

**SAN BENITO CONSOLIDATED
INDEPENDENT SCHOOL DISTRICT
San Benito, Texas**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

FOR THE YEAR ENDED AUGUST 31, 2017

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2017

TABLE OF CONTENTS

	<u>EXHIBIT</u>	<u>PAGE</u>
INTRODUCTORY SECTION		
Table of Contents	-	i
List of Principal Officials	-	iii
Certificate of Board	-	1
FINANCIAL SECTION		
Independent Auditors' Report	-	2
Management's Discussion and Analysis	-	5
Basic Financial Statements		
<i>Government-wide Statements:</i>		
Statement of Net Position	A-1	13
Statement of Activities	B-1	14
<i>Governmental Fund Financial Statements:</i>		
Balance Sheet	C-1	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	C-2	16
Statement of Revenues, Expenditures, and Changes in Fund Balance	C-3	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	C-4	18
<i>Proprietary Fund Financial Statements:</i>		
Statement of Net Position	D-1	19
Statement of Revenues, Expenses, and Changes in Net Position	D-2	20
Statement of Cash Flows	D-3	21
<i>Fiduciary Fund Financial Statements:</i>		
Statement of Fiduciary Net Position	E-1	22
Notes to the Financial Statements		23
Required Supplementary Information		
Budgetary Comparison Schedule – General Fund	G-1	53
Schedule of the District's Proportionate Share of the Net Pension Liability	G-2	54
Schedule of the District Contributions – Teacher Retirement System	G-3	55
Notes to Required Supplementary Information		56
Other Supplementary Information		
<i>Nonmajor Governmental Funds Combining Statements</i>		
Combining Balance Sheet	H-1	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	H-2	62

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2017

TABLE OF CONTENTS - CONTINUED

Texas Education Agency – Required Schedules:

Schedule of Delinquent Taxes Receivable	J-1	66
Budgetary Comparison Schedule – Child Nutrition	J-2	68
Budgetary Comparison Schedule – Debt Service Fund	J-3	69

FEDERAL AWARD SECTION

Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		70
Independent Auditors’ Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance		72
Schedule of Findings and Questioned Costs	-	75
Schedule of Status of Prior Findings	-	80
Corrective Action Plan	-	81
Schedule of Expenditures of Federal Awards	K-1	82
Notes on Accounting Policies for Federal Awards	K-2	83

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

SAN BENITO, TEXAS

YEAR ENDED AUGUST 31, 2017

TRUSTEES

Michael Vargas - President

Angel Mendez - Vice-President

M.L. Garcia - Secretary

Joe G. González

Anna Cruz

Orlando Lopez

Victor Eloy Rosas

SUPERINTENDENT

Dr. Nate Carmen

ASSISTANT SUPERINTENDENT OF FINANCE AND OPERATIONS

Hilda G. Rendon

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

San Benito Consolidated Independent School District
Name of School District

Cameron
County

031-912
Co.-Dist. Number

We, the undersigned, do hereby certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved -- ___ disapproved for the year ended August 31, 2017 at a

(Check one)

meeting of the board of school trustees of such school district on the 20th day of February, 2018.

M. L. Garcia
Signature of Board Secretary

[Signature]
Signature of Board President

FINANCIAL SECTION



Carr, Riggs & Ingram, LLC
402 East Tyler Avenue
Harlingen, TX 78550-9122

(956) 423-3765
(956) 428-7520 (fax)
CRLcpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
San Benito Consolidated Independent School District

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 San Benito Consolidated Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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, each major fund, and the aggregate remaining fund information of the San Benito Consolidated Independent School District, as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and net pension liability and pension contribution information on pages 5–12 and 53-57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Benito Consolidated Independent School District's basic financial statements. The introductory section and the Other Supplementary Information as listed in the table of contents as Combining Nonmajor Governmental Fund Financial Statements and Texas Education Agency – Required Schedules are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Costs 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 and other Supplementary Information, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2018, on our consideration of the San Benito Consolidated 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Benito Consolidated Independent School District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, L.L.C.

Harlingen, Texas
February 14, 2018

SAN BENITO INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the San Benito Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2017. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$ 41,287,939 at August 31, 2017.
- During the year, the District's expenses were \$124,632,718. Revenues generated in taxes and other revenues for governmental activities were \$131,171,300.
- The total cost of the District's programs increased \$2,815,083 from last year. The increase resulted primarily from additional instructional expenditures and data processing services.
- The general fund reported a fund balance this year of \$29,175,253 which was a significant increase over the prior year.
- The District received an "A" rating for the Financial Integrity Reporting System of Texas (FIRST) for 2016-2017, earning 96 of 100 points. The FIRST rating evaluates quality of performance in the management of school district financial resources.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this Annual Financial Report consists of four parts: (1) *management's discussion and analysis* (this section), (2) the *basic financial statements*, (3) *required supplementary information*, and (4) *other supplementary information*, which is the section that presents additional information required by the Texas Education Agency.

The Management's Discussion and Analysis section is intended to serve as an introduction to the District's Basic Financial Statements. The District's Basic Financial Statements comprise three components: (1) Government-Wide Financial Statements (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements.

The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.

- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide 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. All of the District's services are reported in the government-wide financial statements, including instructional, instructional leadership, student support services, general administration, support services, and debt services. Property taxes, state foundation funds and grants finance most of these activities.

SAN BENITO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

The *statement of net position* presents information on all of the District's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as net position. Net position, is one way to measure the District's financial health or *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 fully assess the overall health of the District; however, non-financial factors need to be considered as well, such as changes in the District's average daily attendance, its property tax base and the condition of the District's facilities.

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

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (governmental activities). All of the District's services are reported in the government-wide financial statements, including instructional leadership, student support services, general administration, support services and debt services.

New Accounting Standards Adopted

In fiscal year 2017, the District adopted new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- Statement No. 77, *Tax Abatement Disclosure*

GASB Statement No. 77, Tax Abatement Disclosures, applies to financial reports of all state and local governmental entities, addresses the reduction of tax revenues resulting from an agreement between a government and an individual in which the government forgoes tax revenues and the individual promises to take specific action as a result of the agreement that contributes to the economic development to benefit the government or citizens of the government, and relates to agreements entered into by the reporting government or agreements entered into by other governments that reduce the reporting government's tax revenues. In fiscal year 2017, the District did not have tax abatement agreements that require disclosures in the financial statements.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related requirements. The fund financial statements provide more detailed information about the District's most significant *funds* – *not* the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes to show that it is properly using taxes and grants.

The District has the following kinds of funds:

Governmental funds: Government 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 year.

SAN BENITO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

The District maintains 18 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds. Data from the other governmental funds are combined in a single, aggregated presentation. The District adopts an annual appropriated budget for its General Fund and Debt Service Fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

Proprietary funds: Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The district utilizes internal service funds for self-funded health insurance and workers compensation insurance.

Fiduciary funds: The District is the trustee, or *fiduciary*, for certain funds. 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 a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

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.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The Required Supplementary Information relates to comparison of the original adopted budget, the final amended budget, and the actual results for the fiscal year ended. This is required supplementary information for the general fund. Also included in RSI is the Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System and the Schedule of the District's Contributions – Teacher Retirement System.

Other Supplementary Information

Combining Statements

The combining statements section contains information on Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for all Nonmajor Governmental Funds.

Texas Education Agency Required Schedules

The Other Supplementary Information section contains information for the purpose of additional analysis and is not a required part of the basic financial statements. This section includes certain compliance schedules required by the Texas Education Agency.

Government-Wide Financial Analysis

Presented in Tables I and II below are summarized Statement of Net Position and Statement of Changes in Net Position for both current and prior-year data. Our analysis focuses on the current year and the comparison of prior-year amounts on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

SAN BENITO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the year ended August 31, 2017, the District's assets and deferred outflows exceeded its liabilities and deferred inflows by \$41,287,939.

Table I
Net Position Summary

	Governmental Activities	
	2017	2016
Current and other assets	\$ 48,407,093	\$ 36,388,775
Capital assets	97,246,259	103,006,245
Total assets	145,653,352	139,395,020
Deferred outflows	13,649,085	15,778,233
Other liabilities	11,473,848	7,715,001
Long-term liabilities	104,897,227	110,968,245
Total liabilities	116,371,075	118,683,246
Deferred inflows	1,643,423	1,740,650
Net investment in capital assets	21,144,936	21,635,539
Restricted	2,994,466	2,370,376
Unrestricted	17,148,537	10,743,442
Total net position	\$ 41,287,939	\$ 34,749,357

As depicted in Table I, a significant portion of the District's net position, 51%, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Also, approximately 7% of the net position of the District represents resources that are subject to external restriction on how they may be used. The remaining 42% of net position are unrestricted and may be used to meet the District's ongoing obligations.

Changes in Net Position

The Net Position of the District increased by \$6,538,582 for the year ended August 31, 2017. The total revenues from taxpayers, user service, grants and other sources for the District was \$131,171,300, a decrease over fiscal year 2016 of \$778,183. The revenue decrease is due to several factors. The state allotment per student decreased which when factored in with the other elements that generate state foundation funding resulted in a decrease of \$3,898,937 over the prior year. The District also recognized \$1,129,709 or \$571,954 more than charges for services for fiscal year 2016. Total expenses for the 2017 fiscal year were \$124,632,718 or \$2,815,083 more than the expenses for fiscal year 2016.

SAN BENITO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Table II
Changes in Net Position

	2017	2016
Program Revenues:		
Charges for services	\$ 1,129,709	\$ 557,755
Operating grants and contributions	28,597,657	27,604,348
General revenues:		
Property taxes	12,163,509	11,439,819
State and other grants	88,685,685	91,815,975
Investment earnings	251,701	79,065
Miscellaneous local intermediate	343,039	452,521
Total revenues	131,171,300	131,949,483
Program Expenses:		
Instruction	65,933,196	63,579,286
Instructional resources and media services	1,405,631	1,427,897
Curriculum and instructional staff development	2,390,299	2,082,453
Instructional leadership	3,305,942	3,728,230
School leadership	5,248,846	5,868,502
Guidance, counseling and evaluation services	3,524,474	3,528,602
Social services	523,126	409,749
Health services	1,022,203	1,009,704
Student (pupil) transportation	3,848,799	3,662,568
Food services	8,581,254	9,291,212
Co-curricular/extracurricular activities	3,405,259	3,067,590
General administration	4,141,331	3,929,093
Plant maintenance and operations	13,548,780	13,460,532
Security and monitoring services	2,459,436	2,223,422
Data processing services	1,547,295	601,063
Community services	633,160	482,713
Debt service	2,464,173	3,327,482
Other governmental charges	649,514	137,537
Total expenses	124,632,718	121,817,635
Increase (decrease) in net position	6,538,582	10,131,848
Beginning net position	34,749,357	24,617,509
Ending net position	\$ 41,287,939	\$ 34,749,357

The District's total revenues were \$131,171,300. A significant portion, 89%, of the District's revenue comes from state aid – formula grants and operating grants compared to 9.3% from local taxes.

The Net Position of the District increased by \$6,538,582 for the year ended August 31, 2017, which was directly attributable to the increase in expenses since revenues also decrease but by a much smaller amount.

SAN BENITO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Governmental Activities

The District's property tax rate remained at \$1.3049 per \$100 of taxable property value as compared to last year's rate.

The total cost of all programs and services was \$124,632,718; 80% of these costs are for instructional and data processing services.

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

- The cost of all *governmental* activities this year was \$124,632,718.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$12,163,509.
- The cost that was paid by those who directly benefited from the programs was \$1,129,709.
- The amount paid by operating grants and contributions was \$28,597,657.

