2,063,567	19,245,753
0012	Instructional Resources and Media Services	313,639	-	-	313,639
0013	Curriculum and Instructional Staff Development	43,571	-	-	43,571
0021	Instructional Leadership	225,683	-	332,767	558,450
0023	School Leadership	1,712,237	-	104,756	1,816,993
0031	Guidance, Counseling and Evaluation Services	546,347	-	519,397	1,065,744
0033	Health Services	260,680	-	-	260,680
0034	Student (Pupil) Transportation	1,181,340	-	-	1,181,340
0035	Food Services	-	-	1,569,102	1,569,102
0036	Extracurricular Activities	1,033,942	-	-	1,033,942
0041	General Administration	791,790	-	3,949	795,739
0051	Facilities Maintenance and Operations	3,424,788	-	-	3,424,788
0052	Security and Monitoring Services	160,121	-	-	160,121
0053	Data Processing Services	377,522	-	-	377,522
0061	Community Services	7,475	-	-	7,475
Debt Service:					
0071	Principal on Long Term Debt	510,000	1,480,000	-	1,990,000
0072	Interest on Long Term Debt	102,520	61,500	-	164,020
0073	Bond Issuance Cost and Fees	-	500	-	500
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	590,242	-	41	590,283
0095	Payments to Juvenile Justice Alternative Ed. Prg.	26,481	-	-	26,481
0099	Other Intergovernmental Charges	379,150	-	-	379,150
6030	Total Expenditures	<u>28,869,714</u>	<u>1,542,000</u>	<u>4,593,579</u>	<u>35,005,293</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	2,127,212	358,020	308,538	2,793,770
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	21,025	-	-	21,025
1200	Net Change in Fund Balances	2,148,237	358,020	308,538	2,814,795
0100	Fund Balance - September 1 (Beginning)	4,934,154	167,762	158,601	5,260,517
1300	Increase (Decrease) in Fund Balance	(345,594)	-	86,772	(258,822)
3000	Fund Balance - August 31 (Ending)	<u>\$ 6,736,797</u>	<u>\$ 525,782</u>	<u>\$ 553,911</u>	<u>\$ 7,816,490</u>

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

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

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	2,814,795
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2017 capital outlays and debt principal payments is to increase net position.		2,698,928
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(1,665,757)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		58,977
Current year changes due to GASB 68 decreased revenues in the amount of \$541,986 but also increased expenditures in the amount of \$85,751. The net effect on the change in the ending net position was a decrease in the amount of \$627,737.		(627,737)
The implementation of GASB 75 to report the District's share of the TRS OPEB plan resulted in a prior period adjustment in the amount of (\$17,922,980). The changes in the ending net position as a result of reporting the OPEB items was an increase in the change in net position in the amount of \$3,586,791.		3,586,791
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>6,865,997</b>

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

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

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ -	\$ 186,883
Due from Other Funds	2,796	5,116
Total Assets	2,796	\$ 191,999
<b>LIABILITIES</b>		
Due to Other Funds	10,966	\$ 38
Due to Student Groups	-	191,961
Total Liabilities	10,966	\$ 191,999
<b>NET POSITION</b>		
Unrestricted Net Position	(8,170)	
Total Net Position	\$ (8,170)	

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

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2018

	Private Purpose Trust Fund
DEDUCTIONS:	
Other Operating Costs	\$ 481
Transfers Out	21,025
Total Deductions	<u>21,506</u>
Change in Net Position	(21,506)
Total Net Position - September 1 (Beginning)	<u>13,336</u>
Total Net Position - August 31 (Ending)	<u><u>\$ (8,170)</u></u>

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Lumberton Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

*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.

As of August 31, 2017, Lumberton Independent School District retrospectively/prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

**A. REPORTING ENTITY**

The Board of Trustees (the "Board") is elected by the public and it 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 Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

During the fiscal year 2018, the District adopted GASB Statement 75, Accounting and Financial Reporting for OPEB which improves the usefulness of financial reports of employer governments whose employees are provided with other post-employment benefits (OPEB). Adoption of GASB 75 required a prior period adjustment to the report the effect of GASB 75 retroactively. The amount of the prior period adjustment is a reduction in beginning net position of \$17,922,980. The entire prior period adjustment is attributable to Governmental Activities. The restated beginning net position for the Governmental Activities is \$12,807,460.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Lumberton Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

Interfund activities between governmental funds appear as due to/due froms 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. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. 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.

