

MELISSA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

MELISSA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2018

<u>Exhibit</u>	<u>Table of Contents</u>	<u>Page</u>
	Certificate of Board	3
	Independent Auditors' Report	4
	Management's Discussion and Analysis	6
<u>Basic Financial Statements</u>		
Government Wide Statements:		
A-1	Statement of Net Position	12
B-1	Statement of Activities	13
Governmental Fund Financial Statements:		
C-1	Balance Sheet	14
C-2	Reconciliation for C-1	17
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	18
C-4	Reconciliation for C-3	21
Proprietary Fund Financial Statements:		
D-1	Statement of Net Position	22
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Position	23
D-3	Statement of Cash Flows	24
Fiduciary Fund Financial Statements:		
E-1	Statement of Fiduciary Net Position	25
	Notes to the Financial Statements	26
<u>Required Supplementary Information</u>		
G-1	Budgetary Comparison Schedule - General Fund	50
G-2	Schedule of the District's Proportionate Share of the Net Pension Liability (TRS)	51
G-3	Schedule of District Contributions to TRS Pension Plan	52
G-4	Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS)	53
G-5	Schedule of District's Contributions to the TRS OPEB Plan	54
	Notes to Required Supplemental Information	55
<u>Other Information-Combining Statements</u>		
Nonmajor Governmental Funds:		
H-1	Combining Balance Sheet	58
H-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	60
<u>Other Information-Required Texas Education Agency Schedules</u>		
J-1	Schedule of Delinquent Taxes Receivable	64
J-2	Budgetary Comparison Schedule - Child Nutrition Fund	66
J-3	Budgetary Comparison Schedule - Debt Service Fund	67
<u>Federal Awards Section</u>		
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
Report on Compliance for each Major Federal Program; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance		72
Schedule of Findings and Questioned Costs		74
Schedule of Status of Prior Findings		75
Corrective Action Plan		76
K-1	Schedule of Expenditures of Federal Awards	77
	Notes to Schedule of Expenditures of Federal Awards	78

CERTIFICATE OF BOARD

Melissa Independent School District
Name of School District

Collin
County

043-908
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved _____ disapproved for the year ended August 31, 2018 at a meeting of the Board of Trustees of such school district on the 15th day of January , 2019.

/s/ Paul Anderson

/s/ George James

Signature of Board **Secretary**

Signature of Board **President**

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

Morgan, Davis & Company, P.C.

Post Office Box 8158
Greenville, Texas 75404

**Unmodified Opinions on Basic Financial Statements Accompanied by Required Supplementary Information,
Supplementary Information, and Other Information**

Independent Auditor's Report

Melissa Independent School District
1904 Cooper Street
Melissa, Texas 75454

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 Melissa Independent School District as of and for the year ended August 31, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Required Supplementary Information:

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6-10 and the Schedules contained in Exhibits G-1, G-2, G-3, G-4, & G-5 on pages 50-54 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 Melissa Independent School District's basic financial statements. The Combining Statements for Nonmajor Governmental Funds contained in Exhibits H-1 & H-2 on pages 58-61, and the Schedule of Expenditures of Federal Awards as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, on page 77 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1, J-2, & J-3. We have applied certain limited procedures to this supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted on inquiries of management about 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2018 on our consideration of Melissa 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 Melissa Independent School District's internal control over financial reporting and compliance.

/s/ Morgan, Davis & Company, P.C.

Morgan, Davis & Company, P.C.
Greenville, Texas

December 31, 2018

MELISSA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2018

In this section of the Annual Financial and Compliance Report, we, the administrators of Melissa Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2018. Please read it in conjunction with the District's Basic Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position increased by \$4,949,139 as a result of this year's operations. There was a prior period adjustment of \$(12,223,021), due to the required implementation of GASB 75, which resulted in a net decrease to total combined net position of \$(7,273,882).
- The District's liabilities exceeded its assets at the close of the most recent fiscal year by \$7,958,447 which represents the District's total combined net position. Of this amount, \$(2,316,656) (unrestricted net position) may be used to meet the District's ongoing obligations.
- As of August 31, 2018, the District's governmental funds reported a combined fund balance of \$14,594,315 compared to \$59,252,340 for the last fiscal year. Included in this decrease was \$46,987,209 of Bond Construction expenditure spent this fiscal year. The General Fund reported a fund balance of \$10,008,514 this fiscal year compared to \$7,459,849 the last fiscal year.
- The District's total tax rate for the 2017-2018 school year was \$ 1.67 with \$ 1.17 for maintenance & operation and \$ 0.50 for debt service.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 12 and 13). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 26) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by T.E.A. The section labeled Required Texas Education Agency Schedules contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 12. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

- Governmental activities—All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 14 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the ESSA Title I Part A from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. The internal service funds (a category of proprietary funds) report activities that provide services for the District's other programs and activities—such as the District's self-insurance programs.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 25. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District is presenting government-wide financial analysis in the form of current year data and prior year data and the changes in these accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities decreased from (\$684,565) last year to (\$7,958,447) at August 31, 2018. Included in this decrease was a prior period adjustment of \$(12,223,021) due to implementation of GASB 75. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$5,151,430 last year to \$(2,316,656) at August 31, 2018.

Changes in net position of the District's governmental activities were a \$667,193 decrease last year compared to a \$7,273,882 decrease at August 31, 2018.

**Table I
Melissa Independent School District
NET POSITION**

	Governmental Activities 8/31/2018	Governmental Activities 8/31/2017	Net Change
Current and other assets	\$18,746,119	\$60,941,234	(\$42,195,115)
Capital assets	111,250,279	65,678,790	45,571,489
Total assets	<u>\$129,996,398</u>	<u>\$126,620,024</u>	<u>\$3,376,374</u>
Deferred Outflows	\$2,668,498	\$2,573,512	\$94,986
Current and other liabilities	\$4,268,699	\$1,844,694	\$2,424,005
Long-term liabilities	121,554,985	123,403,573	(1,848,588)
Net Pension Liability (District's Share)	4,261,468	4,377,552	(116,084)
Net OPEB Liability (District's Share)	6,970,666	0	6,970,666
Total liabilities	<u>\$137,055,818</u>	<u>\$129,625,819</u>	<u>\$7,429,999</u>
Deferred Inflows	\$3,567,525	\$252,282	\$3,315,243
Net Position:			
Net Investment in Capital Assets	(\$5,962,878)	(\$6,395,746)	\$432,868
Restricted	321,087	529,751	(208,664)
Unrestricted	(2,316,656)	5,181,430	(7,498,086)
Total Net Position	<u><u>(\$7,958,447)</u></u>	<u><u>(\$684,565)</u></u>	<u><u>(\$7,273,882)</u></u>