Table III
Net Cost of Selected District Functions

	Total Cost of Services		Net Cost of Services	
	2017	2016	2017	2016
Instruction	\$ 65,933,196	\$ 63,579,286	\$ 52,813,211	\$ 51,474,337
School leadership	5,248,846	5,868,502	4,870,803	5,476,594
Food services	8,581,254	9,291,212	(42,739)	(478,744)
Facilities maintenance and operation s	13,548,780	13,460,532	13,063,994	13,090,860

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements, bond covenants, and segregation for particular purposes. The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of August 31, 2017, the District's governmental funds reported a combined ending fund balance of \$29,864,280, an increase of \$7,277,196 from last year. Of the total fund balance, \$24,558,475 or approximately 82 percent, constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, committed or assigned for particular purposes as follows:

Table IV
Governmental Funds – Fund Balances

Nonspendable	
Inventories	\$ 649,502
Prepayments	145,880
Restricted	
Grant funds	2,707,868
Retirement of long-term debt	553,097
Committed	
Self Insurance - workers compensatio	1,113,528
Other committed funds	135,930
Unassigned	
Unassigned	24,558,475
	<u><u>\$ 29,864,280</u></u>

SAN BENITO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had invested \$217,077,477 in a broad range of capital assets, including land, equipment, buildings, and vehicles. More detailed information about the District's capital assets is presented in the notes to the financial statements.

Table V
Capital Assets

	Governmental Activities	
	(In thousands of dollars)	
	2017	2016
Land	\$ 8,018	\$ 8,018
Buildings and improvements	186,104	185,875
Furniture and equipment	22,955	21,269
Total assets at historical cost	217,077	215,162
Accumulated depreciation	(119,831)	(112,156)
Net capital assets	<u>\$ 97,246</u>	<u>\$ 103,006</u>

Long-term Debt

At year-end, the District had \$104,897,227 in bonds, related premiums/discounts and other long-term liabilities as shown in Table VI. More detailed information about the District's debt is presented in the notes to the financial statements.

Bond Ratings

The District's bonds presently carry "A" ratings assigned by Standard & Poors Ratings.

Table VI
Long-term Debt

	Governmental Activities	
	(In thousands of dollars)	
	2017	2016
Bonds payable	\$ 72,720	\$ 76,850
Premiums	6,999	8,090
Accrued interest on CABS	605	1,218
Compensated absences	1,113	1,419
Net pension liability	23,460	23,391
Totals	<u>\$ 104,897</u>	<u>\$ 110,968</u>

SAN BENITO INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net Pension Liability

The District reports net pension liabilities, deferred inflows of resources and deferred outflows of resources and the recognition of pension expense in accordance with the provisions of GASB Statement No. 68. The amounts recorded by the District for the current school year for net pension liability increased while the deferred inflows of resources related to TRS and deferred outflows of resources related to TRS decreased over the amounts reported at the end of the prior school year. See Note Q to the financial statements for additional information on these changes and pension related balances at year end.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised property value used for the 2018 budget preparation was \$953,527,384 which is a 1.1% decrease over last year's value.
- General operating fund for 2018 will retain the current fund balance while improving academic and facilities services.
- The District will elect to change the end of its fiscal year from August 31st to June 30th for the 2017-2018 school year. The first fiscal year for this transaction will have only ten months of financial activity

These indicators were taken into account when adopting the general fund budget for 2018. The district adopted a balanced budget for 2017-2018 on August 29, 2017.

The District committed to evaluate financial, operational, and curriculum programs in the 2015-2016 school year. Re-Imagine 2021, a 5-year Strategic Plan, was approved by the board in July 2016 that will guide the district forward for the next 5 years. An Efficiency Audit conducted by Texas Association of School Business Officials and was approved in June 2016 to strengthen the Financial and Operations functions of SBCISD. The recommendations from the Efficiency Audit were implemented during the 2017-2018 school year. During the 2016-2017 school year, the Texas Association of School Boards conducted a salary compensation study to evaluate employee pay equity and salary comparisons in our market. The District has begun implementing their recommendations during the 2017-2018 school year. Addition, during the 2017-2018 school year the Texas Association of School Boards will conduct a staffing study to evaluate the adequate staffing in all departments.

The District will enter into a Inter-Local Cooperation Agreement for Tax Assessment and Collections with Cameron County Tax Office beginning January 2018. This will yield the District approximately \$200,000 in savings for the 2017-2018 and approximately \$350,000 in the subsequent years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office at 240 N. Crockett Street, San Benito, Texas 78586.

BASIC
FINANCIAL STATEMENTS

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 31,340,216
1220 Property Taxes Receivable (Delinquent)	2,767,449
1230 Allowance for Uncollectible Taxes	(276,745)
1240 Due from Other Governments	9,704,251
1267 Due from Fiduciary Funds	352,866
1290 Other Receivables, net	3,722,989
1300 Inventories	649,502
1410 Prepayments	145,880
1490 Other Current Assets	685
Capital Assets:	
1510 Land	8,018,198
1520 Buildings, Net	84,520,005
1530 Furniture and Equipment, Net	4,708,056
1000 Total Assets	145,653,352
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	4,222,848
1705 Deferred Outflow Related to TRS	9,426,237
1700 Total Deferred Outflows of Resources	13,649,085
LIABILITIES	
2110 Accounts Payable	3,072,115
2140 Interest Payable	125,001
2150 Payroll Deductions & Withholdings	4,643,558
2160 Accrued Wages Payable	3,015,610
2180 Due to Other Governments	385,517
2200 Accrued Expenses	73,727
2300 Unearned Revenue	158,320
Noncurrent Liabilities	
2501 Due Within One Year	5,335,000
2502 Due in More Than One Year	76,101,783
2540 Net Pension Liability (District's Share)	23,460,444
2000 Total Liabilities	116,371,075
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	1,643,423
2600 Total Deferred Inflows of Resources	1,643,423
NET POSITION	
3200 Net Investment in Capital Assets	21,144,936
3820 Restricted for Federal and State Programs	2,994,466
3900 Unrestricted	17,148,537
3000 Total Net Position	\$ 41,287,939

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	6 Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 65,933,196	\$ 82,784	\$ 13,037,201	\$ (52,813,211)
12 Instructional Resources and Media Services	1,405,631	-	78,581	(1,327,050)
13 Curriculum and Staff Development	2,390,299	9,466	1,521,035	(859,798)
21 Instructional Leadership	3,305,942	28,398	1,717,558	(1,559,986)
23 School Leadership	5,248,846	-	378,043	(4,870,803)
31 Guidance, Counseling and Evaluation Services	3,524,474	-	1,028,979	(2,495,495)
32 Social Work Services	523,126	-	187,884	(335,242)
33 Health Services	1,022,203	-	123,888	(898,315)
34 Student (Pupil) Transportation	3,848,799	3,816	202,623	(3,642,360)
35 Food Services	8,581,254	436,075	8,187,918	42,739
36 Extracurricular Activities	3,405,259	486,373	139,641	(2,779,245)
41 General Administration	4,141,331	19,580	209,974	(3,911,777)
51 Facilities Maintenance and Operations	13,548,780	59,160	425,626	(13,063,994)
52 Security and Monitoring Services	2,459,436	-	175,991	(2,283,445)
53 Data Processing Services	1,547,295	-	47,424	(1,499,871)
61 Community Services	633,160	4,057	487,600	(141,503)
72 Debt Service - Interest on Long Term Debt	2,459,673	-	-	(2,459,673)
73 Debt Service - Bond Issuance Cost and Fees	4,500	-	-	(4,500)
81 Capital Outlay	-	-	127,448	127,448
93 Payments related to Shared Services Arrangements	520,243	-	520,243	-
99 Other Intergovernmental Charges	129,271	-	-	(129,271)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 124,632,718	\$ 1,129,709	\$ 28,597,657	(94,905,352)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	10,913,491
DT	Property Taxes, Levied for Debt Service	1,250,018
SF	State Aid - Formula Grants	80,195,776
GC	Grants and Contributions not Restricted	8,489,909
IE	Investment Earnings	251,701
MI	Miscellaneous Local and Intermediate Revenue	343,039
TR	Total General Revenues	101,443,934
CN	Change in Net Position	6,538,582
NB	Net Position - Beginning	34,749,357
NE	Net Position--Ending	\$ 41,287,939

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 27,985,443	\$ 385,566	\$ 498,330	\$ 28,869,339
1220 Property Taxes - Delinquent	2,451,883	315,566	-	2,767,449
1230 Allowance for Uncollectible Taxes (Credit)	(245,188)	(31,557)	-	(276,745)
1240 Receivables from Other Governments	2,401,902	3,990,546	3,311,803	9,704,251
1260 Due from Other Funds	7,405,563	896,970	-	8,302,533
1290 Other Receivables	10,586	-	1,077	11,663
1300 Inventories	649,502	-	-	649,502
1410 Prepayments	145,880	-	-	145,880
1490 Other Current Assets	685	-	-	685
1000 Total Assets	<u>\$ 40,806,256</u>	<u>\$ 5,557,091</u>	<u>\$ 3,811,210</u>	<u>\$ 50,174,557</u>
LIABILITIES				
2110 Accounts Payable	\$ 927,106	\$ -	\$ 666,068	\$ 1,593,174
2150 Payroll Deductions and Withholdings Payable	4,640,115	-	3,443	4,643,558
2160 Accrued Wages Payable	2,852,218	-	163,392	3,015,610
2170 Due to Other Funds	869,903	4,719,985	2,359,779	7,949,667
2180 Due to Other Governments	-	-	385,517	385,517
2200 Accrued Expenditures	58,201	-	15,526	73,727
2300 Unearned Revenues	76,765	-	81,555	158,320
2000 Total Liabilities	<u>9,424,308</u>	<u>4,719,985</u>	<u>3,675,280</u>	<u>17,819,573</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	2,206,695	284,009	-	2,490,704
2600 Total Deferred Inflows of Resources	<u>2,206,695</u>	<u>284,009</u>	<u>-</u>	<u>2,490,704</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	649,502	-	-	649,502
3430 Prepaid Items	145,880	-	-	145,880
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	2,707,868	-	-	2,707,868
3480 Retirement of Long-Term Debt	-	553,097	-	553,097
Committed Fund Balance:				
3540 Self Insurance - Workers Compensation	1,113,528	-	-	1,113,528
3545 Other Committed Fund Balance	-	-	135,930	135,930
3600 Unassigned Fund Balance	24,558,475	-	-	24,558,475
3000 Total Fund Balances	<u>29,175,253</u>	<u>553,097</u>	<u>135,930</u>	<u>29,864,280</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 40,806,256</u>	<u>\$ 5,557,091</u>	<u>\$ 3,811,210</u>	<u>\$ 50,174,557</u>

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2017

Total Fund Balances - Governmental Funds	\$ 29,864,280
1 The assets and liabilities of the District health self insurance internal service fund are consolidated into the statement of net position. The net effect is an increase in net position.	4,703,262
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets was \$217,077,477 and the accumulated depreciation was \$119,831,218.	97,246,259
3 Long-term liabilities including bonds and compensated absences are not due and payable in the current period and are not reported as liabilities in the funds.	(81,436,783)
4 Accrued interest payable does not require current financial resources so is not reported as a liability in the funds.	(125,001)
5 Property taxes receivable that will be collected this year, but are not available soon enough to pay for current period's expenditures and, therefore, are unavailable in the funds.	2,490,704
6 Gains/losses on defeasance of debt are recognized as deferred credits or charges and amortized over the remaining life of the debt. The District has deferred charges on refundings of \$4,222,848 from various refundings that are not reported in the funds.	4,222,848
7 Included in items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$9,426,237, a deferred resource inflow in the amount of \$1,643,423, and a net pension liability in the amount of \$23,460,444. This resulted in a decrease in net position.	(15,677,630)
19 Net Position of Governmental Activities	\$ 41,287,939