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

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

**D. FUND ACCOUNTING**

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund type:

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. **Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.
4. **Permanent Funds** – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Funds:

5. **Enterprise Funds** – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise funds.
6. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has no internal service funds.

Fiduciary Funds:

7. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District has no Private Purpose Trust Funds.

**Scholarship fund** – The District has a Private Purpose Trust Fund to track scholarship monies for students.

8. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is list.

**Student Activities** - The student activities fund is used to record funds held for student organizations.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

**E. OTHER ACCOUNTING POLICIES**

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. 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, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred 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.

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

3. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	40
Infrastructure	50
Vehicles	10
Office Equipment	10
Computer Equipment	10

4. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's Board. Assignments of fund balance are amounts set aside by the District's Superintendent or his designee with the intent they be used for specific purposes.



**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

5. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
6. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to TRS.
7. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. The District reports deferred inflows related to TRS.
8. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.
9. The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resource 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.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other two reports are in Exhibit J4 and J5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY Cont'd**

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. CASH, CASH EQUIVALENTS AND INVESTMENTS**

**Cash and Cash Equivalents**

District Policies and Legal and Contractual Provisions Governing Deposits

*Custodial Credit Risk for Deposits* State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

*Foreign Currency Risk* The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by limiting all deposits denominated in a foreign currency to less than 5% of all deposits.

As of August 31, 2018, the following are the District's cash and cash equivalents with respective maturities and credit rating:

<u>Name</u>	<u>Maturity</u>	<u>Ratings</u>	<u>Fair Value</u>	<u>Percentage</u>
Cash	N/A	N/A	\$ 5,518,063	57.38%
TexSTAR - Logic	24 days average	AAA	\$ 56,854	0.59%
Lonestar	24 days average	AAA	\$ 1,114,842	11.59%
TexPool	24 days average	AAA	\$ 2,927,755	30.44%
Total Cash and Cash Equivalents			<u>\$ 9,617,514</u>	<u>100.00%</u>

**Investments**

District Policies and Legal and Contractual Provisions Governing Investments

**Compliance with the Public Funds Investment Act**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Lumberton Independent School District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for Lumberton Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2018, the district's investments were rated AAA.

Custodial Credit Risk for Investments To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the District does not have a formal investment policy that limits investment maturities as means of managing exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk for Investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to less than 5% of all investments.

The District categorizes its fair value measurements with 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of August 31, 2018, Lumberton Independent School District did not have any investments subject to the fair value measurement.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**B. PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

**C. DELINQUENT TAXES RECEIVABLE**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**D. INTERFUND BALANCES AND TRANSFERS**

As of August 31, 2018, the District's interfund balances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Description</u>
Agency Fund	General	4,798	Short-term loan
Special Revenue	Agency Fund	1,090	Short-term loan
General Fund	Debt Service	3,108,653	Short-term loan
Special Revenue	Special Revenue	52,466	Short-term loan
Special Revenue	General	727,811	Short-term loan
General Fund	General	1,301,258	Short-term loan
		<u>\$ 5,196,076</u>	

Interfund transfers are defined as "flow of assets without equivalent flows of assets in return and without requirement of repayment." Interfund transfers for the year ended August 31, 2018, were as follows:

<u>Transfer From</u>	<u>Transfer To</u>
<u>Agency Fund</u>	<u>General Fund</u>
	<u>\$ 21,025</u>
	<u>\$ 21,025</u>

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**E. CAPITAL ASSET ACTIVITY**