Table II
Melissa Independent School District
CHANGES IN NET POSITION

	Governmental Activities Yr Ended 8/31/2018	Governmental Activities Yr Ended 8/31/2017	Net Change
Revenues:			
Program Revenues:			
Charges for Services	\$1,452,724	\$1,546,627	(\$93,903)
Operating grants and contributions	(2,150,325)	1,658,742	(3,809,067)
General Revenues:			
Maintenance and operations taxes	11,396,694	9,288,928	2,107,766
Debt service taxes	4,870,354	3,969,604	900,750
State aid - formula grants	13,488,062	12,772,119	715,943
Grants & Contributions not restricted to specific functions	319,150	149,556	169,594
Investment Earnings	199,689	356,732	(157,043)
Miscellaneous	1,076,524	347,287	729,237
Total Revenue	\$30,652,872	\$30,089,595	\$563,277
Expenses:			
Instruction, curriculum and media services	\$13,172,032	\$16,159,332	(\$2,987,300)
Instructional and school leadership	1,045,147	1,341,109	(295,962)
Student support services	1,270,085	1,399,425	(129,340)
Child nutrition	549,551	737,583	(188,032)
Co curricular activities	1,792,417	1,829,941	(37,524)
General administration	664,868	910,274	(245,406)
Plant maintenance, security & data processing	2,911,839	3,407,021	(495,182)
Debt services	4,175,968	4,873,119	(697,151)
Payments to fiscal agents	45,860	0	45,860
Other intergovernmental charges	101,338	83,842	17,496
Total Expenses	\$25,729,105	\$30,741,646	(\$5,012,541)
Increase in net position before transfers and special items	\$4,923,767	(\$652,051)	\$5,575,818
Transfers	0	0	0
Special Items - Gain (Loss) on Asset Sale	25,372	(15,142)	40,514
Net Position at Beginning of Fiscal Year	(684,565)	(17,372)	(667,193)
Prior Period Adjustment - Implementation of GASB 75	(12,223,021)	0	(12,223,021)
Net Position at End of Fiscal Year	(\$7,958,447)	(\$684,565)	(\$7,273,882)

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in Exhibit C-3 on page 18) reported a combined fund balance of \$14,594,315 compared to \$59,252,340 for the last fiscal year. The District's General Fund reported a fund balance increase of \$2,548,665, ending the year with \$10,008,514. The District's Special Revenue Funds reported a fund balance increase of \$11,304, ending the year with \$196,976. The District's Debt Service Fund reported a fund balance decrease of \$230,785, ending the year with \$46,997. The District's Bond Construction Funds reported a fund balance decrease of \$46,987,209, ending the year with \$4,341,828.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments included amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2017) and amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

During the year ended August 31, 2018, the District invested \$48,133,312 in capital assets, consisting of construction in progress, various facility improvements, furnishings for elementary & high school, various equipment, a food truck, a used school bus, a special needs bus, and four school buses.

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

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Land	\$3,931,525	\$0	\$0	\$3,931,525
Buildings & Improvements	62,127,464	336,785	0	62,464,249
Equipment	4,569,282	3,014,164	0	7,583,446
Vehicles	2,148,385	523,099	(243,214)	2,428,270
Construction in Progress	11,074,890	44,259,264	0	55,334,154
Totals at Historical Cost	<u>83,851,546</u>	<u>48,133,312</u>	<u>(243,214)</u>	<u>131,741,644</u>
Less accumulated depreciation for:				
Buildings & Improvements	(15,633,583)	(1,653,877)	0	(17,287,460)
Equipment	(1,746,144)	(540,731)	0	(2,286,875)
Vehicles	(793,029)	(218,467)	94,466	(917,030)
Total accumulated depreciation	<u>(18,172,756)</u>	<u>(2,413,075)</u>	<u>94,466</u>	<u>(20,491,365)</u>
Capital Assets, Net	<u>\$65,678,790</u>	<u>\$45,720,237</u>	<u>(\$148,748)</u>	<u>\$111,250,279</u>

Debt:

At year-end August 31, 2018, the District had \$121,554,985 outstanding in bonds compared to \$123,403,573 last year. During the current fiscal year, the District no new borrowings; however, after the current fiscal year ended, on October 24, 2018, the District issued new bonds totaling \$34,555,000 to fund continuing construction projects.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2018 budget, and tax rates. Several of those factors were the economy, the District's population growth, and unemployment. These factors were taken into account when adopting the General Fund budget for 2018. Amounts available for appropriation in the General Fund budget are \$4,608,514. The District has added no major new programs or initiatives to the 2018 budget.

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 show 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 Melissa Independent School District, 1904 Cooper Street, Melissa, Texas.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 998,713
1120 Current Investments	16,467,368
1220 Property Taxes - Delinquent	265,553
1230 Allowance for Uncollectible Taxes	(649)
1240 Due from Other Governments	1,015,134
Capital Assets:	
1510 Land	3,931,525
1520 Buildings, Net	45,176,789
1530 Equipment, Net	5,296,571
1540 Vehicles, Net	1,511,240
1580 Construction in Progress	55,334,154
1000 Total Assets	129,996,398
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	2,540,361
1706 Deferred Outflow Related to TRS OPEB	128,137
1700 Total Deferred Outflows of Resources	2,668,498
LIABILITIES	
2110 Accounts Payable	2,727,497
2140 Interest Payable	374,457
2160 Accrued Wages Payable	955,564
2180 Due to Other Governments	175,979
2200 Accrued Expenses	21,680
2300 Unearned Revenue	13,522
Noncurrent Liabilities:	
2501 Due Within One Year	1,860,000
2502 Due in More Than One Year	119,694,985
2540 Net Pension Liability (District's Share)	4,261,468
2545 Net OPEB Liability (District's Share)	6,970,666
2000 Total Liabilities	137,055,818
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Resource Inflow Related to TRS Pension	651,682
2606 Deferred Resource Inflow Related to TRS OPEB	2,915,843
2600 Total Deferred Inflows of Resources	3,567,525
NET POSITION	
3200 Net Investment in Capital Assets	(5,962,878)
3820 Restricted for Federal and State Programs	3,310
3850 Restricted for Debt Service	124,111
3870 Restricted for Campus Activities	193,666
3900 Unrestricted	(2,316,656)
3000 Total Net Position	\$ (7,958,447)

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

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

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

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 12,860,865	\$ 447,917	\$ (1,199,927)	\$ (13,612,875)
12 Instructional Resources and Media Services	198,037	-	(41,169)	(239,206)
13 Curriculum and Instructional Staff Development	113,130	-	(4,753)	(117,883)
21 Instructional Leadership	128,000	-	(16,012)	(144,012)
23 School Leadership	917,147	-	(207,911)	(1,125,058)
31 Guidance, Counseling and Evaluation Services	250,090	-	(64,954)	(315,044)
33 Health Services	151,709	-	(29,812)	(181,521)
34 Student (Pupil) Transportation	868,286	-	(113,231)	(981,517)
35 Food Services	549,551	421,883	110,929	(16,739)
36 Extracurricular Activities	1,792,417	515,456	(118,252)	(1,395,213)
41 General Administration	664,868	-	(72,181)	(737,049)
51 Facilities Maintenance and Operations	2,194,628	67,468	(234,042)	(2,361,202)
52 Security and Monitoring Services	134,672	-	(21,607)	(156,279)
53 Data Processing Services	582,539	-	(137,403)	(719,942)
72 Debt Service - Interest on Long-Term Debt	4,170,418	-	-	(4,170,418)
73 Debt Service - Bond Issuance Cost and Fees	5,550	-	-	(5,550)
93 Payments Related to Shared Services Arrangements	45,860	-	-	(45,860)
99 Other Intergovernmental Charges	101,338	-	-	(101,338)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 25,729,105</u>	<u>\$ 1,452,724</u>	<u>\$ (2,150,325)</u>	<u>(26,426,706)</u>