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 12,152,382	\$ 1,296,948	\$ 365,919	\$ 13,815,249
5800 State Program Revenues	84,448,358	6,741,522	658,078	91,847,958
5900 Federal Program Revenues	10,676,660	-	14,756,300	25,432,960
5020 Total Revenues	107,277,400	8,038,470	15,780,297	131,096,167
EXPENDITURES:				
Current:				
0011 Instruction	52,293,957	-	9,963,390	62,257,347
0012 Instructional Resources and Media Services	1,321,401	-	702	1,322,103
0013 Curriculum and Instructional Staff Development	751,014	-	1,483,396	2,234,410
0021 Instructional Leadership	1,467,524	-	1,629,947	3,097,471
0023 School Leadership	4,875,220	-	33,640	4,908,860
0031 Guidance, Counseling and Evaluation Services	2,429,739	-	857,386	3,287,125
0032 Social Work Services	342,956	-	159,044	502,000
0033 Health Services	890,477	-	68,803	959,280
0034 Student (Pupil) Transportation	3,705,966	-	-	3,705,966
0035 Food Services	8,000,431	-	-	8,000,431
0036 Extracurricular Activities	2,957,256	-	241,197	3,198,453
0041 General Administration	3,967,446	-	-	3,967,446
0051 Facilities Maintenance and Operations	13,212,380	-	19,250	13,231,630
0052 Security and Monitoring Services	2,151,138	-	49,994	2,201,132
0053 Data Processing Services	1,474,257	-	1,840	1,476,097
0061 Community Services	111,280	-	484,845	596,125
Debt Service:				
0071 Principal on Long Term Debt	230,000	4,900,000	-	5,130,000
0072 Interest on Long Term Debt	33,457	2,912,181	-	2,945,638
0073 Bond Issuance Cost and Fees	3,250	1,250	-	4,500
Capital Outlay:				
0081 Facilities Acquisition and Construction	15,995	-	127,448	143,443
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	520,243	520,243
0099 Other Intergovernmental Charges	129,271	-	-	129,271
6030 Total Expenditures	100,364,415	7,813,431	15,641,125	123,818,971
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	6,912,985	225,039	139,172	7,277,196
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	328,058	-	328,058
8911 Transfers Out (Use)	-	-	(328,058)	(328,058)
7080 Total Other Financing Sources (Uses)	-	328,058	(328,058)	-
1200 Net Change in Fund Balances	6,912,985	553,097	(188,886)	7,277,196
0100 Fund Balance - September 1 (Beginning)	22,262,268	-	324,816	22,587,084
3000 Fund Balance - August 31 (Ending)	\$ 29,175,253	\$ 553,097	\$ 135,930	\$ 29,864,280

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

SAN BENITO CONSOLIDATED 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, 2017

Total Net Change in Fund Balances - Governmental Funds	\$ 7,277,196
The District uses an internal service fund to charge the costs of the health self insurance plan to appropriate functions in other funds. The net income of the internal service fund is reported with governmental activities.	814,044
Capital outlays are reported in the governmental funds as expenditures. In the statement of activities the cost of the assets, \$1,914,942 is allocated over their useful lives as depreciation expense which totaled \$7,674,928 for the year.	(5,759,986)
Because some property taxes will not be collected for several months after the District's year end, they are not considered "available" revenues in the governmental funds. This is the change in unearned tax revenue.	75,133
Repayment of principal on long-term debt is an expenditure in the funds but is not an expense in the statement of activities.	5,130,000
Some expenses such as the effect of the change in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	306,238
Governmental funds report premiums, discounts, gains/losses on debt transactions when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. Interest is recorded in the governmental funds when paid but in the statement of activities it is accrued. This is the net impact of amortization of premiums, deferred losses, accretion of interest on capital appreciation bonds and the change in accrued interest.	485,965
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$1,906,921. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability. This caused a decrease in net position totaling \$1,972,566. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$1,724,363. The net result is a decrease in the change in net position.	(1,790,008)
Change in Net Position of Governmental Activities	\$ 6,538,582

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2017

	Governmental Activities -
	Total Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 2,470,877
Other Receivables	<u>3,711,326</u>
Total Assets	<u>6,182,203</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>1,478,941</u>
Total Liabilities	<u>1,478,941</u>
NET POSITION	
Unrestricted Net Position	<u>4,703,262</u>
Total Net Position	<u><u>\$ 4,703,262</u></u>

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Governmental Activities -
	Total Internal Service Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 8,052,584
Total Operating Revenues	<u>8,052,584</u>
OPERATING EXPENSES:	
Professional and Contracted Services	7,195,650
Supplies and Materials	3,236
Other Operating Costs	39,654
Total Operating Expenses	<u>7,238,540</u>
Operating Income	814,044
Total Net Position - September 1 (Beginning)	<u>3,889,218</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 4,703,262</u></u>

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 5,014,922
Cash Payments for Insurance Claims	(6,601,884)
Cash Payments for Suppliers	(42,890)
Net Cash Used for Operating Activities	<u>(1,629,852)</u>
Net Decrease in Cash and Cash Equivalents	(1,629,852)
Cash and Cash Equivalents at Beginning of Year	<u>4,100,729</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,470,877</u></u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income:	\$ 814,044
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(3,037,662)
Increase (decrease) in Accounts Payable	593,766
Net Cash Used for Operating Activities	<u><u>\$ (1,629,852)</u></u>

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 10,562	\$ 757,580
Total Assets	<u>\$ 10,562</u>	<u>\$ 757,580</u>
LIABILITIES		
Accounts Payable	\$ -	\$ 172,165
Due to Other Funds	60	352,806
Due to Student Groups	-	232,609
Unearned Revenues	10,502	-
Total Liabilities	<u>\$ 10,562</u>	<u>\$ 757,580</u>

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

NOTES TO FINANCIAL STATEMENTS

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE A - REPORTING ENTITY

The San Benito Consolidated Independent School District (the “District”) is an independent public education agency operating under applicable laws and regulations of the State of Texas. This report includes the financial statements of the funds required to account for those activities, organizations and functions, which are related to the District and which are controlled by or dependent upon the District’s governing body, the Board of Trustees. The Board of Trustees (the Board), includes seven eligible members elected at large by the qualified voters of the San Benito Consolidated Independent School District. The Board has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board.

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District’s financial reporting entity. Based on these considerations, no other entities have been included in the District’s financial reporting entity. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other government or other type of reporting entity.

The criteria used to determine whether an organization is a component unit of the District includes: financial accountability of the District for the component unit, appointment of a voting majority, fiscal dependency, ability to impose the District’s will on the component unit, and whether there is a financial benefit or burden to the District.

For financial reporting purposes, the San Benito Consolidated Independent School District Public Facility Corporation (“PFC”) is included in the operations and activities of the District because of the fiscal dependency criteria whereby the PFC serves the District exclusively.

The San Benito Consolidated Independent School District Public Facility Corporation (“PFC”), a blended component unit, was organized to finance the construction of a new multi-purpose stadium for the District. SBCISD PFC is governed by a Board of Directors composed of the San Benito Consolidated Independent School District Board of Trustees. The SBCISD PFC is blended as part of the governmental activities.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

San Benito Consolidated Independent School District's basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide"). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

1. *Government-Wide Statements and Fund Financial Statements*

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. For the most part, the effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

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

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements.

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

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

Debt Service Fund. The District accounts for resources accumulated and payments made for principal and interest on long-term debt of governmental funds in a debt service fund.

Additionally, the District reports the following funds:

Nonmajor Governmental Funds:

Special Revenue Funds: Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods.

Capital Projects Fund. The District used this fund to account for bond proceeds used for construction. This fund was closed during the current school year.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Proprietary Funds:

Internal Service Fund: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the uses of support services on a cost reimbursement basis. The District reports its health insurance plan in an internal service fund.

Fiduciary Funds:

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

Private Purpose Trust Funds: The District accounts for donations for which the donor stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Funds include the General Scholarship Fund, Fallingant Trust and Montemayor Memorial Trust Fund.

Agency Funds: The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds include the Student Activity Fund, Tax Clearing Fund and Tax Escrow Fund.

2. *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

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

The governmental funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. For this purpose, the District considers revenues to be available if they are collected within 60 days after year end except for IFA and EDA funding from the Texas Education Agency (TEA) for which the period was extended due to a delay by TEA in processing amendments related to state funding for refunding bonds issued. Grant and similar revenues, revenues received from the State of Texas and interest income are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

Funds received from federal, state and other grants designated for payment of specific District expenditures 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 sometimes require the District to refund all or part of the unused amount.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The proprietary fund types are accounted for on an economic resources measurement focus. Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for enterprise and internal service funds include cost of sales and services, administrative expenses, and depreciation and capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

3. *New Accounting Standards Adopted*

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

- Statement No. 77, *Tax Abatement Disclosure*

GASB Statement No. 77, Tax Abatement Disclosures, applies to financial reports of all state and local governmental entities, addresses the reduction of tax revenues resulting from an agreement between a government and an individual in which the government forgoes tax revenues and the individual promises to take specific action as a result of the agreement that contributes to the economic development to benefit the government or citizens of the government, and relates to agreements entered into by the reporting government or agreements entered into by other governments that reduce the reporting government's tax revenues. In fiscal year 2017, the District did not have tax abatement agreements that require disclosures in the financial statements.

Recently Issued Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, effective for fiscal years beginning after June 15, 2017. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. GASB Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. GASB Statement No. 75 also identified the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition GASB Statement No. 75 addresses the recognition and disclosure requirements for employers with liabilities to a defined benefit other postemployment benefits plan and for employers whose employees are provided with defined contribution other postemployment benefits. Management is evaluating the effects that the full implementation of GASB Statement No. 75 will have on its financial statements for the year ended June 30, 2018.

In June 2017, the GASB issued GASB Statement No. 87, Leases, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended June 30, 2021.

4. *Budgets*

The official school budget was prepared for adoption for required Governmental Fund types by August 20, 2016. The budget was formally adopted by the board of school trustees at a duly advertised public meeting prior to the expenditure of funds. The budget was amended by the board of school trustees throughout the year. Expenditures may not legally exceed budgeted appropriations at the function level.

5. *Cash and Cash Equivalents*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

6. *Investments*

Investments consist largely of money market funds and government investment pools. The District's investments are carried at fair value based on quoted market prices at year-end, in accordance with U.S. generally accepted accounting principles. Investments having a maturity of three months or less are reported as cash and cash equivalents.

The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79 *Certain Investment Pools and Pool Participants*.

7. *Inventories and prepaid items*

Inventory is valued at cost (average). The District accounts for paper, maintenance, janitorial, HVAC and food inventories by using the consumption method whereby expenditures are recognized only when inventory items are used. Reported inventories are equally offset by nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

In the general fund, certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the child nutrition fund (part of the general fund) inventory is valued at cost, using the weighted-average method, except for food commodities, which are recorded at market values supplied by the Texas Department of Agriculture. Commodities are received at no cost to the District; however, their fair market value is recorded as inventory when received. As the commodities are consumed, the inventory is relieved.

8. *Capital Assets*

Capital assets, which include property, plant and equipment, are reported 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 of two years or more.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives, as well as the cost of land, are not depreciated.

Capital assets are depreciated over the estimated useful lives of the assets on a straight-line basis over the following estimated useful lives:

<u>Assets Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	52
Building improvements	20
Vehicles	2 – 15
Furniture and equipment	3 – 15

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair market value on the date donated.

9. *Interfund Activity*

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

10. *Long-term Obligations*

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred and amortized over the term of the related debt using the appropriate effective interest method.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt 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.

11. *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

12. *Compensated Absences*

The District's policy allows employees to be reimbursed for up to 30 days of accumulated leave (a combination of state and local leave) upon separation from the District at a daily reimbursement rate of \$150 for professionals and \$100 for auxiliary employees. Criteria are established based upon retirement, resignation or separation due to reduction in force but a minimum of ten years of consecutive service with the District is required.

13. *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.

14. *Deferred Outflows and Inflows of Resources*

Deferred outflows and inflows of resources are reported in the statement of financial position as described below:

A *deferred outflow of resources* is a consumption of a government's net position (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

A *deferred inflow of resources* is an acquisition of a government's net position (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

15. *Net Position and Fund Balances*

Net position on the Statement of Net Position include the following:

Net investment in capital assets – the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt and that is directly attributable to the acquisition, construction, or improvement of these capital assets.

Restricted for federal and state programs – the component of net position that reports the difference between assets and liabilities related to federal and state programs that consist of assets with constraints placed on their use by granting agencies.

Restricted for debt service – the component of net position that reports the difference between assets and liabilities adjusted on a government-wide basis that consists of assets with constraints placed on their use by the bond covenants.

Unrestricted net position – the difference between assets and liabilities that are not reported in net position, net investment in capital assets, or restricted net position.

Net position flow assumption – Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted- net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the fund financial statements, governmental funds report fund balances as either a non-spendable fund balance or a spendable fund balance.