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

	Beginning Balance			Ending Balance
	9/1/2017	Additions	Retirements	
Governmental Activities				8/31/2018
Land	\$ 591,954	\$ -	\$ -	\$ 591,954
Building and Facilities	72,171,965	26,740	-	72,198,705
Furniture and Equipment	10,359,896	584,219	-	10,944,115
Construction in Progress	-	-	-	-
Total Historical Cost	\$ 83,123,815	\$ 610,959	\$ -	\$ 83,734,774
Less: Accumulated Depreciation				
Buildings and Facilities	\$ (38,536,984)	\$ (1,390,864)	\$ -	\$ (39,927,848)
Furniture and Equipment	(9,248,165)	(274,893)	-	(9,523,058)
Total Accumulated Depreciation	(47,785,149)	(1,665,757)	-	(49,450,906)
Governmental Activities Capital Assets, Net	\$ 35,338,666	\$ (1,054,798)	\$ -	\$ 34,283,868

Depreciation was allocated as follows:

Function Description	Amount
Instruction	1,006,432
Instructional Resources	16,401
Curriculum	2,226
Instructional Leadership	29,203
School Leadership	95,017
Guidance	55,732
Health Services	13,632
Transportation	61,777
Administration	82,054
Food Services	54,069
Cocurricular/Extracurricular Activities	41,612
Plant Maintenance	179,095
Security and Monitoring	8,374
Data Processing	19,742
Community Services	391
Total Depreciation Expense	\$ 1,665,757

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**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**F. BONDS AND LONG-TERM NOTES PAYABLE**

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2018 is as follows:

Description	Interest Rate	Amounts		Balance 9/1/2017	Issued	Retired	Balance 8/31/2018	Due in One Year
		Original Issue						
Unlimited Refunding Bond, Series 2015	1.0% - 2.00%	\$ 5,650,000		\$ 4,185,000	\$ -	\$ (1,480,000)	\$ 2,705,000	\$ 1,515,000
Maintenance Tax Note, Series 2012	1.0% - 2.50%	2,590,000		1,660,000	-	(320,000)	1,340,000	325,000
Maintenance Tax Note, Series 2014	1.0% - 2.00%	940,000		385,000	-	(190,000)	195,000	195,000
Maintenance Tax Note, Series 2016	2.21%	945,000		945,000	-	-	945,000	145,000
Mercedes-Benz Financial Services	2.69%	2,550,000		76,309	-	(76,309)	-	-
<b>Total</b>				<b>\$ 7,251,309</b>	<b>\$ -</b>	<b>\$ (2,066,309)</b>	<b>\$ 5,185,000</b>	<b>\$ 2,180,000</b>
Other District Obligations:								
Premium on Bonds				86,645		21,661	64,984	
Total Other Obligations				86,645	-	21,661	64,984	-
<b>Total District Obligations</b>				<b>\$ 7,337,954</b>	<b>\$ -</b>	<b>\$ (2,044,648)</b>	<b>\$ 5,249,984</b>	<b>\$ 2,180,000</b>

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2018.

Debt service requirements for bonds are as follows:

Year Ending	Principal	Interest	Total
August 31			
2019	2,180,000	121,740	2,301,740
2020	1,065,000	115,805	1,180,805
2021	1,100,000	112,490	1,212,490
2022	505,000	47,565	552,565
2023-2024	335,000	11,161	346,161
<b>Total</b>	<b>\$ 5,185,000</b>	<b>\$ 408,761</b>	<b>\$ 5,593,761</b>

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

#### **G. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS**

The District does not accrue unpaid sick leave benefits.

#### **H. DEFINED BENEFIT PENSION PLAN**

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

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

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

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

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 can be found in the TRS 2017 CAFR, Note 12, on page 88.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

	<u>Contribution Rates</u>	
	<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%
District's 2018 FY Employer Contributions	\$	1,348,742
District's 2018 FY Member Contributions	\$	1,513,134
Measurement Year NECE On-Behalf Contributions	\$	805,756

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. 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 (including public schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment
- When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source.

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district 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: Actuarial Assumptions can be found in the 2017 TRS CAFR, Note 12, page 90.