Data
Control
Codes

General Revenues:

Taxes:		
MT	Property Taxes, Levied for General Purposes	11,396,694
DT	Property Taxes, Levied for Debt Service	4,870,354
SF	State Aid - Formula Grants	13,488,062
GC	Grants and Contributions not Restricted	319,150
IE	Investment Earnings	199,689
MI	Miscellaneous Local and Intermediate Revenue	1,076,524
SI	Special Item - Gain on Asset Sale	25,372
TR	Total General Revenues and Special Items	<u>31,375,845</u>
CN	Change in Net Position	4,949,139
NB	Net Position - Beginning	(684,565)
PA	Prior Period Adjustment	(12,223,021)
NE	Net Position--Ending	<u>\$ (7,958,447)</u>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Bond Const Series 2016
ASSETS			
1110 Cash and Cash Equivalents	\$ 770,600	\$ -	\$ -
1120 Investments - Current	9,318,249	196,916	1,838,996
1220 Property Taxes - Delinquent	186,015	79,538	-
1230 Allowance for Uncollectible Taxes	(155)	(494)	-
1240 Due from Other Governments	994,574	122	-
1000 Total Assets	<u>\$ 11,269,283</u>	<u>\$ 276,082</u>	<u>\$ 1,838,996</u>
LIABILITIES			
2110 Accounts Payable	\$ -	\$ -	\$ 1,794,212
2160 Accrued Wages Payable	941,473	-	-
2170 Due to Other Funds	87,262	-	-
2180 Due to Other Governments	25,938	150,041	-
2200 Accrued Expenditures	20,236	-	-
2300 Unearned Revenue	5,144	2,198	-
2000 Total Liabilities	<u>1,080,053</u>	<u>152,239</u>	<u>1,794,212</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	180,716	76,846	-
2600 Total Deferred Inflows of Resources	<u>180,716</u>	<u>76,846</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	44,784
3480 Retirement of Long-Term Debt	-	46,997	-
3490 Other Restricted Fund Balance	-	-	-
Committed Fund Balance:			
3510 Construction	5,400,000	-	-
3600 Unassigned Fund Balance	4,608,514	-	-
3000 Total Fund Balances	<u>10,008,514</u>	<u>46,997</u>	<u>44,784</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 11,269,283</u>	<u>\$ 276,082</u>	<u>\$ 1,838,996</u>

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

60 Bond Const Series 2016-B	Other Governmental Funds	Total Governmental Funds
\$ (9,536)	\$ 198,253	\$ 959,317
5,113,207	-	16,467,368
-	-	265,553
-	-	(649)
-	20,438	1,015,134
<u>\$ 5,103,671</u>	<u>\$ 218,691</u>	<u>\$ 18,706,723</u>
\$ 806,627	\$ -	\$ 2,600,839
-	14,091	955,564
-	-	87,262
-	-	175,979
-	1,444	21,680
-	6,180	13,522
<u>806,627</u>	<u>21,715</u>	<u>3,854,846</u>
-	-	257,562
-	-	257,562
-	3,310	3,310
4,297,044	-	4,341,828
-	-	46,997
-	193,666	193,666
-	-	5,400,000
-	-	4,608,514
<u>4,297,044</u>	<u>196,976</u>	<u>14,594,315</u>
<u>\$ 5,103,671</u>	<u>\$ 218,691</u>	<u>\$ 18,706,723</u>

THIS PAGE LEFT BLANK INTENTIONALLY

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	14,594,315
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position.		-
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$83,851,546 and the accumulated depreciation was \$18,172,756. In addition, long-term liabilities, including bonds payable of \$123,403,573, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. Accrued interest payable on long term debt of \$377,232 is not reflected in the fund financial statements, but is shown in the government-wide financial statements. The net effect of including the beginning balances for capital assets (net of depreciation), and long-term debt in the governmental activities, is to increase (decrease) net position.		(58,102,015)
3 Current year capital outlays of \$48,133,312 and long-term debt principal payments of \$1,400,437 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$14,502, amortization of bond premiums of \$462,653, and interest payable of \$2,775 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.		49,984,675
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes of \$257,562 as revenue, eliminating interfund transactions, reclassifying the net cost of assets sold of \$148,748, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		108,814
5 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(2,413,075)
6 The District is required to recognize its proportionate share of the net pension liability required by GASB 68 of \$4,261,468, a deferred resource inflow of \$651,682, and a deferred resource outflow of \$2,540,361. The net effect of including the net pension liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.		(2,372,789)
7 The District implemented GASB 75 reporting requirements for the OPEB benefit plan through TRS. The District is required to recognize its proportionate share of the OPEB liability of \$6,970,666, a deferred resource inflow of \$2,915,843, a deferred resource outflow of \$128,137. The net effect of including the net OPEB liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.		(9,758,372)
19 Net Position of Governmental Activities	\$	(7,958,447)

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Bond Const Series 2016
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 12,774,147	\$ 5,163,396	\$ 104,700
5800 State Program Revenues	13,914,889	553,150	-
5900 Federal Program Revenues	157,034	-	-
5020 Total Revenues	<u>26,846,070</u>	<u>5,716,546</u>	<u>104,700</u>
EXPENDITURES:			
Current:			
0011 Instruction	15,124,145	-	-
0012 Instructional Resources and Media Services	240,226	-	-
0013 Curriculum and Instructional Staff Development	142,458	-	-
0021 Instructional Leadership	152,637	-	-
0023 School Leadership	1,167,593	-	-
0031 Guidance, Counseling and Evaluation Services	356,416	-	-
0033 Health Services	193,898	-	-
0034 Student (Pupil) Transportation	1,246,533	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	1,461,794	-	-
0041 General Administration	776,577	-	-
0051 Facilities Maintenance and Operations	2,307,551	-	-
0052 Security and Monitoring Services	161,039	-	-
0053 Data Processing Services	723,968	-	-
Debt Service:			
0071 Principal on Long-Term Debt	-	1,400,437	-
0072 Interest on Long-Term Debt	-	4,621,344	-
0073 Bond Issuance Cost and Fees	-	5,550	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	171,270	-	28,375,194
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	45,860	-	-
0099 Other Intergovernmental Charges	101,338	-	-
6030 Total Expenditures	<u>24,373,303</u>	<u>6,027,331</u>	<u>28,375,194</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,472,767</u>	<u>(310,785)</u>	<u>(28,270,494)</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	174,120	-	-
7915 Transfers In	-	80,000	-
8911 Transfers Out (Use)	(98,222)	-	-
7080 Total Other Financing Sources (Uses)	<u>75,898</u>	<u>80,000</u>	<u>-</u>
1200 Net Change in Fund Balances	2,548,665	(230,785)	(28,270,494)
0100 Fund Balance - September 1 (Beginning)	<u>7,459,849</u>	<u>277,782</u>	<u>28,315,278</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 10,008,514</u>	<u>\$ 46,997</u>	<u>\$ 44,784</u>