Non-spendable fund balance is that portion of fund balance that is not expendable. Examples of non-spendable fund balance include inventories and prepaid items.

Spendable fund balance includes restricted, committed, assigned and unassigned components. These components can be described as follows:

Restricted fund balance – the component of the spendable fund balance constrained by external parties, constitutional provisions, or enabling legislation.

Committed fund balance – the component of the spendable fund balance constrained to a specific purpose by the Board. A Board resolution is required to establish a fund balance commitment. Committed amounts cannot be used for any other purpose unless the governing board changes or lifts the constraint taking the same formal action that imposed the constraint originally.

Assigned fund balance – the component of spendable fund balance that is spendable or available for appropriation but has been tentatively earmarked for some specific purpose by the Superintendent. Board Policy CE (Local) authorized the Superintendent to assign fund balance.

Unassigned fund balance – the component of spendable fund balance which may be spent for any legal purpose. This portion of the total fund balance in the general fund is available to finance operating expenditures.

Minimum fund balance policy: The Board of Trustees adopted a financial policy to maintain a minimum level of unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) in the general fund. The target level is set between ten and fifteen percent of the District's total operating expenditures of the general fund. This amount is intended to provide fiscal stability when economic downturns and other unexpected events occur. If fund balance falls below the minimum target level, the policy provides for actions to replenish the amount to the minimum target level generally within a three-year period.

16. Data Control Codes

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

17. Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31st and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE C – DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

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 the District 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, and (9) bid solicitation preferences for certificates of deposit. The District maintains an investment policy which authorizes the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities and repurchase agreements and the State Treasurer's investment pool or similar public fund investment pools. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of the failure of a bank failure, the government's deposits may not be returned to it. The collateral shall always be held by an independent third party with whom the District has a current custodial agreement. The District is not exposed to custodial credit risk for its deposits except for the period June 23 through June 26, 2017 when the combination of the FDIC insurance and the collateral pledged was less than the total funds on deposit at the bank.

At August 31, 2017, the carrying value of the District's deposits (other than cash on hand and the temporary investments listed below) was \$3,851,979 and the bank balance was \$5,867,526. The District's cash deposits at August 31, 2017, and during the year then ended, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name other than for the four day period of June 23 through 26, 2017 specified above.

Investments

As of August 31, 2017, the District's investments consisted of balances held by Texas CLASS and Lone Star Local Government Investment Pool (LSIP).

Texas CLASS (Texas Cooperative Liquid Assets Securities System) was created and operates under Section 2256.016 of the Public Funds Investment Act as an investment pool for Texas local government entities. Eligible participants execute a Trust agreement with the cooperative and there is no minimum amount required nor is there an aggregate limit on the amount invested. Texas CLASS is rated (AAAm) by Standard & Poors, which meets the standards set by the Public Funds Investment Act. Texas Class participant's investments in the pool are evidenced by shares of the pool. The District's investment is with the pool, not the securities that make up the pool.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE C – DEPOSITS AND INVESTMENTS – Continued

LSIP is a Texas public investment pool sponsored by the Texas Association of School Boards (TASB) for investment of funds by state and local government entities, primarily local school districts. The Board has entered into an agreement with First Public, LLC (First Public), a Texas limited liability company and a member of the National Association of Securities Dealers, Securities Investor Protection Corporation, and Municipal Securities Rulemaking Board, pursuant to which First Public serves as administrator of LSIP's operations. American Beacon Advisors, Fort Worth, Texas, and Standish Mellon Asset Management Company, LLC, Pittsburgh, Pennsylvania, provide investment management services to LSIP regarding the investment and reinvestment of the pool's assets. The fund's credit quality is excellent as its portfolio is composed of U. S. government and U. S. agency securities. Investments in LSIP provide for investment in securities with maturities and returns generally greater than money market instruments. LSIP is marked-to-market daily to maintain an accurate net asset value. The District's fair value in LSIP is the same as the value of the pool shares.

As noted in the District's Summary of Significant Accounting Policies, the District reports its local government investment pools at amortized cost as permitted by GASB Statement No. 79 Certain External Investment Pools and Pool Participants. In addition LSIP does not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pool does not impose any liquidity fees or redemption gates.

The District's temporary investments at August 31, 2017, are shown below:

<u>Temporary Investment</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Percentage</u>
Texas Class	AAAm	\$ 2,724,729	10%
Lone Star	AAA	25,529,117	90%
		<u>\$ 28,253,846</u>	

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments in the external investment pool are not exposed to custodial risk. External investment pools are not subject to custodial risk because investments are not evidenced by securities that exist in physical or book entry form. State law limits investments in public funds investment pools to those rated no lower than AAA or AAAm or an equivalent rating by at least one nationally recognized rating service. As of August 31, 2017, the District's investments met the required rating.

Credit Risk

This is the risk that a security issuer may default on an interest or principal payment. State law limits investments in local government pools to those that are rated AAA or equivalent by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by agencies such as Standard and Poor's (S&P) or Moody's Investors service, or by investing in public fund investment pools rated no lower than AAA or AAAm. The District's investments for the current fiscal year met the required rating.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE C – DEPOSITS AND INVESTMENTS – Continued

Interest-rate Risk

This type of risk occurs when potential purchases of debt securities do not agree to pay face value for those securities if interest rates rise. The District's investment policy does not allow the purchase of investments that would expose the District to interest-rate risk.

Concentration Risk

This type of risk is defined as positions of 5 percent or more in the securities of a single issuer. The District is not exposed to concentration risk because the investment portfolio mainly consists of external investment pools.

The following is a reconciliation of the District's total cash and investments, with the Statement of Net Position:

Deposits	\$ 3,851,978
Petty cash	2,534
Investments	<u>28,253,846</u>
Total of all funds	32,108,358
Less: Statement of Fiduciary Net Position	<u>(768,142)</u>
Cash and cash equivalents	<u><u>\$ 31,340,216</u></u>

NOTE D - PROPERTY TAX

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2016 tax rate was \$1.17 for maintenance and \$.1349 for debt service per \$100 assessed valuation. The 2016 assessed valuation was \$963,755,238. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. At August 31, 2017 outstanding taxes in the general fund and debt service fund was \$2,451,883 and \$315,566 with a corresponding allowance for doubtful accounts of \$245,188 and \$31,557.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE E – DUE FROM AND TO OTHER GOVERNMENTS AND AGENCIES

	<u>Due From</u>	<u>Due To</u>
Governmental Funds		
<i>General Fund</i>		
Texas Education Agency		
Foundation revenues	\$ 2,163,077	\$ -
National School Lunch and Breakfast Programs	226,461	-
Other government agencies		
Headstart	<u>12,364</u>	<u>-</u>
	2,401,902	-
<i>Debt Service Fund:</i>		
Texas Education Agency:		
IFA funding	3,990,546	-
<i>Other Governments Funds</i>		
Texas Education Agency		
Title I Grants to Local Education Agencies	2,053,353	11,162
Migrant Education State Grant Program	362,021	-
Special Education Grants to States - IDEA-Part B, Formula	115,139	288,751
Special Education Grants to States - IDEA-Part B, Preschool	910	-
Career and Technical Education - Basic Grants to States	3,823	-
Supporting Effective Instruction State Grants	172,453	85,604
English Language Acquisition State Grants	15,849	-
Twenty-First Century Community Learning Centers	539,676	-
Pre-Kindergarten Grant	31,865	-
Region One ESC:		
Gaining Early Awareness and Readiness for Undergraduate Programs	14,639	-
Teacher and School Leader Incentive Grant	<u>2,075</u>	<u>-</u>
	<u>3,311,803</u>	<u>385,517</u>
Total	<u><u>\$ 9,704,251</u></u>	<u><u>\$ 385,517</u></u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE F – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2017, were as follows:

	Property Taxes, Net	Other Governments	Due from Other Funds	Other Receivables	Total Receivables
Governmental Activities:					
General Fund	\$ 2,206,695	\$ 2,401,902	\$ 7,405,563	\$ 10,586	\$ 12,024,746
Debt Service Fund	284,009	3,990,546	896,970	-	5,171,525
Other Funds	-	3,311,803	-	1,077	3,312,880
Total Governmental Activities	<u>\$ 2,490,704</u>	<u>\$ 9,704,251</u>	<u>\$ 8,302,533</u>	<u>\$ 11,663</u>	<u>\$ 20,509,151</u>

Payables at August 31, 2017, were as follows:

	Accounts Payables	Salaries and Benefits	Due to Other Funds	Due to Other Governments	Total Payables
Governmental Activities:					
General Fund	\$ 927,106	\$ 7,492,333	\$ 869,903	\$ -	\$ 9,289,342
Debt Service Fund	-	-	4,719,985	-	4,719,985
Other Funds	666,068	166,835	2,359,779	385,517	3,578,199
Total Governmental Activities	<u>\$ 1,593,174</u>	<u>\$ 7,659,168</u>	<u>\$ 7,949,667</u>	<u>\$ 385,517</u>	<u>\$ 17,587,526</u>

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2017, was as follows:

	Beginning Balance 09/01/16	Increases	Decreases	Adjustment	Ending Balance 08/31/17
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 8,018,198	\$ -	\$ -	\$ -	\$ 8,018,198
Total capital assets, not being depreciated	<u>8,018,198</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,018,198</u>
Capital assets, being depreciated:					
Buildings and improvements	185,875,234	225,899	-	2,734	186,103,867
Furniture and equipment	12,463,865	669,417	-	6,930	13,140,212
Vehicles	8,805,238	1,009,962	-	-	9,815,200
Total capital assets, being depreciated	<u>207,144,337</u>	<u>1,905,278</u>	<u>-</u>	<u>9,664</u>	<u>209,059,279</u>
Less accumulated depreciation for:					
Buildings and improvements	(94,927,051)	(6,353,146)	-	(303,665)	(101,583,862)
Furniture and equipment	(10,064,324)	(577,305)	-	(36,519)	(10,678,148)
Vehicles	(7,164,915)	(384,509)	-	(19,784)	(7,569,208)
Total accumulated depreciation	<u>(112,156,290)</u>	<u>(7,314,960)</u>	<u>-</u>	<u>(359,968)</u>	<u>(119,831,218)</u>
Total capital assets, being depreciated, net	<u>94,988,047</u>	<u>(5,409,682)</u>	<u>-</u>	<u>(350,304)</u>	<u>89,228,061</u>
Total capital assets, net	<u>\$ 103,006,245</u>	<u>\$(5,409,682)</u>	<u>\$ -</u>	<u>\$(350,304)</u>	<u>\$ 97,246,259</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE G – CAPITAL ASSETS – Continued

Depreciation was charged to the following functions:

Governmental activities:

11	Instruction	\$ 3,346,987
12	Instructional Resources and Media	74,764
13	Curriculum and Instructional staff	100,923
21	Instructional Development	181,846
23	School Leadership	299,712
31	Guidance and Counseling Services	173,517
32	Social Work Services	21,058
33	Health Services	51,806
34	Student (Pupil) Transportation	570,844
35	Food Service	590,010
36	Cocurricular/Extracurricular Activities	212,621
41	General Administration	206,504
51	Plant Maintenance and Operations	942,256
52	Security and Monitoring Services	407,031
53	Data Processing Services	113,470
61	Community Services	<u>21,611</u>

Total depreciation expense - governmental activities	\$ <u>7,314,960</u>
--	---------------------

The adjustment to depreciation is the result of the District's conversion in the current year to a new software and the differences in assumptions and computations between the old software and new. The adjustment was made to current period depreciation since there was no ability to load the beginning accumulated depreciation from the old software by asset into the new system.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations include bonds payable, loans payable, compensated absences, and net pension liability. Changes in long-term obligations for the year ended August 31, 2017 are as follows:

	Amounts Outstanding 09/01/16	Issued Current Year	Retired Current Year	Amounts Outstanding 08/31/17	Amounts Due in One Year
<u>Governmental Activities</u>					
<i>Bonds payable</i>					
General Obligation Bonds					
Unlimited Tax School Refunding Building Bonds Series 2010	\$ 3,505,000	\$ -	\$ (1,205,000)	\$ 2,300,000	\$ 1,240,000
Unlimited Tax School Refunding Bonds Series 2011	7,485,000	-	(105,000)	7,380,000	-
Unlimited Tax School Refunding CAB Bonds Series 2011	440,000	-	-	440,000	440,000
Unlimited Tax School Refunding Building Bonds Series 2012	19,530,000	-	-	19,530,000	90,000
Unlimited Tax School Refunding CAB Bonds Series 2012	100,000	-	(100,000)	-	-
Unlimited Tax School Refunding Building Bonds Series 2014	12,950,000	-	(1,680,000)	11,270,000	1,765,000
Unlimited Tax School Refunding Building Bonds Series 2016	29,995,000	-	(810,000)	29,185,000	835,000
<i>Lease revenue bonds payable</i>					
Lease Revenue Bonds- Series 2006	<u>2,845,000</u>	<u>-</u>	<u>(230,000)</u>	<u>2,615,000</u>	<u>240,000</u>
Total bonds payable	76,850,000	-	(4,130,000)	72,720,000	4,610,000
Accrued interest unlimited tax school building and refunding CAB Bonds	1,218,055	387,256	(1,000,000)	605,311	675,000
Premium/discount on issuance of bonds	<u>8,090,666</u>	<u>-</u>	<u>(1,091,806)</u>	<u>6,998,860</u>	<u>-</u>
Subtotal on bonds	86,158,721	387,256	(6,221,806)	80,324,171	5,285,000
Compensated absences	1,418,850	-	(306,238)	1,112,612	50,000
Net pension liability	<u>23,390,674</u>	<u>2,042,321</u>	<u>(1,972,551)</u>	<u>23,460,444</u>	<u>-</u>
Totals governmental activities	<u>\$ 110,968,245</u>	<u>\$ 2,429,577</u>	<u>\$ (8,500,595)</u>	<u>\$ 104,897,227</u>	<u>\$ 5,335,000</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE H - LONG-TERM OBLIGATIONS - Continued

The District's other non-current liabilities including compensated absences are liquidated in the fund where the liability was incurred. Thus, the general fund satisfies most liabilities for governmental activities.

General Obligation Bonds:

Bonds payable at August 31, 2017 are comprised of the following individual issues:

On May 15, 2010, the District issued \$3,535,000 Unlimited Tax Refunding Bonds Series 2010. The bonds consist of \$3,505,000 current interest bonds with interest rates ranging from 2.52% to 2.91% and capital appreciation bonds totaling \$30,000 with interest rates ranging from .90% to 2.62%. The capital appreciation bonds mature in six annual installments of \$40,000 beginning in 2011 and ending in 2016. The current interest bonds mature in three installments beginning in 2017 and ending in 2019 ranging from \$1,060,000 to \$1,240,000. The bonds were issued to refund certain outstanding unlimited tax obligations of the District in order to reduce the annual debt service of the District.

\$ 2,300,000

On August 30, 2011, an election to authorize the District to sell \$8,470,000 Unlimited Tax Refunding Bonds, Series 2011, passed by a majority of the participating voters. The bonds comprise of \$8,030,000 current interest serial bonds with interest rates ranging from 2% to 3.5% on installments ranging from \$95,000 to \$1,340,000. Current interest serial bonds mature in years 2012 through 2024. The refunding also comprised of capital appreciation bonds totaling \$440,000 and matures in 2018. The bonds were used to refund portions of the Unlimited Tax School Building Bonds, Series 2004.

7,820,000

On February 21, 2012, an election to authorize the District to sell \$20,355,000 Unlimited Tax Refunding Bonds, Series 2012, passed by a majority of the participating voters. The bonds comprise of \$13,520,000 current interest serial bonds with interest rates ranging from 2% to 5% on installments ranging from \$90,000 to \$1,970,000. Current interest serial bonds mature in years 2012 through 2024, current interest term bonds totaling \$6,335,000 due February 15, 2034 and capital appreciation bonds totaling \$500,000 and matures in years 2012 through 2017. The bonds were used to refund portions of the Unlimited Tax School Building Bonds, Series 2004.

19,530,000

During November 2014, the District issued \$15,790,000 Unlimited Tax Refunding Bonds, Series 2014, after they were approved in an election by a majority of the participating voters. The bonds are current interest bonds with interest rates ranging from 2% to 5% on installments ranging from \$95,000 to \$2,745,000 maturing in 2025. The bonds were used to refund the 2005 School Building and Refunding bonds.

11,270,000

During June 2016, the District issued \$30,580,000 Unlimited Tax Refunding Bonds, Series 2016. The bonds are current interest bonds with interest rates ranging from 2% to 5% on installments ranging from \$585,000 to \$2,045,000 maturing in 2038. The proceeds were used to refund the 2008 School Building bonds.

29,185,000

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE H - LONG-TERM OBLIGATIONS – Continued

On February 13, 2006, the District issued \$4,500,000 Lease Revenue Bonds Series 2006. The bonds mature in years 2007 through 2026 in installments ranging from \$150,000 to \$345,000 with interest rates ranging from 4.01% to 4.68%. The bonds were issued to equip school buildings including a football stadium.

2,615,000

\$72,720,000

Debt service requirements on long-term debt at August 31, 2017 are as follows:

Year Ending August 31,	General Obligation Bonds		Lease Revenue Bonds		Total Requirements	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 4,370,000	\$ 3,437,406	\$ 240,000	\$ 30,588	\$ 4,610,000	\$ 3,467,994
2019	3,375,000	2,620,619	250,000	27,584	3,625,000	2,648,203
2020	3,550,000	2,483,232	265,000	24,427	3,815,000	2,507,659
2021	3,705,000	2,324,494	275,000	21,117	3,980,000	2,345,611
2022	3,875,000	2,155,157	290,000	17,654	4,165,000	2,172,811
2023-2027	18,755,000	8,024,044	1,295,000	32,580	20,050,000	8,056,624
2028-2032	14,930,000	4,578,528	-	-	14,930,000	4,578,528
2033-2037	15,500,000	1,404,687	-	-	15,500,000	1,404,687
2038	2,045,000	30,675	-	-	2,045,000	30,675
Total	<u>\$70,105,000</u>	<u>\$27,058,842</u>	<u>\$2,615,000</u>	<u>\$153,951</u>	<u>\$72,720,000</u>	<u>\$27,212,793</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2017.

Prior Year Defeasance of Debt

In prior years, the District defeased certain outstanding bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. At August 31, 2017. The following outstanding bonds are considered defeased:

Series	Ending Balance
2000	\$ 11,580,000
2004	26,880,000
2005	12,610,000
2008	30,925,000

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE I - SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT PUBLIC FACILITY CORPORATION

The Public Facility Corporation is a public non-profit corporation, the creation of which was sponsored by the District pursuant to the Public Facility Corporation Act, Article 717s, Vernon's Texas Civil Statutes, as amended (the "Public Facility Corporation Act"). The Public Facility Corporation Act authorizes the creation and utilization by school districts of public facility corporations to issue bonds to provide for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing and placing in service of public facilities of its governmental sponsor and further authorizes the governmental sponsor to incur lease purchase obligations in favor of the corporation to serve as security for the bonds issued by the Public Facility Corporation.

Lease revenue bonds in the principal amount of \$4,500,000 were issued on February 13, 2006, pursuant to a resolution by the Board of Directors of the Public Facility Corporation and a Master Trust Indenture dated as of February 1, 2007, (the "Trust Indenture") between the Public Facility Corporation and Compass Bank, as trustee to finance, for the benefit of the District, the construction of a new multi-purpose stadium.

To accomplish the financing, the Public Facility Corporation and the District entered into a "Lease With An Option to Purchase Relating to the San Benito Consolidated Independent School District Bobby Morrow Stadium," pursuant to the terms of which the District will pay to the Public Facility Corporation such lease payments at such times and in such amounts as will be required to pay the principal of premium, if any, and interest on the lease revenue bonds as they become due.

NOTE J - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds	Internal Service Fund
Property taxes	\$ 10,649,149	\$ 1,229,047	\$ -	\$ 11,878,196	\$ -
Food sales	430,546	-	-	430,546	-
Investment income	238,857	9,601	3,242	251,700	38,124
Penalties and interest	489,920	58,300	-	548,220	-
Co-curricular student activities	126,334	-	-	126,334	-
Interfund services	135,227	-	360,253	495,480	5,936,153
Other	82,349	-	2,424	84,773	2,078,307
Total	<u>\$ 12,152,382</u>	<u>\$ 1,296,948</u>	<u>\$ 365,919</u>	<u>\$ 13,815,249</u>	<u>\$ 8,052,584</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE K – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

	Statement of Net Position	Balance Sheet- Governmental Funds	
	Governmental Activities	General Fund	Debt Service Fund
Deferred outflows of resources:			
Deferred outflows from pension activities	\$ 9,426,237	\$ -	\$ -
Deferred charge on refunding	4,222,848	-	-
Total deferred outflows of resources	<u>\$ 13,649,085</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred inflows of resources:			
Deferred inflows from pension activities	\$ 1,643,423	\$ -	\$ -
Unavailable property taxes	-	2,206,695	284,009
Total deferred inflows of resources	<u>\$ 1,643,423</u>	<u>\$ 2,206,695</u>	<u>\$ 284,009</u>

NOTE L - UNEARNED REVENUE

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. As of August 31, 2017, the various components of unearned revenue reported in the governmental funds were as follows:

	Statement of Net Position	Balance Sheet- Governmental Funds		Statement of Fiduciary Net Position
	Governmental Activities	General Fund	Other Funds	Private Purpose Trust Funds
Unearned revenue:				
State and private grant	\$ 82,055	\$ 500	\$ 81,555	\$ -
Athletic fund	76,265	76,265	-	
Scholarship funds	-	-	-	10,502
Total	<u>\$ 158,320</u>	<u>\$ 76,765</u>	<u>\$ 81,555</u>	<u>\$ 10,502</u>

Unearned revenues for state and private grants represent revenues received in excess of expenditures incurred for those programs for which the project period has not yet ended.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE M – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2017 were:

Due From	Due to	
Debt service	General fund	\$ 4,719,985
Non-major funds	General fund	2,359,779
Agency funds	General fund	325,799
Agency funds	Debt service	27,067
General fund	Debt service	<u>869,903</u>
Due from other funds		8,302,533
Reconcilement to due to other funds		
Agency fund	General fund	(325,799)
Agency fund	Debt service	<u>(27,067)</u>
		<u>\$ 7,949,667</u>

The large amount due from debt service to the general fund is the result of TEA processing the IFA payment adjustments in December 2017 for the 2015-2016 and 2016-2017 funding that was delayed due to prior year refunding bonds issued by the District. The correction by TEA of the IFA funding allowed the debt service fund to return to the general fund amounts previously transferred and loaned during the current year. The remaining balances resulted from the lag between the dates that payroll related transactions and cash overdrafts in the special revenue funds are cleared between the funds. The cash overdrafts were cleared by draws from TEA in the new school year. The payroll related balances are also being cleared in the new school year.

All amounts are scheduled to be repaid within one year.

Transfer Out	Transfer In	
Capital projects	Debt service	\$ 328,058

The transfer out from the capital projects fund closes the fund which has been inactive for several years. The net proceeds in the fund were transferred to the debt service fund and will be used to retire the outstanding bonds issued for the various capital projects financed by the bonds issued in prior years.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE N - GENERAL FUND FEDERAL SOURCE REVENUES

Federally financed programs are generally accounted for in the Other Governmental Funds of the District, except for indirect costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA and certain direct revenues. The District recognized in the General fund such revenues for the year ended August 31, 2017, from various federal sources as follows:

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
School Breakfast Program	10.553	\$ 2,141,119
National School Lunch Program - Cash Assistance	10.555	5,538,245
National School Lunch Program - Non-Cash Assistance	10.555	593,840
Fresh Fruit and Vegetable Program	10.558	211,878
JROTC	12.U01	105,196
Indirect costs earned -		
Title I Grants to Local Education Agencies	84.010	102,720
Migrant Education State Grant Program	84.011	34,090
Special Education Grants to States	84.027	32,607
Twenty-First Century Community Learning Centers	84.287	61,173
Supporting Effective Instruction State Grants	84.367	7,402
Medicaid Administrative Claiming Program	93.778	28,061
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	97,121
SHARS	-	1,723,208
		<u>\$ 10,676,660</u>

NOTE O – COMPLIANCE AND ACCOUNTABILITY

a. Finance-Related Legal and Contractual Provision

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

<u>Violations</u>	<u>Action Taken</u>
None noted	None necessary

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

No deficit fund balances were reported in the current year.

c. Under-collateralized

The District's cash deposits at August 31, 2017, and during the year then ended, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name other than for the four day period of June 23 through 26, 2017.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE P - CONTINGENT LIABILITIES

The District is a party to various legal actions, none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingencies.