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



**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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 8.0%. The Discount Rate can be found in the 2017 TRS CAFR on page 90. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 (see page 62 of the TRS CAFR) are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
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%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
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%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

\* The Expected Contribution to 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 (x%) in measuring the Net Pension Liability. The discount rate can be found in the 2017 TRS CAFR, Note 12, page 91.

	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:	\$ 8,400,511	\$ 4,983,094	\$ 2,137,539

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.*** At August 31, 2018, Lumberton Independent School District reported a liability of \$4,983,094 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Lumberton Independent School District. The amount recognized by Lumberton Independent School 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 Lumberton Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 4,983,094
State's proportionate share that is associated with the District	<u>10,576,797</u>
Total	<u>\$15,559,891</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 through August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.000155845317% which was a decrease of 0.000003406393% from its proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation** – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2018, Lumberton Independent School District recognized pension expense of \$806,756 and revenue of \$1,081,853 for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	72,905	268,732
Changes in actual assumptions	226,988	129,945
Difference between projected and actual investment earnings	-	363,157
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,466,495	103,911
Contributions paid to TRS subsequent to the measurement date	260,271	-
Total	\$ 2,026,659	\$ 865,745

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended August 31:</u>	<u>Pension Expense</u>
2019	181,183
2020	499,267
2021	156,739
2022	51,957
2023	29,662
Thereafter	(18,165)

**I. 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 the Texas Insurance Code, Chapter 1575.

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

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

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

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

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

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

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

	TRS-Care Plan Premium Rates		
	Effective Sept. 1, 2016 - Dec. 31, 2017		
	TRS Care-1 Basic Plan	TRS Care-2 Optional Plan	TRS Care-3 Optional Plan
Retiree*	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only *or surviving spouse	28	62	82

**Contributions.** Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
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%
District's 2018 FY Employer Contributions	\$	159,094
District's 2018 FY Member Contributions	\$	127,733
Measurement Year NECE On-Behalf Contributions	\$	178,029

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.

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. House Bill 21 was passed in special session and provided a supplemental appropriation in the amount of \$212 million in fiscal year 2018.

The District's proportionate share of the \$212,000,000 received during the district's 2018 fiscal year is reported in the fund level financial statements as an on-behalf contribution as required by GASB 85 and GASB 24.

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

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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

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

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the
delivery of health care benefits are	included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% - 9.50%
Healthcare Trend Rates	4.50% - 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.*

**Discount Rate.** A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. The Discount Rate can be found in the 2017 TRS CAFR on page 83. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. 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.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**Sensitivity of the Net OPEB Liability:**

**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:	\$ 12,063,666	\$ 10,221,296	\$ 8,740,445

**Healthcare Cost Trend Rates Sensitivity Analysis -** The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB Liability:	\$ 8,510,250	\$ 10,221,296	\$ 12,466,404

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At August 31, 2018, Lumberton Independent School District reported a liability of \$10,221,296 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with Lumberton Independent School District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 10,221,296
State's proportionate share that is associated with the District	<u>14,890,954</u>
Total	<u>\$ 25,112,250</u>

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The 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 0.000235046619% which was the same proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation –** The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period: [These can be found in the TRS CAFR on page 83].

Significant plan changes were adopted during fiscal year ending August 31, 2018. 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.

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.

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 AUGUST 31, 2018

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent 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 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

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 August 31, 2018, Lumberton Independent School District recognized OPEB expense of \$4,982,909 and revenue of \$4,982,909 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	-	213,377
Changes in actual assumptions	-	4,062,210
Difference between projected and actual investment earnings	1,553	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	47	-
Contributions paid to TRS subsequent to the measurement date	159,094	-
Total	\$ 160,694	\$ 4,275,587

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEBs will be recognized in OPEB expense as follows:

<u>Year ended August 31:</u>	<u>OPEB Expense</u>
2019	(563,957)
2020	(563,957)
2021	(563,957)
2022	(563,957)
2023	(564,345)
Thereafter	(1,453,815)

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**I. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES**

**Medicare Part D.** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal year ended August 31, 2018, 2017, and 2016 the subsidy payments received by TRS-Care on-behalf of the District were \$60,802, \$59,154, and \$75,456 respectively. The information for the year ended August 31, 2016 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