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

60 Bond Const Series 2016-B	Other Governmental Funds	Total Governmental Funds
\$ 58,412	\$ 859,200	\$ 18,959,855
-	496,982	14,965,021
-	800,223	957,257
58,412	2,156,405	34,882,133
-	1,087,208	16,211,353
-	-	240,226
-	12,861	155,319
-	-	152,637
-	-	1,167,593
-	-	356,416
-	-	193,898
-	-	1,246,533
-	633,931	633,931
-	429,323	1,891,117
-	-	776,577
-	-	2,307,551
-	-	161,039
-	-	723,968
-	-	1,400,437
-	-	4,621,344
-	-	5,550
18,775,127	-	47,321,591
-	-	45,860
-	-	101,338
18,775,127	2,163,323	79,714,278
(18,716,715)	(6,918)	(44,832,145)
-	-	174,120
-	18,222	98,222
-	-	(98,222)
-	18,222	174,120
(18,716,715)	11,304	(44,658,025)
23,013,759	185,672	59,252,340
\$ 4,297,044	\$ 196,976	\$ 14,594,315

THIS PAGE LEFT BLANK INTENTIONALLY

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

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$	(44,658,025)
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.</p>		
		-
<p>Current year capital outlays of \$48,133,312 and long-term debt principal payments of \$1,400,437 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$14,502, amortization of bond premiums of \$462,653, and interest payable of \$2,775 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.</p>		
		49,984,675
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailible revenue from property taxes as revenue, adjusting current year revenue by \$36,130 to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the net cost of assets sold of \$148,748, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>		
		(112,618)
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.</p>		
		(2,413,075)
<p>Current year changes due to GASB 68 increased revenues in the amount of \$230,143, but also increased expenses in the amount of \$86,324. The impact of these items is to increase (decrease) the change in net position.</p>		
		(316,467)
<p>The implementation of GASB 75 to report the District's share of the TRS OPEB plan resulted in current year increased revenues in the amount of \$4,035,248, but also increased expenses in the amount of \$6,499,897. The impact of these items is to increase (decrease) the change in net position.</p>		
		2,464,649
Change in Net Position of Governmental Activities	\$	4,949,139

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

MELISSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2018

	Governmental Activities -	
		Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 39,396	
Due from Other Funds	<u>87,262</u>	
Total Assets		<u>126,658</u>
LIABILITIES		
Current Liabilities:		
Accounts Payable		<u>126,658</u>
Total Liabilities		<u>126,658</u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2018

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 131,099
Total Operating Revenues	131,099
OPERATING EXPENSES:	
Other Operating Costs	131,099
Total Operating Expenses	131,099

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

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

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 90,052
Cash Payments for Insurance Claims	(65,130)
Net Cash Provided by Operating Activities	24,922
Net Increase in Cash and Cash Equivalents	24,922
Cash and Cash Equivalents at Beginning of Year	14,474
Cash and Cash Equivalents at End of Year	\$ 39,396
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss):	\$ -
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	(41,047)
Increase (decrease) in Accounts Payable	65,969
Net Cash Provided by Operating Activities	\$ 24,922

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

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 41,229
Total Assets	<u>\$ 41,229</u>
LIABILITIES	
Due to Student Groups	\$ 41,229
Total Liabilities	<u>\$ 41,229</u>

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

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

Note A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Melissa Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

1. Reporting Entity

The Board of Trustees is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, *"The Financial Reporting Entity,"* as amended by Statements No. 39, *"Determining Whether Certain Organizations are Component Units,"* and No. 61, *"The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34."* There are no component units included within the reporting entity.

2. Government-Wide and Fund Financial Statements

The *Statement of Net Position* and the *Statement of Activities* are government-wide financial statements. They report information on all nonfiduciary activities of the District. Taxes and intergovernmental revenues normally support governmental activities. The effect of 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 (1) charges for services or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Program revenues included in the *Statement of Activities* reduce the cost of the function to be financed from general activities. Taxes and other items not identifiable as program revenues are reported instead as general revenues.

The District reports all direct expenses by function in the *Statement of Activities*. Direct Expenses are those clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the program expenses of each function.

Separate financial statements are provided for governmental funds and fiduciary funds. The fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the grantor have been met.

Governmental Fund Financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities, deferred inflows of resources, deferred outflows of resources, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses). Revenues are recognized in the accounting period in which they become both measurable and available. Expenditures are generally recorded when the liability is incurred, if measurable, except for unmatured principal and interest on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collectible within 60 days of year-end.

Revenues from local sources consist primarily of property taxes, which are susceptible to accrual and considered available if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available at the earnings date.

The special revenue funds, except for the Child Nutrition Fund, include programs that are financed on a project grant basis. These projects have grant periods that range from less than twelve months to in excess of two years. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. When grant funds are received in advance of being earned, they are recorded as deferred revenues until earnings criteria are met.

Proprietary and Fiduciary Fund Financial Statements are accounted for on a *flow of economic resources measurement focus*. Within this focus, all assets and all liabilities associated with the operation of these funds are included on the fund *Statement of Net Position*. Agency funds are custodial in nature and do not involve measurement of results or operations.

4. Fund Accounting

The District reports its financial activities through the use of “fund accounting”. The activities of the District are organized on the basis of funds. The operations of each fund are accounted for by providing a separate set of self-balancing accounts to reflect results of activities. Fund accounting segregates funds according to their intended purposes to assist management in demonstrating compliance with finance-related legal and contractual provisions.

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use and balances of the District’s expendable financial resources and the related liabilities are accounted for through the governmental funds. The following are the District’s **major** governmental funds:

General Fund – The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures that are not paid through other funds are paid from the General Fund.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and the retirement of, long-term debt principal, interest, and related costs.

Bond Construction – Series 2016 – This Bond Construction Fund is used to account for financial resources to be used for the acquisition, renovation, or construction of major capital projects.

Bond Construction – Series 2016-B – This Bond Construction Fund is used to account for financial resources to be used for the acquisition, renovation, or construction of major capital projects.

Other non-major governmental funds consist of special revenue funds that account for resources that are legally restricted or locally committed to expenditures for specified purposes. Most Federal and some State financial assistance is accounted for in special revenue funds.

Proprietary Funds:

Internal Service Fund – The Internal Service Fund is established to account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is for Workers Compensation Self-Insurance.

Fiduciary Funds:

Agency Funds – The Agency Funds are fiduciary funds that are custodial in nature (assets equal liabilities). These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, organizations, and/or other funds. The Student Activity Fund accounts for the receipt and disbursement of monies from student activity organizations. These organizations exist with the explicit approval of and are subject to revocation by, the District's Board of Trustees. This fund reflects the District agency relationship with the student activity organizations.

5. Assets, Liabilities, and Deferred Inflows/Outflows

Cash and Cash Equivalents – The District's cash and cash equivalents include cash on hand, demand deposits, money market accounts with original maturities of three months or less from the date of acquisition. For purposes of the statement of cash flows for proprietary funds, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. Cash and cash equivalents in the Internal Service fund was \$39,396 as of August 31, 2018.

Investments - Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. District management believes that the District adheres to the requirements of the State of Texas Public Funds Investment Act regarding investment practice, management reports, and establishment of appropriate policies. Additionally, management believes that the investment practices of the District are in accordance with local policies for the current fiscal year.