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2017 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE Q – DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

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.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE Q – DEFINED BENEFIT PENSION PLAN - Continued

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 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2016</u>	<u>2017</u>
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

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). Contributions as of the pension plan measurement date were as follows:

Current fiscal year employer contributions	\$ 1,906,921
Current fiscal year member contributions	\$ 5,030,974
2016 measurement year NECE on-behalf contributions	\$ 3,424,349

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE Q – DEFINED BENEFIT PENSION PLAN - Continued

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

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

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

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

Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
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	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE Q – DEFINED BENEFIT PENSION PLAN - Continued

Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contributions to Long-Term Portfolio Returns*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	0%		2.0%
Alpha	0%		1.0%
Total	100%		8.7%

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE Q – DEFINED BENEFIT PENSION PLAN – Continued

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 36,308,864	\$ 23,460,444	\$ 12,562,386

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

At August 31, 2017, the District reported a liability of \$23,460,444 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 23,460,444
State's proportionate share that is associated with the District	<u>40,646,492</u>
Total	<u><u>\$ 64,106,936</u></u>

The net pension liability was measured as of August 31, 2016 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, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was 0.0620835% which was a decrease of 0.0040878% from its proportion measured as of August 31, 2015.

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, 2017, the District recognized pension expense of \$4,218,137 and revenue of \$4,218,137 for support provided by the State.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE Q – DEFINED BENEFIT PENSION PLAN – Continued

At August 31, 2017, the District reports its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 367,855	\$ 700,515
Changes in actuarial assumptions	715,032	650,292
Differences between projected and actual investment earnings	1,986,582	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	4,449,847	292,616
Total as of August 31, 2016 measurement date	\$ 7,519,316	\$ 1,643,423
Contributions paid to TRS subsequent to the measurement date	1,906,921	-
Total as of fiscal year-end	<u>\$ 9,426,237</u>	<u>\$ 1,643,423</u>

The \$1,906,921 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2018. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal year ended August 31,</u>	Pension Expense Amount
2018	\$ 1,040,983
2019	1,040,983
2020	2,308,121
2021	943,622
2022	554,613
Thereafter	(12,429)

NOTE R – RETIREE HEALTH CARE PLAN

Plan Description.

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS Care), a cost sharing multiple employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and option group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE R – RETIREE HEALTH CARE PLAN – Continued

Funding Policy.

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2017–2015.

<u>Fiscal Year</u>	<u>Contribution Rates and Contribution Amounts</u>						
	<u>Member</u>		<u>State on-behalf</u>		<u>District</u>		<u>Covered Payroll</u>
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	
2017	.65%	\$424,690	1%	\$653,509	0.55%	\$359,357	\$65,350,896
2016	.65%	426,150	1%	655,612	0.55%	360,590	65,561,152
2015	.65%	422,632	1%	650,166	0.55%	357,609	65,016,551

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Subsidy payments received by TRS-Care on behalf of the District are shown in the table below for fiscal years 2017-2015.

<u>Fiscal Year</u>	<u>Medicare Part D</u>
2017	\$198,997
2016	260,699
2015	289,897

Contributions made by the State on behalf of the District have been recorded in the government-wide financial statements and in the fund financial statements of the General Fund as both state revenues and payroll expenditures.

NOTE S - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2017, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year by major category of risk.

State law allows school districts to retain risk through its own risk management program, insure through a commercial carrier, or insure through a public entity risk pool. The District is self-insured for employee medical benefits. The District contracts with a third-party to provide administrative claims processing services for employee medical benefits for the District.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

NOTE S - RISK MANAGEMENT– Continued

The group health insurance program is reported in the Insurance fund, an internal service fund. Interfund premiums are paid into the internal service and are based primarily on claims experience and are reported as quasi-external transactions.

Accruals for claims are adjusted on a regular basis based on the latest information available on each case. Claims incurred but not reported have been considered in determining the accrual for claims, and the District's management believes adequate accruals have been provided at August 31, 2017.

The District maintains a \$125,000 stop-loss policy for the health self-funded insurance program.

Changes in the balance of claims liabilities during the past year are as follows:

	August 31,	
	2017	2016
Unpaid claims, beginning of year	\$ 885,175	\$ 1,443,585
Incurred claims (including IBNR's)	4,551,204	4,656,859
Claim payments	<u>(4,371,275)</u>	<u>(5,215,269)</u>
Unpaid claims, end of fiscal year	<u>\$ 1,065,104</u>	<u>\$ 885,175</u>

The claims liability at the end of the current fiscal year increased based upon the lag study provided by Blue Cross Blue Shield. Effective October 1, 2017, the District changed third party administrators and moved to Humana. The District's monthly contribution per employee for the 2017-2018 school year remains the same at \$388 and the plan options are consistent as well as the \$125,000 stop loss policy.

**REQUIRED SUPPLEMENTARY
INFORMATION**

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2017

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	\$ 14,943,847	\$ 13,497,082	\$ 12,152,382	\$ (1,344,700)
5800	State Program Revenues	86,459,422	87,159,422	84,448,358	(2,711,064)
5900	Federal Program Revenues	11,200,777	11,948,542	10,676,660	(1,271,882)
5020	Total Revenues	112,604,046	112,605,046	107,277,400	(5,327,646)
	EXPENDITURES:				
	Current:				
0011	Instruction	52,871,669	53,634,551	52,293,957	1,340,594
0012	Instructional Resources and Media Services	1,327,401	1,327,401	1,321,401	6,000
0013	Curriculum and Instructional Staff Development	1,240,881	1,074,803	751,014	323,789
0021	Instructional Leadership	2,301,527	2,279,794	1,467,524	812,270
0023	School Leadership	5,356,586	5,190,038	4,875,220	314,818
0031	Guidance, Counseling and Evaluation Services	2,955,608	2,868,158	2,429,739	438,419
0032	Social Work Services	434,846	373,330	342,956	30,374
0033	Health Services	997,835	1,009,300	890,477	118,823
0034	Student (Pupil) Transportation	3,947,869	3,906,385	3,705,966	200,419
0035	Food Services	9,163,547	9,163,547	8,000,431	1,163,116
0036	Extracurricular Activities	2,996,563	2,961,931	2,957,256	4,675
0041	General Administration	4,512,525	4,513,930	3,967,446	546,484
0051	Facilities Maintenance and Operations	15,925,828	16,050,768	13,212,380	2,838,388
0052	Security and Monitoring Services	2,173,758	2,178,458	2,151,138	27,320
0053	Data Processing Services	1,341,950	1,491,950	1,474,257	17,693
0061	Community Services	77,196	113,696	111,280	2,416
	Debt Service:				
0071	Principal on Long Term Debt	230,000	230,000	230,000	-
0072	Interest on Long Term Debt	70,000	70,000	33,457	36,543
0073	Bond Issuance Cost and Fees	5,000	5,000	3,250	1,750
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	15,995	15,995	-
	Intergovernmental:				
0095	Payments to Juvenile Justice Alternative Ed. Prg.	75,000	75,000	-	75,000
0099	Other Intergovernmental Charges	136,000	136,000	129,271	6,729
6030	Total Expenditures	108,141,589	108,670,035	100,364,415	8,305,620
1100	Excess of Revenues Over Expenditures	4,462,457	3,935,011	6,912,985	2,977,974
	OTHER FINANCING SOURCES (USES):				
8911	Transfers Out (Use)	(3,513,767)	(3,513,767)	-	3,513,767
1200	Net Change in Fund Balances	948,690	421,244	6,912,985	6,491,741
0100	Fund Balance - September 1 (Beginning)	22,262,268	22,262,268	22,262,268	-
3000	Fund Balance - August 31 (Ending)	\$ 23,210,958	\$ 22,683,512	\$ 29,175,253	\$ 6,491,741

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2017

	Measurement Year Ended August 31,		
	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0620835%	0.0661713%	0.0427094%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 23,460,444	\$ 23,390,674	\$ 11,408,272
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	40,646,492	40,451,517	36,536,490
Total	<u>\$ 64,106,936</u>	<u>\$ 63,842,191</u>	<u>\$ 47,944,762</u>
District's Covered Employee Payroll	\$ 65,561,152	\$ 63,842,191	\$ 47,944,762
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	35.78%	36.64%	23.79%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.00%	78.43%	83.25%

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2017

	Fiscal Year Ended August 31,		
	2017	2016	2015
Contractually Required Contribution	\$ 1,906,921	\$ 1,972,566	\$ 1,959,754
Contribution in Relation to the Contractually Required Contribution	<u>(1,906,921)</u>	<u>(1,972,566)</u>	<u>(1,959,754)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 65,350,896	\$ 65,561,152	\$ 65,016,551
Contributions as a percentage of Covered Employee Payroll	2.92%	3.01%	3.01%

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2017

Stewardship, compliance, and accountability

I. Budgetary information

The Board adopts an “appropriated budget” on a basis consistent with GAAP for the general fund and the debt service fund. At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these funds.

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

- Prior to August 20 for a fiscal year start date of September 1, the District prepares a budget based on the modified zero-based budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- After one or more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.
- Prior to August 31st for a fiscal year start date of September 1, the Board legally adopts the budget for the general fund and the debt service fund.
- After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.
- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate transfers maybe authorized within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year-end.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year’s budget to provide for the liquidation of the prior commitments.

Over the course of the year, the District revised the budget numerous times. Total expenditures were \$8,305,620 below final approval budget. The most significant positive variances were in personnel costs in instruction, food and capital outlay in food service in facilities maintenance and operations in personnel, contracted services, supplies and capital outlay.

At the end of the year, outstanding encumbrances were provided for in the subsequent years’ budget. For the general fund, this included capital outlay of \$210,706 for food service and \$202,808 for new bleachers and scoreboard screen replacement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2017

II. Pension

Changes in Benefit Terms – There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Changes in Assumptions – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date.

Economic Assumptions

- The inflation assumption was decreased from 3.00% to 2.50%.
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%.