**J. UNAVAILABLE/UNEARNED REVENUE**

Unavailable revenue at year end consisted of the following:

	General Fund	Debt Service Fund	Total
Property Taxes	\$ 676,723	\$ 73,618	\$ 750,341
Total Unavailable Revenue	<u>\$ 676,723</u>	<u>\$ 73,618</u>	<u>\$ 750,341</u>

**K. DUE FROM STATE AGENCIES**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2017, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

Fund	State Entitlements	Federal Grants	Total
General Fund	\$ 229,183	\$ -	\$ 229,183
Special Revenue	-	200,996	200,996
Total	<u>\$ 229,183</u>	<u>\$ 200,996</u>	<u>\$ 430,179</u>

**L. LITIGATION**

None.

**M. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through November 30, 2018 and did not reveal any instance that requires disclosure.



**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**N. FUND BALANCE**

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-Spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The District has \$0 classified as Non-Spendable
- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The District has \$1,079,693 classified as Restricted.
- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end. The district has \$0 classified as Committed.
- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The District has \$0 classified as Assigned.
- Unassigned includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds. The District has \$6,736,797 classified as Unassigned.

The elected board of trustees, for the entity, has the authority to commit, assign, and restrict fund balances. In some instances a restriction is a result of meeting contractual or otherwise legal requirements, for example debt service requirements contained in the bond covenant.

**O. SHARED SERVICE ARRANGEMENTS**

The District is the fiscal agent for three Shared Service Arrangements (SSA) which provide educational services to member districts in addition to the District, other member districts include Kountze ISD and West Hardin ISD. All services are provided by the fiscal agent. The member districts and federal and state sources provide the funding of the fiscal agent.

According to guidance provided in TEA's Resource Guide, the District accounts for the SSA's in the following funds and expenditures are as follows:

	313	314	437
	<u>Idea B Formula</u>	<u>Idea B Formula</u>	<u>Plan A Special Education</u>
Lumberton ISD	462,826	-	363,679
Kountze ISD	336,836	22,999	256,812
West Hardin ISD	236,077	-	234,846
	<u>\$ 1,035,739</u>	<u>\$ 22,999</u>	<u>\$ 855,337</u>

**P. PRIOR PERIOD ADJUSTMENT**

An adjustment was made in the general fund and nonmajor funds to clear out incorrect amounts in accounts payable. The net effect of this adjustment is to increase general fund balance by \$112,060 and increase nonmajor fund balance by \$86,772. A second adjustment was made in the general fund to remove an outstanding receivable that was not cleared out in previous years. The net effect of this adjustment is to decrease fund balance by (\$457,654)

An adjustment was made on the government wide statements to recognize the inclusion of the beginning net OPEB liability. The net effect of this adjustment is the decrease fund balance by \$17,922,980.