Interfund Receivables and Payables – Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." All residual balances between governmental activities are eliminated in the government-wide statements.

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

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

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

<u>Asset Classification</u>	<u>Useful Life</u>
Buildings	39-50 years
Building Improvements	15-40 years
Vehicles & Buses	5-10 years
Equipment	5-7 years

Vacation and Sick Leave – Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment Sick leave is allowed to be accumulated but does not vest. Therefore, no liability exists for unused sick leave.

Long-term Liabilities – In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the *Statement of Net Position*. Bond premiums and discounts are reported as a liability and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expenses as incurred. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are also reported as other financing sources while discounts on debt issuances and payments to bond refunding escrow agents are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions and Other Post-Employment Benefits – The District records its proportionate share of the net pension & OPEB liabilities of the Teacher Retirement System of Texas (TRS). The fiduciary net position of TRS has been determined using the economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability and net OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions & OPEB, pension & OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS and TRS-Care’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with benefit terms. For the pension plan, investments are reported at fair value. For the TRS-Care OPEB plan, there are no investments as this is a pay as you go plan and all cash is held in a cash account.

Deferred Outflows/Inflows of Resources – In addition to assets and liabilities, the government-wide *Statement of Net Position* and governmental fund *Balance Sheet* report separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent the acquisition of net position/fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District reports certain deferred inflows and outflows related to pensions and other post-employment benefits on the government-wide *Statement of Net Position*.

6. Fund Balances and Net Position

Net position on the government-wide *Statement of Net Position* includes the following:

Net Investment in Capital Assets reports the difference between capital assets, net of accumulated depreciation, and the outstanding balance of debt, excluding unspent bond proceeds that are directly attributable to the acquisition, construction or improvement of those capital assets.

Restricted for Federal and State Grant Programs is the component of net position restricted to be spent for specific purposes prescribed by federal and state granting agencies.

Restricted for Debt Service is the component of net position that is restricted for payment of debt service by constraints established by bond covenants.

Restricted for Campus Activities is the component of net position that is restricted for campus activities.

Restricted for Scholarships is the component of net position that is restricted for scholarships.

Unrestricted Net Position is the residual difference between assets, deferred outflows, liabilities, and deferred inflows that is not invested in capital assets or restricted for specific purpose.

It is the District’s policy to spend funds available from restricted sources prior to unrestricted sources.

Fund balances on the governmental funds' *Balance Sheet* include the following:

Non-spendable fund balance is the portion of the gross fund balance that is not expendable because it is either not in spendable form or is legally or contractually required to be maintained intact.

Restricted fund balance includes amounts restricted for a specific purpose by the provider (such as grantors, bondholders, and high levels of government), through constitutional provisions, or by enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects bond funds are restricted by the bondholders for the specific purpose of capital projects and capital outlays. Federal & State grant resources are restricted pursuant to the mandates of the granting agency.

Committed fund balance is that portion of fund balance that is committed to a specific purpose by the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by Board action. These amounts cannot be used for any other purpose unless the Board removes or changes the constraint by exercising the same type of action originally used to commit the funds.

Unassigned fund balance is the difference between the total fund balance and the total of the non-spendable, restrict, and committed fund balances and can be utilized for any legal purpose. This portion of the total fund balance in the General Fund is available to finance operating expenditures.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When expenditures are incurred for which committed, or unassigned fund balances are available, the District considers amounts to have been spent first from committed funds, then unassigned funds, as need, unless the Board of Trustees has provided otherwise in its commitment actions.

7. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the agency in order to insure accuracy in building a statewide data base for policy development and funding plans.

8. Management's Use of Estimates

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

9. Encumbrance Accounting

Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the accounting system in order to assign the portion of the applicable appropriation. This methodology is employed in the governmental fund financial statements. Encumbrances are not liabilities and are therefore not recorded as expenditures until the receipt of the material or service. For budgetary purposes, appropriations lapse at fiscal year-end, and outstanding encumbrances at year-end are re-appropriated in the next fiscal year. There were no encumbrances at year-end considered to be significant.

Note B. CASH AND INVESTMENTS

The District's funds are required to be deposited under the terms of a depository contract pursuant to the School Depository Act. The depository bank places approved 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 dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At August 31, 2018, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$17,466,081 in the depository bank. At August 31, 2018 and during the year then ended, the District's combined deposits were fully insured by FDIC insurance or collateralized with securities held by the District's agent bank in the District's name, or by letters of credit.

Depository information required to be reported to the Texas Education Agency is as follows:

- a. Depository: Independent Bank, McKinney, Texas
- b. The highest combined balance of cash, savings, and time deposits accounts amounted to \$57,460,874 and occurred during the month of September 2017.
- c. The market value of securities pledged as of the date of the highest combined balance on deposit was \$66,220,812.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$581,571.

The Public Funds Investment Act (PFIA) (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, which must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in obligations of the U.S. Treasury and U.S. agencies, municipal securities, repurchase agreements, and certain other investments. The investments owned at fiscal year-end are held by the District or its agent in the District's name.

In compliance with the PFIA, the District has adopted a deposit and investment policy, which address the following risks:

Credit Risk is the risk that a security issuer may default on an interest or principal payment. The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by nationally recognized agencies such as Standards and Poor's (S&P) or Moody's Investor Service.

Custodial Credit Risk is the risk that, in the event of the failure of a depository financial institution or counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits, value of its investments, or collateral securities that are in the possession of an outside party. The PFIA, the District's investment policy, and Government Code Chapter 2257 "Collateral for Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments. The District's funds are deposited and invested under terms of a depository contract with amounts greater than the FDIC coverage protected by approved pledged securities held on behalf of the District.

Concentration of Credit Risk is the risk associated with holding investments that are not pools and full faith credit securities. These risks are controlled by limiting the percentages of these investments in the District's portfolio.

Interest Rate Risk is the risk that interest rates will rise and an investment in a fixed-income security will decrease in value. Interest rate risk is reduced by diversifying, investing in securities with different durations, and laddering maturity dates. The District manages its exposure to interest rate risk by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase.

Foreign Currency Risk is the potential for loss due to fluctuations in exchange rates. The District's policy does not allow for any direct foreign investments, and therefore the District is not exposed to foreign currency risk.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the below hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset.

The District has the following recurring fair value measurements as of August 31, 2018:

Cash & Cash Equivalents of \$17,466,081 are valued using quoted market prices (Level 1 inputs)

The District has no investments measured at the Net Asset Value (NAV) per Share or its equivalent.

Note C. PROPERTY TAXES

The District's ad valorem property tax is levied on all real and business personal property located in the District. A lien exists on all property on January 1st of each year. Tax statements are mailed on October 1st each year or as soon thereafter as possible. Taxes are due upon receipt and become delinquent if not paid before February 1st of the following calendar year. The assessed value of the roll as of the end of the fiscal year was \$974,074,754.

The tax rates levied for the fiscal year ended August 31, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.50 per \$100 valuation, respectively, for a total of \$1.67 per \$100 valuation.

Current year tax collections, including delinquent taxes collected this year, for the period ended August 31, 2018, were 104.99% of the levy.