Mortality Assumptions

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

- Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

**OTHER SUPPLEMENTARY
INFORMATION**

COMBINING STATEMENTS

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2017

Data Control Codes		211 ESEA I, A Improving Basic Program	212 Title I Part C Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 280,845	\$ -
1240	Receivables from Other Governments	2,053,353	362,021	115,139	910
1290	Other Receivables	-	-	-	-
1000	Total Assets	<u>\$ 2,053,353</u>	<u>\$ 362,021</u>	<u>\$ 395,984</u>	<u>\$ 910</u>
LIABILITIES					
2110	Accounts Payable	\$ 623,761	\$ -	\$ -	\$ -
2150	Payroll Deductions and Withholdings Payable	-	-	-	-
2160	Accrued Wages Payable	58,362	21,905	67,723	-
2170	Due to Other Funds	1,354,317	337,910	32,607	910
2180	Due to Other Governments	11,162	-	288,751	-
2200	Accrued Expenditures	5,751	2,206	6,903	-
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>2,053,353</u>	<u>362,021</u>	<u>395,984</u>	<u>910</u>
FUND BALANCES					
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 2,053,353</u>	<u>\$ 362,021</u>	<u>\$ 395,984</u>	<u>\$ 910</u>

244 Career and Technical - Basic Grant	255 Supporting Effective Instruction	263 English Language Acquisition	265 21st Century Community Learning	274 GEAR UP	287 Teacher and School Leader Incentive	352 21st Century Community Learning SSA	408 Drop Out Recovery Program
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 249
3,823	172,453	15,849	249,027	14,639	2,075	290,649	-
-	1,000	-	-	-	77	-	-
<u>\$ 3,823</u>	<u>\$ 173,453</u>	<u>\$ 15,849</u>	<u>\$ 249,027</u>	<u>\$ 14,639</u>	<u>\$ 2,152</u>	<u>\$ 290,649</u>	<u>\$ 249</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,691	\$ 16,256	\$ -
-	-	-	3,443	-	-	-	-
-	-	14,389	1,013	-	-	-	-
3,823	87,849	815	244,550	14,639	461	274,393	-
-	85,604	-	-	-	-	-	-
-	-	645	21	-	-	-	-
-	-	-	-	-	-	-	249
<u>3,823</u>	<u>173,453</u>	<u>15,849</u>	<u>249,027</u>	<u>14,639</u>	<u>2,152</u>	<u>290,649</u>	<u>249</u>
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 3,823</u>	<u>\$ 173,453</u>	<u>\$ 15,849</u>	<u>\$ 249,027</u>	<u>\$ 14,639</u>	<u>\$ 2,152</u>	<u>\$ 290,649</u>	<u>\$ 249</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes		410 Textbook & Kindergarten Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
ASSETS					
1110	Cash and Cash Equivalents	\$ 81,306	\$ -	\$ 135,930	\$ 498,330
1240	Receivables from Other Governments	-	31,865	-	3,311,803
1290	Other Receivables	-	-	-	1,077
1000	Total Assets	<u>\$ 81,306</u>	<u>\$ 31,865</u>	<u>\$ 135,930</u>	<u>\$ 3,811,210</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ 24,360	\$ -	\$ 666,068
2150	Payroll Deductions and Withholdings Payable	-	-	-	3,443
2160	Accrued Wages Payable	-	-	-	163,392
2170	Due to Other Funds	-	7,505	-	2,359,779
2180	Due to Other Governments	-	-	-	385,517
2200	Accrued Expenditures	-	-	-	15,526
2300	Unearned Revenues	81,306	-	-	81,555
2000	Total Liabilities	<u>81,306</u>	<u>31,865</u>	<u>-</u>	<u>3,675,280</u>
FUND BALANCES					
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	135,930	135,930
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>135,930</u>	<u>135,930</u>
4000	Total Liabilities and Fund Balances	<u>\$ 81,306</u>	<u>\$ 31,865</u>	<u>\$ 135,930</u>	<u>\$ 3,811,210</u>

626 Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 498,330
-	3,311,803
-	1,077
<u>\$ -</u>	<u>\$ 3,811,210</u>
\$ -	\$ 666,068
-	3,443
-	163,392
-	2,359,779
-	385,517
-	15,526
-	81,555
<u>-</u>	<u>3,675,280</u>
-	135,930
<u>-</u>	<u>135,930</u>
<u>\$ -</u>	<u>\$ 3,811,210</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	211 ESEA I, A Improving Basic Program	212 Title I Part C Migrant	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	6,453,002	1,914,714	1,760,821	20,310
5020 Total Revenues	6,453,002	1,914,714	1,760,821	20,310
EXPENDITURES:				
Current:				
0011 Instruction	4,959,734	1,488,775	829,977	20,310
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	907,590	2,450	7,860	-
0021 Instructional Leadership	125,926	116,493	102,543	-
0023 School Leadership	3,141	-	-	-
0031 Guidance, Counseling and Evaluation Services	2,382	80,672	749,567	-
0032 Social Work Services	-	159,044	-	-
0033 Health Services	14,803	-	54,000	-
0036 Extracurricular Activities	-	-	16,874	-
0051 Facilities Maintenance and Operations	566	-	-	-
0052 Security and Monitoring Services	46,072	-	-	-
0053 Data Processing Services	-	1,840	-	-
0061 Community Services	392,788	65,440	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030 Total Expenditures	6,453,002	1,914,714	1,760,821	20,310
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

244 Career and Technical - Basic Grant	255 Supporting Effective Instruction	263 English Language Acquisition	265 21st Century Community Learning	274 GEAR UP	287 Teacher and School Leader Incentive	352 21st Century Community Learning SSA	408 Drop Out Recovery Program
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-
-	-	-	-	-	-	-	-
210,039	682,438	326,664	1,511,220	77,139	21,722	1,778,231	-
210,039	682,438	326,664	1,511,220	77,139	21,722	1,778,231	-
164,382	123,696	302,346	860,614	-	21,722	678,056	-
-	702	-	-	-	-	-	-
4,015	525,777	24,318	-	-	-	-	-
16,877	410	-	629,763	77,139	-	560,796	-
-	30,499	-	-	-	-	-	-
24,765	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	8,415	-	-	10,269	-
-	1,354	-	-	-	-	2,568	-
-	-	-	-	-	-	-	-
-	-	-	12,428	-	-	6,299	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	520,243	-
210,039	682,438	326,664	1,511,220	77,139	21,722	1,778,231	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRIC
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	410 Textbook & Kindergarten Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 2,424	\$ -	\$ 360,253	\$ 362,677
5800 State Program Revenues	330,558	327,520	-	658,078
5900 Federal Program Revenues	-	-	-	14,756,300
5020 Total Revenues	332,982	327,520	360,253	15,777,055
EXPENDITURES:				
Current:				
0011 Instruction	332,982	180,796	-	9,963,390
0012 Instructional Resources and Media Services	-	-	-	702
0013 Curriculum and Instructional Staff Development	-	11,386	-	1,483,396
0021 Instructional Leadership	-	-	-	1,629,947
0023 School Leadership	-	-	-	33,640
0031 Guidance, Counseling and Evaluation Services	-	-	-	857,386
0032 Social Work Services	-	-	-	159,044
0033 Health Services	-	-	-	68,803
0036 Extracurricular Activities	-	-	224,323	241,197
0051 Facilities Maintenance and Operations	-	-	-	19,250
0052 Security and Monitoring Services	-	-	-	49,994
0053 Data Processing Services	-	-	-	1,840
0061 Community Services	-	7,890	-	484,845
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	127,448	-	127,448
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	520,243
6030 Total Expenditures	332,982	327,520	224,323	15,641,125
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	135,930	135,930
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	-	-
1200 Net Change in Fund Balance	-	-	135,930	135,930
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 135,930	\$ 135,930

626 Capital Projects Fund		Total Nonmajor Governmental Funds	
\$	3,242	\$	365,919
	-		658,078
	-		14,756,300
	3,242		15,780,297
	-		9,963,390
	-		702
	-		1,483,396
	-		1,629,947
	-		33,640
	-		857,386
	-		159,044
	-		68,803
	-		241,197
	-		19,250
	-		49,994
	-		1,840
	-		484,845
	-		127,448
	-		520,243
	-		15,641,125
	3,242		139,172
	(328,058)		(328,058)
	(324,816)		(188,886)
	324,816		324,816
\$	-	\$	135,930

TEXAS EDUCATION AGENCY
REQUIRED SCHEDULES

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2017

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2008 and prior years	Various	Various	\$ Various
2009	1.040000	0.264900	775,765,108
2010	1.170000	0.134900	808,526,943
2011	1.170000	0.134900	828,448,406
2012	1.170000	0.134900	838,322,189
2013	1.170000	0.134900	850,768,778
2014	1.170000	0.134900	872,203,176
2015	1.170000	0.134900	896,741,770
2016	1.170000	0.134900	894,030,028
2017 (School year under audit)	1.170000	0.134900	963,755,238
1000 TOTALS			

(10) Beginning Balance 9/1/2016	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2017
\$ 602,601	\$ -	\$ 18,239	\$ 2,454	\$ (16,251)	\$ 565,657
92,112	-	6,154	1,568	(1,633)	82,757
85,985	-	10,752	1,240	(1,639)	72,354
97,798	-	13,957	1,609	(1,672)	80,560
122,409	-	20,478	2,361	(1,947)	97,623
159,418	-	38,698	4,462	5,430	121,688
292,866	-	78,500	9,051	5,118	210,433
395,024	-	162,125	18,693	6,989	221,195
835,755	-	378,680	43,661	(20,232)	393,182
-	12,329,817	10,109,684	1,165,638	(132,495)	922,000
<u>\$ 2,683,968</u>	<u>\$ 12,329,817</u>	<u>\$ 10,837,267</u>	<u>\$ 1,250,737</u>	<u>\$ (158,332)</u>	<u>\$ 2,767,449</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2017

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	\$ 340,200	\$ 340,200	\$ 436,084	\$ 95,884
5800 State Program Revenues	47,000	47,000	45,581	(1,419)
5900 Federal Program Revenues	8,778,847	8,778,847	8,142,336	(636,511)
5020 Total Revenues	9,166,047	9,166,047	8,624,001	(542,046)
EXPENDITURES:				
0035 Food Services	9,163,547	9,163,547	7,999,911	1,163,636
0051 Facilities Maintenance and Operations	2,500	2,500	-	2,500
6030 Total Expenditures	9,166,047	9,166,047	7,999,911	1,166,136
1200 Net Change in Fund Balances	-	-	624,090	624,090
0100 Fund Balance - September 1 (Beginning)	2,370,376	2,370,376	2,370,376	-
3000 Fund Balance - August 31 (Ending)	\$ 2,370,376	\$ 2,370,376	\$ 2,994,466	\$ 624,090

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2017

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	\$ 1,279,523	\$ 1,279,523	\$ 1,296,948	\$ 17,425
5800 State Program Revenues	3,023,891	3,023,891	6,741,522	3,717,631
5020 Total Revenues	4,303,414	4,303,414	8,038,470	3,735,056
EXPENDITURES:				
Debt Service:				
0071 Principal on Long Term Debt	4,900,000	4,900,000	4,900,000	-
0072 Interest on Long Term Debt	2,912,181	2,912,181	2,912,181	-
0073 Bond Issuance Cost and Fees	5,000	5,000	1,250	3,750
6030 Total Expenditures	7,817,181	7,817,181	7,813,431	3,750
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,513,767)	(3,513,767)	225,039	3,738,806
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	3,513,767	3,513,767	328,058	(3,185,709)
1200 Net Change in Fund Balances	-	-	553,097	553,097
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 553,097	\$ 553,097

SINGLE AUDIT SECTION



Carr, Riggs & Ingram, LLC
402 East Tyler Avenue
Harlingen, TX 78550-9122

(956) 423-3765
(956) 428-7520 (fax)
CRIcpa.com

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
San Benito Consolidated Independent School District

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 San Benito Consolidated Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise San Benito Consolidated Independent School District's basic financial statements, and have issued our report thereon dated February 14, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered San Benito Consolidated 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 San Benito Consolidated Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of San Benito Consolidated 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2017-001 that we consider to be a material weakness.

(This page intentionally left blank)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Benito Consolidated 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*.

In addition, we noted certain other matters that we reported to management of the San Benito Consolidated Independent School District in a separate letter dated February 14, 2018.

San Benito Consolidated School District's Response to Findings

San Benito Consolidated Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. San Benito Consolidated Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Carr, Riggs & Ingram, L.L.C.

Harlingen, Texas
February 14, 2018

(This page intentionally left blank)

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
San Benito Consolidated Independent School District

Report on Compliance for Each Major Federal Program

We have audited San Benito Consolidated 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 San Benito Consolidated Independent School District's major federal programs for the year ended August 31, 2017. San Benito Consolidated Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of San Benito Consolidated 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 San Benito Consolidated 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 San Benito Consolidated Independent School District's compliance.

(This page intentionally left blank)

Opinion on Each Major Federal Program

In our opinion, San Benito Consolidated 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, 2017.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2017-003.

San Benito Consolidated Independent School District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. San Benito Consolidated Independent School District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

Management of San Benito Consolidated 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 San Benito Consolidated 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 San Benito Consolidated Independent School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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.

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.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003 to be significant deficiencies.

(This page intentionally left blank)

San Benito Consolidated Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. San Benito Consolidated Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Car, Riggs & Ingram, L.L.C.

Harlingen, Texas
February 14, 2018

(This page intentionally left blank.)

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?
- Significant deficiencies identified that are not considered to be material weaknesses?