REQUIRED SUPPLEMENTARY INFORMATION

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 11,795,573	\$ 11,795,573	\$ 11,978,028	\$ 182,455
5800	State Program Revenues	17,812,264	17,812,264	18,616,670	804,406
5900	Federal Program Revenues	160,000	160,000	402,228	242,228
5020	Total Revenues	29,767,837	29,767,837	30,996,926	1,229,089
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	17,296,674	17,296,674	17,182,186	114,488
0012	Instructional Resources and Media Services	329,162	329,162	313,639	15,523
0013	Curriculum and Instructional Staff Development	46,809	46,809	43,571	3,238
0021	Instructional Leadership	222,853	225,853	225,683	170
0023	School Leadership	1,712,858	1,712,858	1,712,237	621
0031	Guidance, Counseling and Evaluation Services	582,815	582,815	546,347	36,468
0033	Health Services	261,343	261,343	260,680	663
0034	Student (Pupil) Transportation	1,267,941	1,267,941	1,181,340	86,601
0036	Extracurricular Activities	1,025,656	1,025,656	1,033,942	(8,286)
0041	General Administration	890,779	890,779	791,790	98,989
0051	Facilities Maintenance and Operations	3,820,721	3,820,721	3,424,788	395,933
0052	Security and Monitoring Services	234,650	234,650	160,121	74,529
0053	Data Processing Services	453,893	453,893	377,522	76,371
0061	Community Services	8,000	8,000	7,475	525
Debt Service:					
0071	Principal on Long Term Debt	505,000	505,000	510,000	(5,000)
0072	Interest on Long Term Debt	64,183	107,183	102,520	4,663
0073	Bond Issuance Cost and Fees	1,000	1,000	-	1,000
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	591,000	591,000	590,242	758
0095	Payments to Juvenile Justice Alternative Ed. Prg.	26,500	26,500	26,481	19
0099	Other Intergovernmental Charges	380,000	380,000	379,150	850
6030	Total Expenditures	29,721,837	29,767,837	28,869,714	898,123
1100	Excess of Revenues Over Expenditures	46,000	-	2,127,212	2,127,212
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	-	21,025	21,025
1200	Net Change in Fund Balances	46,000	-	2,148,237	2,148,237
0100	Fund Balance - September 1 (Beginning)	4,812,110	4,812,110	4,934,154	122,044
1300	Increase (Decrease) in Fund Balance	-	-	(345,594)	(345,594)
3000	Fund Balance - August 31 (Ending)	\$ 4,858,110	\$ 4,812,110	\$ 6,736,797	\$ 1,924,687

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

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.000155845%	0.000159252%	0.0157073%	0.0079287%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 4,983,094	\$ 6,017,885	\$ 5,552,321	\$ 2,117,866
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	10,576,797	12,745,349	1,245,556	-0-
Total	<u>\$ 15,559,891</u>	<u>\$ 18,763,234</u>	<u>\$ 6,797,877</u>	<u>\$ 2,117,866</u>
District's Covered Payroll	\$ 19,834,445	\$ 17,427,812	\$ 12,145,556	\$ 10,705,014
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	0.25%	-0-	-0-	-0-
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	83.25%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2017 for year 2018, August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

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

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ -0-	\$ 554,344	\$ 505,754	\$ 446,598
Contribution in Relation to the Contractually Required Contribution	-0-	554,343	505,754	446,598
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 19,834,445	\$ 19,427,812	\$ 19,006,120	\$ 17,783,133
Contributions as a Percentage of Covered Payroll	-0-	2.85%	2.66%	2.51%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

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

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

	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.000235047%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 10,221,296
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	14,890,954
Total	\$ 25,112,250
District's Covered Payroll	\$ 19,834,445
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	52.00%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the year for which this information is available. Additional information will be added until 10 years of data are available and reported.

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT CONTRIBUTIONS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR FISCAL YEAR 2018

	2018
Contractually Required Contribution	\$ 148,758
Contribution in Relation to the Contractually Required Contribution	(148,758)
	\$ -0-
Contribution Deficiency (Excess)	-0-
District's Covered Payroll	\$ 19,834,445
Contributions as a Percentage of Covered Payroll	7.49%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

A. Notes to Schedules for the TRS Pension

*Changes of Benefit terms.*

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

*Changes of Assumptions.*

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

B. Notes to Schedules for the TRS OPEB Plan

*Changes in Benefit.*

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

*Changes in Assumptions.*

The following were changes to the actuarial assumptions or other inputs that affected measurement of 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 percent as of August 31, 2016 to 3.42 percent 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 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

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.



LUMBERTON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
 AUGUST 31, 2018

C. The following is a reconciliation for the budgeted revenues and expenditures from budgetary basis to GAAP basis:

	General Fund	Child Nutrition	Debt Service
<b>Sources/Inflows of resources</b>			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 29,767,837	\$ 1,371,550	\$ 1,567,478
Differences - budget to GAAP:			
None	-	-	-
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 29,767,837</u>	<u>\$ 1,371,550</u>	<u>\$ 1,567,478</u>
<b>Uses/outflows of resources</b>			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 29,724,837	\$ 1,575,303	\$ 1,567,478
Differences - budget to GAAP:			
Expenditures for debt payments that are recognized for budgetary purposes but are reductions in liabilities for GAAP statements	(505,000)	-	(1,480,000)
Capital purchases that are expenditures for budgetary purposes but are additions to capital assets for GAAP statements	(610,959)	-	-
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	<u>\$ 28,608,878</u>	<u>\$ 1,575,303</u>	<u>\$ 87,478</u>