The ad valorem tax rate is allocated each year between the General Fund and the Debt Service Fund. The full amount estimated to be required for general obligation bond retirement is provided by the debt service tax together with any available state funding and interest earned within the Debt Service Fund.

Allowances for uncollectible taxes within the General Fund and the Debt Service Fund are based on a historical experience. 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.

Note D. RECEIVABLES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Available School Fund.

Receivables due from other governments as of August 31, 2018 are as follows:

<u>Fund</u>	<u>State Grants</u>	<u>Federal Grants</u>	<u>Other Governments</u>	<u>Totals</u>
General Fund	\$994,289	\$0	\$285	\$994,574
Debt Service Funds	0	0	122	122
Special Revenue Funds	0	20,438	0	20,438
Totals	\$994,289	\$20,438	\$407	\$1,015,134

Note E. INTERFUND TRANSACTIONS

Interfund balances at August 31, 2018, consisted of the following individual receivables & payables:

Due to Internal Service Fund from:

General Fund	\$87,262
Total Due to Internal Service Fund from Other Funds	\$87,262

Interfund transfers for the year ended August 31, 2018, consisted of the following individual amounts:

Transfers to Debt Service Fund from:

General Fund	\$80,000
Total Transferred to Debt Service Fund from Other Funds	\$80,000

Transfers to Nonmajor Governmental Funds from:

General Fund	\$18,222
Total Transferred to Nonmajor Governmental Funds from Other Funds	\$18,222

Note F. CAPITAL ASSETS

A summary of changes in capital assets for the year ended August 31, 2018 is as follows:

	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
Land	\$3,931,525	\$0	\$0	\$3,931,525
Buildings & Improvements	62,127,464	336,785	0	62,464,249
Equipment	4,569,282	3,014,164	0	7,583,446
Vehicles	2,148,385	523,099	(243,214)	2,428,270
Construction in Progress	11,074,890	44,259,264	0	55,334,154
Totals at Historical Cost	83,851,546	48,133,312	(243,214)	131,741,644
Less accumulated depreciation for:				
Buildings & Improvements	(15,633,583)	(1,653,877)	0	(17,287,460)
Equipment	(1,746,144)	(540,731)	0	(2,286,875)
Vehicles	(793,029)	(218,467)	94,466	(917,030)
Total accumulated depreciation	(18,172,756)	(2,413,075)	94,466	(20,491,365)
Capital Assets, Net	\$65,678,790	\$45,720,237	(\$148,748)	\$111,250,279

Depreciation expense for the current year was charged to governmental functions as follows:

11 Instruction	\$1,338,712
12 Instructional Resources & Media Services	21,946
13 Curriculum & Instructional Staff Development	21,946
23 School Leadership	109,730
31 Guidance, Counseling, & Evaluation Services	21,946
33 Health Services	21,946
34 Student (Pupil) Transportation	328,197
35 Food Services	43,892
36 Cocurricular/Extracurricular Activities	153,623
41 General Administration	65,838
51 Plant Maintenance & Operations	197,515
52 Security & Monitoring Services	21,946
53 Data Processing Services	65,838
	<hr/>
Total Depreciation Expense	<u><u>\$2,413,075</u></u>

Note G. LONG-TERM DEBT

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

	<u>Beginning</u>			<u>Ending Balance</u>	<u>Amounts Due</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>		<u>within One</u>
					<u>Year</u>
Governmental Activities:					
General Obligation Bonds	\$110,855,437	\$0	(\$1,400,437)	\$109,455,000	\$1,860,000
Accumulated Accretion on CABs	212,527	55,867	(41,365)	227,029	
Unamortized Bond Premiums	12,335,609	0	(462,653)	11,872,956	
Total Bonds Payable, Government-Wide	<u>\$123,403,573</u>	<u>\$55,867</u>	<u>(\$1,904,455)</u>	<u>\$121,554,985</u>	<u>\$1,860,000</u>

Bonds

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

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

A summary of changes in bonds for the year ended August 31, 2018 is as follows:

<u>Description</u>	<u>Interest Rates Payable</u>	<u>Amounts of Original Issue</u>	<u>Interest Current Year</u>	<u>Beginning Amounts Outstanding 9/01/17</u>	<u>Issued</u>	<u>Retired</u>	<u>Ending Amounts Outstanding 8/31/18</u>
Unlimited Tax Bldg Bonds-Series 2008	4.00-5.25%	\$3,000,000	\$3,200	\$80,000	\$0	(\$80,000)	\$0
Unlimited Tax Bldg Bonds-Series 2009	2.00-5.20%	3,380,000	14,200	330,000	0	(100,000)	230,000
Capital Appreciation Bonds-Series 2009	2.45-4.625%	596,873	94,563	30,437	0	(30,437)	0
Unlimited Tax Refunding Bonds-Series 2012	2.00-3.25%	2,365,000	56,225	1,910,000	0	(85,000)	1,825,000
Unlimited Tax Bldg Bonds-Series 2013	3.00-5.00%	18,495,000	791,450	18,455,000	0	(70,000)	18,385,000
Capital Appreciation Bonds-Series 2013	4.60%	5,000	0	5,000	0	0	5,000
Unlimited Tax Refunding Bonds-Series 2014	2.00-4.00%	8,720,000	313,925	8,370,000	0	(60,000)	8,310,000
Capital Appreciation Bonds-Series 2014	2.35-2.70%	270,000	0	270,000	0	0	270,000
Unlimited Tax Bldg & Refunding Bonds-Series 2015	2.00-4.50%	8,940,000	286,500	7,790,000	0	(490,000)	7,300,000
Unlimited Tax Bldg & Refunding Bonds-Series 2016	2.00-5.00%	45,525,000	1,893,550	45,465,000	0	(365,000)	45,100,000
Unlimited Tax Bldg Bonds-Series 2016B	2.00-5.00%	23,360,000	989,225	23,360,000	0	(95,000)	23,265,000
Unlimited Tax Refunding Bonds-Series 2017	2.00-5.00%	4,790,000	178,506	4,790,000	0	(25,000)	4,765,000
Total General Obligation Bonds			\$4,621,344	\$110,855,437	\$0	(\$1,400,437)	\$109,455,000
Accumulated Accretion on CABs				212,527	55,867	(41,365)	227,029
Unamortized Bond Premiums on CABs				1,038,052	0	(53,198)	984,854
Unamortized Bond Premiums on GOBs				11,297,557	0	(409,455)	10,888,102
Total Bonds Payable, Government-Wide Financials				\$123,403,573	\$55,867	(\$1,904,455)	\$121,554,985

A portion of the above bonds were capital appreciation bonds, commonly referred to as “premium compound interest bonds”. These bonds were issued at a discount to their par or maturity value and will accrete interest until maturity. The accreted value equals the par value plus accreted interest plus the unamortized bond premium.