 X yes

 no

 yes

 X none reported

Noncompliance material to financial statements noted?

 yes

 X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?
- Significant deficiencies identified that are not considered to be material weakness(es)?

 yes

 X no

 X yes

 none reported

Type of auditors' report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

 X yes

 no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.027

Special Education Cluster:

84.173

Special Education Grants to States

84.010

Special Education Preschool Grants

84.365

Title I Grants to Local Education Agencies

English Language Acquisition State Grant

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 X yes no

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS

STATE COMPLIANCE FINDING

DESCRIPTION

2017-001

Financial Reporting and Accounting Process

Criteria:

The District's accounting and financial reporting process should involve systematic procedures in order to timely review, process, and finalize the accounting records in accordance with proper classifications and accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

Condition Found:

During the year, the District posted numerous material journal entries to a variety of accounts without proper documentation of rationale for posting. The entries were generated by an external software consultant who was assisting with implementing the new financial software. Audit procedures on ending balances also revealed that adjustments were necessary to record liabilities for accounts payable in special revenue funds.

Context:

Although the District did have a process for reviewing and documenting journal entries, the District lacked a formal process and procedure to properly document the processing and review of all journal entries during the year. The entries generated by the software consultant were not subjected to the District's standard review process and materially impacted account balances for cash and inter fund balances.

Cause:

During 2017, the District implemented a new financial accounting software package and retained the services of a consultant for that software in order to address certain accounting matters resulting from the conversion. This software consultant generated various journal entries as a part of reviewing account balances as part of the conversion. The entries were not documented as to rationale within the records of the District, and ultimately caused numerous account balances to be incorrectly stated during the year. The amounts were not corrected until after year end, and this substantially contributed to inaccuracies in the financial records until the corrections were processed, and a significant delay in finalizing the financial reporting and accounting process.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2017

SECTION II – FINANCIAL STATEMENT FINDINGS (Continued)

STATE COMPLIANCE FINDING

DESCRIPTION

Reference Number 2017-001

Financial Reporting and Accounting Process (Continued)

Effect:

The lack of a formal review of all journal entries results in an increased risk of improperly posted account balances, and the lack of a timely produced set of finalized account balances represents a material weakness (deficiency) in controls over the financial reporting and accounting process. This increases the risk that financial statements can be materially misstated, including interim financial information that is reported throughout the fiscal year.

Recommendation:

We recommend the District implement processes and procedures to properly document and approve all journal entries, and improve the oversight of the financial reporting and accounting process for all areas. Further, we recommend that the District develop a robust set of written procedures which will aid in properly completing the financial reporting process in an accurate and timely manner.

Views of Responsible Officials:

Management takes no exception to this finding and has provided for corrective action as described in the corrective action plan.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2017

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>FEDERAL COMPLIANCE FINDING</u>	<u>DESCRIPTION</u>
Reference Number 2017-002	Suspension and Debarment
CFDA 84.027, 84.173, Special Education Cluster, Special Education Year 2017 Grants to States 17660001031912, 17661001031912, CFDA 84.010 Year 2017 Title I Grants to Local Educational Agencies 17610101031912, 17610103031912, 17610112031912000 and Year 2016 Grants 1661010131912, 16610103031912, 16610112031912000 CFDA 84.365 Year 2017 English Language Acquisition State Grant 17671001031912 Federal Agency: US Department of Education Passed through the Texas Education Agency	
Criteria:	The District is prohibited from contracting with or making sub-awards under covered transactions to parties that are suspended or debarred. Controls should be established to ensure that vendors are not suspended or debarred prior to initiating purchases.
Condition Found:	During the year ended August 31, 2017, the District did not have a documented control designed to monitor whether vendors are not suspended or debarred, or for verifying vendors are not suspended or debarred prior to authorizing purchases.
Context:	We noted no instances of the District conducting business with suspended or debarred entities. However, there was a lack of internal control designed to ensure vendors are not suspended or debarred prior to authorizing purchases.
Effect:	Lack of internal control could in this area could lead to potential non-compliance with suspension and debarment grant requirement as established in the Uniform Guidance.
Cause:	There is no internal control designed to require a review of whether vendors are not suspended or debarred prior to authorizing purchases.
Questioned Cost:	N/A
Recommendation:	Management should implement procedures to verify that vendors are not suspended or debarred prior to authorizing purchases and document the results of those procedures for each transaction authorized.
Views of Responsible Officials:	Management takes no exception to this finding and has provided for corrective action as described in the corrective action plan.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2017

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

<u>FEDERAL COMPLIANCE FINDING</u>	<u>DESCRIPTION</u>
Reference Number 2017–003	Period of Performance
CFDA 84.027, 84.173, Special Education Cluster, Special Education Year 2017 Grants to States 17660001031912, 17661001031912 Federal Agency: US Department of Education Passed through the Texas Education Agency	
Criteria:	As defined by 2 CFR 200,309, the District is prohibited from claiming for reimbursement expenditures which are outside the period of performance of a grant.
Condition Found:	During the year ended August 31, 2017, the District posted expenditures for payroll amounts which were not for work performed during the current grant period, and claimed these amounts for reimbursement.
Context:	The expenditures involved payroll paid to an employee for back pay for prior year payroll amounts which had been determined were due to the employee. The grant period for those amounts had been closed out. There were no procedures implemented to review that the payments were not posted incorrectly when paid.
Effect:	The expenditures claimed for reimbursement may not be allowable since they were incurred outside the current period of performance.
Cause:	There was no review of the posting of these expenditures after they had been paid and prior to their inclusion in the grant reimbursement report.
Questioned Cost:	\$31,245
Recommendation:	Management should implement additional procedures to review postings made to federal award programs after the expenditures are posted. This review should incorporate an element of review for unusual postings.
Views of Responsible Officials:	Management takes no exception to this finding and has provided for corrective action as described in the corrective action plan.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2017

PROGRAM DESCRIPTION

CORRECTIVE ACTION PLAN

Schedule Reference Number: (2016-001)

Allocated State Program Revenues (Career and Technology)

Corrective Action Plan:

This finding was corrected in the current year.

Status:

Closed

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2017

PROGRAM DESCRIPTION

CORRECTIVE ACTION PLAN

Reference Number 2017-001

Corrective Action Plan:

Financial Reporting and Accounting Process

The District underwent a software conversion and some of the matters noted were a result of the manner of recording certain items resulting from the conversion. The District has added new qualified personnel and realigned duties to ensure monthly accounting and reconciliation processes are in place on an ongoing basis and to properly review and monitor these issues.

Reference Number 2017-002

Corrective Action Plan:

Suspension and Debarment

The District has implemented procedures to address this matter as of the 2018 fiscal year.

Reference Number 2017-003

Corrective Action Plan:

Period of Performance

These costs have now been reduced out of a subsequent reimbursement request, and the District will implement additional procedures to review such transactions.

Contact Person:

Hilda Rendon
Assistant Superintendent of Finance and Operations

Implementation Time Frame:

Ongoing

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-through Entity Identifying Number	(4) Awarded to Subrecipients	(5) Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
<u>Passed Through the State Department of Agriculture</u>				
*School Breakfast Program	10.553	71401701	\$ -	\$ 2,141,119
*National School Lunch Program- Cash Assistance	10.555	71301701	-	5,538,245
*National School Lunch Program- Non-Cash Assistance	10.555	71301701	-	593,840
Total Child Nutrition Cluster			-	8,273,204
Fresh Fruit and Vegetable Program	10.582	#00157	-	211,878
Total Passed Through State Department of Agriculture			-	8,485,082
TOTAL U.S. DEPARTMENT OF AGRICULTURE			-	8,485,082
U.S. DEPARTMENT OF DEFENSE				
<u>Passed Through the State Department of Education</u>				
JROTC	12.U01	JROTC174S	-	105,196
Total Passed Through State Department of Education			-	105,196
TOTAL U.S. DEPARTMENT OF DEFENSE			-	105,196
U.S. DEPARTMENT OF EDUCATION				
<u>Passed Through Region One ESC</u>				
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334	P334A110180-16	-	77,139
Teacher and School Leader Incentive Grants (formerly the Teacher Incentive Fund)	84.374	U374A160002-16A	-	21,722
Total Passed Through Region One ESC			-	98,861
<u>Passed Through State Department of Education</u>				
Title I Grants to Local Educational Agencies	84.010	16610101031912	-	926,778
Title I Grants to Local Educational Agencies	84.010	17610101031912	-	5,280,022
Title I Grants to Local Educational Agencies	84.010	16610103031912	-	3,333
Title I Grants to Local Educational Agencies	84.010	17610103031912	-	285,857
Title I Grants to Local Educational Agencies	84.010	16610112031912000	-	5,562
Title I Grants to Local Educational Agencies	84.010	17610112031912000	-	54,170
Total Title I Grants to Local Educational Agencies			-	6,555,722
Migrant Education State Grant Program	84.011	16615001031912	-	578,645
Migrant Education State Grant Program	84.011	17615001031912	-	1,370,159
Total Migrant Education State Grant Program			-	1,948,804
Special Education Cluster				
*Special Education Grants to States	84.027	17660001031912	-	1,793,428
*Special Education Preschool Grants	84.173	17661001031912	-	20,310
Total Special Education Cluster			-	1,813,738
Career and Technical Education - Basic Grants to States	84.048	17420006031912	-	210,039
Twenty-First Century Community Learning Centers	84.287	176950197110030	-	1,490,298
Twenty-First Century Community Learning Centers	84.287	186950197110030	-	49,304
Twenty-First Century Community Learning Centers	84.287	176950247110025	-	1,751,134
Twenty-First Century Community Learning Centers	84.287	186950247110025	-	59,888
			-	3,350,624
English Language Acquisition State Grants	84.365	17671001031912	-	326,664
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	16694501031912	-	114,113
Supporting Effective Instruction State Grants (formerly Improving Teacher Quality State Grants)	84.367	17694501031912	-	575,727
Total Supporting Effective Instruction State Grants			-	689,840
Total Passed Through State Department of Education			-	14,895,431
TOTAL U.S. DEPARTMENT OF EDUCATION			-	14,994,292
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<u>Passed Through Texas Department of Human Services</u>				
*Medical Assistance Program	93.778	N/A	-	28,061
Total Medicaid Cluster			-	28,061
U.S. DEPARTMENT OF HOMELAND SECURITY - FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA)				
<u>Passed Through Texas Department of Public Safety</u>				
^ Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	061-04339-00	-	97,121
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ -	\$ 23,709,752

*Clustered Programs

^Disaster Grants CFDA 97.036 is a reimbursement for expenditures incurred after Hurricane Dolly in 2008 so there are no federal expenditures incurred in the current school year.

The accompanying notes are an integral part of this schedule

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2017

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of San Benito Consolidated Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

NOTE B – PROGRAM REPORTING

JROTC, FEMA, SHARS, MAC and \$237,992 of indirect costs are accounted for in the general fund. The National School Lunch Program, School Breakfast Program Commodity Supplemental Food Program, and Fresh Fruit and Vegetable Program are accounted for in the Child Nutrition Program. Expenditures are not specifically attributable to these revenues and are shown on this schedule in an amount equal to revenue for balancing purposes only.

Reconciliation

Total expenditures of federal awards, per Exhibit K-1	\$23,709,752
General fund – Federal Revenue	
School Health and Related Services (SHARS)	<u>1,723,208</u>
Total Federal Revenues, per Exhibit C-3	<u>\$25,432,960</u>

NOTE C – SUB RECIPIENTS

During the year ended August 31, 2017 the District had no sub-recipients.

NOTE D – FEDERAL LOANS AND LOAN GUARANTEES

During the year ended August 31, 2017 the District had no outstanding federal loans payable or loan guarantees.

NOTE E – FEDERALLY FUNDED INSURANCE

During the year ended August 31, 2017 the District had no federally funded insurance.

NOTE F – NONCASH AWARDS

During the year ended August 31, 2017 the District received \$593,840 of federal awards in the form of noncash assistance.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2017

NOTE G – INDIRECT COST RATE

The Uniform Guidance allows an organization to elect a 10% de minimus indirect cost rate. For the year ended August 31, 2017, The District did not elect to use this rate.

SCHOOLS FIRST QUESTIONNAIRE

San Benito Consolidated Independent School Distric

Fiscal Year 2017

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?	Yes
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.	\$605,311
SF11	Net Pension Assets (1920) at fiscal year-end.	
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$23,460,444
SF13	Pension Expense (6147) at fiscal year-end.	