## T.E.A. REQUIRED SCHEDULES

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2018

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ 769,078,673
2010	1.040000	0.102500	822,175,142
2011	1.040000	0.102500	866,043,589
2012	1.040000	0.122500	894,559,054
2013	1.040000	0.120000	930,111,120
2014	1.040000	0.120000	96,807,586
2015	1.040000	0.120000	1,036,056,034
2016	1.040000	0.120000	1,019,888,434
2017	1.040000	0.120000	1,072,493,401
2018 (School year under audit)	1.040000	1.120000	1,123,713,035
1000 TOTALS			

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 180,021	\$ -	\$ 498	\$ 43	\$ (8,343)	\$ 171,137
30,356	-	1,704	168	-	28,484
33,782	-	1,760	173	(1)	31,848
41,104	-	2,709	319	(57)	38,019
62,902	-	4,880	563	20	57,479
65,709	-	6,992	807	296	58,206
92,430	-	14,660	1,692	(362)	75,716
106,092	-	19,532	2,254	(566)	83,740
218,778	-	70,983	8,190	(18,107)	121,498
-	13,035,071	11,406,856	1,316,176	(53,118)	258,921
<u>\$ 831,174</u>	<u>\$ 13,035,071</u>	<u>\$ 11,530,574</u>	<u>\$ 1,330,385</u>	<u>\$ (80,238)</u>	<u>\$ 925,048</u>

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 740,950	\$ 740,950	\$ 800,578	\$ 59,628
5800	State Program Revenues	7,000	7,000	55,484	48,484
5900	Federal Program Revenues	623,600	623,600	822,839	199,239
5020	Total Revenues	1,371,550	1,371,550	1,678,901	307,351
EXPENDITURES:					
0035	Food Services	1,575,303	1,575,303	1,569,102	6,201
6030	Total Expenditures	1,575,303	1,575,303	1,569,102	6,201
1200	Net Change in Fund Balances	(203,753)	(203,753)	109,799	313,552
0100	Fund Balance - September 1 (Beginning)	154,122	154,122	84,303	(69,819)
1300	Increase (Decrease) in Fund Balance	-	-	69,819	69,819
3000	Fund Balance - August 31 (Ending)	\$ (49,631)	\$ (49,631)	\$ 263,921	\$ 313,552

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,335,478	\$ 1,335,478	\$ 1,368,807	\$ 33,329
5800	State Program Revenues	232,000	232,000	531,213	299,213
5020	Total Revenues	1,567,478	1,567,478	1,900,020	332,542
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	1,480,000	1,480,000	1,480,000	-
0072	Interest on Long Term Debt	61,500	61,500	61,500	-
0073	Bond Issuance Cost and Fees	25,978	25,978	500	25,478
6030	Total Expenditures	1,567,478	1,567,478	1,542,000	25,478
1200	Net Change in Fund Balances	-	-	358,020	358,020
0100	Fund Balance - September 1 (Beginning)	167,762	167,762	167,762	-
3000	Fund Balance - August 31 (Ending)	\$ 167,762	\$ 167,762	\$ 525,782	\$ 358,020

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

# MITCHELL T. FONTENOTE

## CERTIFIED PUBLIC ACCOUNTANT, INC.

November 30, 2018

### **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***

Lumberton Independent School District  
Lumberton, Texas 77657

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 the Lumberton Independent School District, as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Lumberton Independent School District's basic financial statements, and have issued our report thereon dated November 30, 2018.