Summary information for the capital appreciation bonds is as follows:

<u>Series</u>	<u>Capital Appreciation Bonds</u>	
	<u>Stated Value</u>	<u>Accreted Value, 8/31/18</u>
2013	\$5,000	\$672,586
2014	\$270,000	\$814,297

Debt service requirements for bonds are as follows:

<u>Year Ending August 31,</u>	<u>General Obligation Bonds</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2019	\$1,860,000	\$4,493,481	\$6,353,481
2020	2,020,000	4,694,231	6,714,231
2021	2,305,000	4,752,481	7,057,481
2022	2,710,000	4,340,631	7,050,631
2023	2,810,000	4,242,306	7,052,306
2024-2028	15,890,000	19,386,925	35,276,925
2029-2033	19,495,000	15,782,294	35,277,294
2034-2038	22,190,000	13,076,906	35,266,906
2039-2043	29,670,000	5,869,400	35,539,400
2044-Maturity	10,505,000	851,400	11,356,400
Total General Obligation Bonds	<u>\$109,455,000</u>	<u>\$77,490,055</u>	<u>\$186,945,055</u>

Note H. DUE TO OTHER GOVERNMENTS

As of August 31, 2018, the District owed \$25,938 to Texas Education Agency for 2017-2018 state foundation revenue overpaid. The District also owed \$114,813 to Texas Education Agency for 2017-2018 existing debt allotment revenue overpaid, and \$35,228 for 2017-2018 instructional facility allotment revenue overpaid. Texas Education Agency will deduct these amounts owed from the District's 2018-2019 funding.

Note I. UNEARNED REVENUE & UNAVAILABLE REVENUE

Unearned revenue is that portion of the net revenue receivable which is expected to be collected within the first 60 days following the fiscal year end. Unavailable revenue is that portion of the net revenue receivable which is not expected to be collected within the first 60 days following the fiscal year end.

Unearned revenue and Unavailable revenue at August 31, 2018 consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Totals</u>
Unearned Revenue:				
Instructional Materials Allotment	\$0	\$6,180	\$0	\$6,180
Property Tax Revenue	5,144	0	2,198	7,342
Total Unearned Revenue	<u>\$5,144</u>	<u>\$6,180</u>	<u>\$2,198</u>	<u>\$13,522</u>
Unavailable Revenue:				
Property Tax Revenue	\$180,716	\$0	\$76,846	\$257,562
Total Unavailable Revenue	<u>\$180,716</u>	<u>\$0</u>	<u>\$76,846</u>	<u>\$257,562</u>

Note J. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Totals</u>	
Property Taxes	\$11,983,941		\$0	\$5,095,275	\$0	\$17,079,216
Penalties, Interest, & Other Tax						
Related Income	166,091		0	61,135	0	227,226
Investment Income	29,591		0	6,986	163,112	199,689
Tuition	339,928		0	0	0	339,928
Rent	67,468		0	0	0	67,468
Food Service Sales	0	421,883		0	0	421,883
Athletics	78,139		0	0	0	78,139
Co-curricular	0	437,317		0	0	437,317
Other	108,989		0	0	0	108,989
Totals	\$12,774,147	\$859,200	\$5,163,396	\$163,112	\$18,959,855	

Note K. RISK MANAGEMENT

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

Health Care Coverage

During the year ended August 31, 2018, all employees of the District were offered health care coverage under the TRS Active Care insurance plan (the Plan), which is a statewide health insurance coverage program for public education employees established by the 77th Texas Legislature. The District contributed \$509 per month per enrolled employee, which includes \$75 per month which is reimbursed by the State of Texas to the Plan. Employees, at their option, authorized payroll withholdings to pay the additional cost of the premiums for themselves and dependents.

Workers Compensation Coverage

The District is self-funded for workers compensation insurance and has an interlocal agreement with Claims Administration Services, Inc. (CAS) to serve as the District's third-party administrator. Transactions related to the plan are accounted for in the Workers Compensation Insurance Fund (the "Fund"), an internal service fund of the District. The District makes all contributions to the fund. Claims Administrative Services, Inc. obtained excess loss insurance, which limited annual claims paid from the entire fund for the year ended August 31, 2018, to \$350,000 for any individual participant. At August 31, 2018, the District's unpaid claims totaled \$126,658, which includes incurred but not reported claims. The liability is based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information obtained prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

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

	<u>Year Ended August 31, 2017</u>	<u>Year Ended August 31, 2018</u>
Unpaid claims, beginning of fiscal year	\$41,640	\$60,689
Incurred claims (including IBNR's)	85,923	131,099
Claim payments	(66,874)	(65,130)
Unpaid claims, end of fiscal year	<u>\$60,689</u>	<u>\$126,658</u>

Litigation and Contingencies

The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of any lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly no provision for losses has been recorded.

State and Federal Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustments by the grantor agencies. Therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Construction Commitments

The District was obligated at August 31, 2018, under various contracts for construction of a new elementary school, a high school addition, and baseball & softball fields. The construction in progress for these projects totaled \$55,334,154 as of August 31, 2018. The retainage payable for these projects totaled \$2,600,839 as of August 31, 2018. The outstanding construction commitments associated with these projects including retainage totaled approximately \$3,658,286 as of August 31, 2018.

Note L. DEFINED BENEFIT PENSION PLAN

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

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

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

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. Contribution Rates can be found in the TRS 2017 CAFR, Note 12, on page 88.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2018 FY Employer Contributions	\$	471,612
District's 2018 FY Member Contributions	\$	1,194,672
Measurement Year NECE On-Behalf Contributions	\$	539,211

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

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

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

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

contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions: Actuarial Assumptions can be found in the 2017 TRS CAFR, Note 12, page 90.

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

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

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
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%
Hedge Funds (Stable Value)	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 Expectations			2.2%
Alpha			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.*

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the Net Pension Liability. The discount rate can be found in the 2017 TRS CAFR, Note 12, page 91.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 7,183,994	\$ 4,261,468	\$ 1,827,992

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2018, Melissa Independent School District reported a liability of \$4,261,468 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Melissa Independent School District. The amount recognized by Melissa Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Melissa Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 4,261,468
State's proportionate share that is associated with the District	<u>7,069,208</u>
Total	<u>\$ 11,330,676</u>

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

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.000133276625% which was an increase of 0.000017433165% from its proportion measured as of August 31, 2016.

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

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

For the year ended August 31, 2018, Melissa Independent School District recognized pension expense of \$539,211 and revenue of \$539,211, for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 62,347	\$ 229,815
Changes in actuarial assumptions	194,117	111,127
Net Difference between projected and actual investment earnings		310,567
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,812,285	173
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	471,612	
Total	\$2,540,361	\$651,682

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

Year ended August 31:	Pension Expense Amount
2019	\$ 257,616
2020	529,637
2021	236,710
2022	153,089
2023	176,418
Thereafter	63,596

Note M. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

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

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

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

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

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

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

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

	TRS Care-1 <u>Basic Plan</u>	TRS Care-2 <u>Optional Plan</u>	TRS Care-3 <u>Optional Plan</u>
Retiree*	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only	28	62	82
*or surviving spouse			

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

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

<u>Contribution Rates</u>	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding Remitted by Employers	1.00%	1.25%
District's 2018 FY Employer Contributions		\$ 127,048
District's 2018 FY Member Contributions		\$ 100,843
Measurement Year NECE On-Behalf Contributions		\$(3,968,138)

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017. House Bill 21 was passed in special session and provided a supplemental appropriation in the amount of \$212 million in fiscal year 2018.