#### **Internal Control over Financial Reporting**

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

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

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

#### **Compliance and Other Matters**

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

#### **Purpose of this Report**

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

*Mitchell T Fontenote CPA, Inc.*



# MITCHELL T. FONTENOTE

## CERTIFIED PUBLIC ACCOUNTANT, INC.

November 30, 2018

### 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  
Lumberton Independent School District  
Lumberton, Texas

#### **Report on Compliance for Each Major Federal Program**

We have audited the Lumberton Independent School District's 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 Lumberton Independent School District's major federal programs for the year ended August 31, 2018. Lumberton Independent School 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 Lumberton Independent School 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 Lumberton Independent School 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 Lumberton Independent School District's compliance.

#### ***Opinion on Each Major Federal Program***

In our opinion, the Lumberton Independent School 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 August 31, 2018.

## Report on Internal Control over Compliance

Management of the Lumberton Independent School 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 Lumberton Independent School 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 Lumberton Independent School 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.

*Mitchell T Fontenote CPA, Inc.*

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 AUGUST 31, 2018

**A. Summary of Auditor's Results**

1 Financial Statements

Type of auditors' report issued: **Unmodified**

Internal control over financial reporting:

Material weakness(es) identified?            Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?            Yes   X   None Reported

Noncompliance material to financial statements noted:            Yes   X   No

2 Federal and State Awards

Internal control over major programs:

Material weakness(es) identified?            Yes   X   No

Significant deficiencies identified that are not considered to be material weaknesses?            Yes   X   None Reported

Type of auditor's report issued on compliance for major programs: **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance and the State of Texas Single Audit Circular?

           Yes   X   None Reported

Identification of major federal and state programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.553	Child Nutrition Cluster
10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs: Federal            \$            750,000

Auditee qualified as low-risk auditee?   X   Yes            No

**B. Findings Relating to the Financial Statements Which Are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards.**

There are no findings to be reported.

**C. Findings and Questioned Costs for Federal and State Awards.**

There are no findings and questioned costs to be reported.

LUMBERTON INDEPENDENT SCHOOL DISTRICT

PRIOR AUDIT FINDINGS

AUGUST 31, 2018

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None.

None.

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2018

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	18610101100907	\$ 345,513
*SSA - IDEA - Part B, Formula	84.027	186600011009076600	1,036,362
*IDEA - Part B, Discretionary	84.027		101,353
Total CFDA Number 84.027			1,137,715
*SSA - IDEA - Part B, Preschool	84.173	186610011009076610	22,999
Total Special Education Cluster (IDEA)			1,160,714
Career and Technical - Basic Grant	84.048	18420006100907	22,735
ESEA, Title II, Part A, Supporting Effective Instr	84.367A	18694501100907	67,754
Project Serv Hurricane Recovery Grant	89.938G	18510701100907	9,027
Total Passed Through State Department of Education			1,605,743
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			1,605,743
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		400,445
Total Passed Through Texas Dept of Human Services			400,445
<b>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			400,445
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401801	137,376
*National School Lunch Program - Cash Assistance	10.555	71301801	685,463
Total Child Nutrition Cluster			822,839
Total Passed Through the State Department of Agriculture			822,839
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			822,839
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 2,829,027

\*Clustered Programs

LUMBERTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
AUGUST 31, 2018

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- The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the District under programs of the federal government for the year ended August 31, 2018. The information in this Schedule is presented in accordance with the requirements of 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 assets, or cash flows of the District.
- 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*.
- Special Revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state awards generally are accounted for in a special revenue fund. Generally, unused balances are returned to the grantor at the close of specified grant periods.
- These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenue and other financing resources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgements, 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 deferred revenues until earned. The accompanying schedule of expenditures of federal awards is presented on the modified accrual basis of accounting.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 30 days beyond the federal project period ending date.
- 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 adjustments by the grantor agencies; therefore, to the extent that the District has not complied with rules and regulations governing the grants, refund of any money received may be required and the collectability of any related receivable at August 31, 2018, may be impaired.
- The District has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

SCHOOLS FIRST QUESTIONNAIRE

Lumberton Independent School District

Fiscal Year 2018

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SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	-
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	4,983,094
SF13	Pension Expense (6147) at fiscal year-end.	