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

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

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

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

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the
delivery of health care benefits are	included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% - 9.50%
Healthcare Trend Rates	4.50% - 12.00%
Election Rates	Normal Retirement: 70% participation
prior to age 65 and	75% participation after age 65.
Ad-hoc Post Employment Benefit Changes	None

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

***Includes inflation at 2.50%*

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

Discount Rate. A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. The Discount Rate can be found in the 2017 TRS CAFR on page 83. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

Sensitivity of the Net OPEB Liability:

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

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of the Net OPEB Liability:	\$ 8,227,116	\$ 6,970,666	\$ 5,960,763

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the Net OPEB Liability:	\$ 5,803,776	\$ 6,970,666	\$ 8,501,772

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2018, Melissa Independent School District reported a liability of \$6,970,666 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with Melissa Independent School District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 6,970,666
State's proportionate share that is associated with the District	<u>11,858,406</u>
Total	<u>\$ 18,829,072</u>

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

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was 0.000160295866% which was the same proportion measured as of August 31, 2016.

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

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

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

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

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

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

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

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

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

For the year ended August 31, 2018, Melissa Independent School District recognized OPEB expense of \$(3,968,138) and revenue of \$(3,968,138) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience		\$ 145,518
Changes in actuarial assumptions		2,770,325
Net Difference between projected and actual investment earnings	1,059	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	30	
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	127,048	
Total	\$ 128,137	\$ 2,915,843

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

Year ended August 31:	OPEB Expense Amount
2019	\$(384,604)
2020	(384,604)
2021	(384,604)
2022	(384,604)
2023	(384,869)
Thereafter	(991,469)

Note N. MEDICARE PART D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. State Contributions for Medicare Part D made on behalf of Melissa Independent School District's employees were \$45,605, \$43,224, and \$48,589, respectively for fiscal years ended August 31, 2018, 2017, and 2016.

Note O. JOINT VENTURES – SHARED SERVICE ARRANGEMENTS

The District participates in shared services arrangements for educational services, with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Melissa Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Note P. SUBSEQUENT EVENTS

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through December 31, 2018, which is the date the financial statements were available to be issued. After the current fiscal year ended, on October 24, 2018, the District issued new Series 2018 bonds totaling \$34,555,000 to fund continuing construction projects.

Note Q. PRIOR PERIOD ADJUSTMENT

During the fiscal year 2018, the District adopted GASB Statement No. 75 for Other Post-Employment Benefits. With GASB 75, the District must assume their proportionate share of the net OPEB liability of the Texas Public School Retired Employees Group Insurance Program (TRS-Care) administered by the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment decreased beginning net position by \$12,223,021. The restated beginning net position is \$(12,907,586).

Note R. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS – STATEMENT OF ACTIVITIES

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

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the *Statement of Activities*. According to guidance provided directly from GASB, this is the correct reporting.

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

	Operating Grants & Contributions	Negative On-Behalf Accruals	Operating Grants & Contributions (excluding on-behalf accruals)
11 Instruction	(\$1,199,927)	(\$2,647,456)	\$1,447,529
12 Instructional Resources & Media Services	(41,169)	(47,655)	6,486
13 Curriculum & Instructional Staff Development	(4,753)	(20,389)	15,636
21 Instructional Leadership	(16,012)	(18,535)	2,523
23 School Leadership	(207,911)	(240,666)	32,755
31 Guidance, Counseling & Evaluation Services	(64,954)	(75,187)	10,233
33 Health Services	(29,812)	(34,508)	4,696
34 Student (Pupil) Transportation	(113,231)	(131,069)	17,838
35 Food Services	110,929	(77,264)	188,193
36 Extracurricular Activities	(118,252)	(136,882)	18,630
41 General Administration	(72,181)	(83,553)	11,372
51 Facilities Maintenance & Operations	(234,042)	(270,913)	36,871
52 Security and Monitoring Service	(21,607)	(25,011)	3,404
53 Data Processing Services	(137,403)	(159,050)	21,647
Totals	(\$2,150,325)	(\$3,968,138)	\$1,817,813

REQUIRED SUPPLEMENTAL INFORMATION

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 11,507,160	\$ 12,707,743	\$ 12,774,147	\$ 66,404
5800	State Program Revenues	13,323,160	13,923,160	13,914,889	(8,271)
5900	Federal Program Revenues	175,000	175,000	157,034	(17,966)
5020	Total Revenues	25,005,320	26,805,903	26,846,070	40,167
EXPENDITURES:					
Current:					
0011	Instruction	15,577,067	15,232,850	15,124,145	108,705
0012	Instructional Resources and Media Services	228,781	248,581	240,226	8,355
0013	Curriculum and Instructional Staff Development	155,673	149,379	142,458	6,921
0021	Instructional Leadership	154,273	159,015	152,637	6,378
0023	School Leadership	1,183,066	1,186,766	1,167,593	19,173
0031	Guidance, Counseling and Evaluation Services	353,630	368,630	356,416	12,214
0033	Health Services	181,595	201,595	193,898	7,697
0034	Student (Pupil) Transportation	1,041,914	1,293,737	1,246,533	47,204
0036	Extracurricular Activities	1,270,769	1,474,548	1,461,794	12,754
0041	General Administration	778,740	802,990	776,577	26,413
0051	Facilities Maintenance and Operations	2,547,923	2,447,923	2,307,551	140,372
0052	Security and Monitoring Services	157,850	167,850	161,039	6,811
0053	Data Processing Services	704,039	737,039	723,968	13,071
Capital Outlay:					
0081	Facilities Acquisition and Construction	375,000	375,000	171,270	203,730
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	185,000	50,000	45,860	4,140
0099	Other Intergovernmental Charges	110,000	110,000	101,338	8,662
6030	Total Expenditures	25,005,320	25,005,903	24,373,303	632,600
1100	Excess of Revenues Over Expenditures	-	1,800,000	2,472,767	672,767
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	175,000	174,120	(880)
8911	Transfers Out (Use)	-	(120,000)	(98,222)	21,778
7080	Total Other Financing Sources (Uses)	-	55,000	75,898	20,898
1200	Net Change in Fund Balances	-	1,855,000	2,548,665	693,665
0100	Fund Balance - September 1 (Beginning)	7,459,849	7,459,849	7,459,849	-
3000	Fund Balance - August 31 (Ending)	\$ 7,459,849	\$ 9,314,849	\$ 10,008,514	\$ 693,665

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

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.000133277%	0.000115843%	0.000100034%	0.000049488%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 4,261,468	\$ 4,377,552	\$ 3,536,069	\$ 1,321,893
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	7,069,208	7,967,161	6,791,628	5,464,793
Total	<u>\$ 11,330,676</u>	<u>\$ 12,344,713</u>	<u>\$ 10,327,697</u>	<u>\$ 6,786,686</u>
District's Covered Payroll	\$ 14,573,540	\$ 12,891,946	\$ 10,731,867	\$ 9,378,090
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	29.24%	33.96%	32.95%	14.10%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

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

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

MELISSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ 471,612	\$ 520,142	\$ 442,127	\$ 357,731
Contribution in Relation to the Contractually Required Contribution	471,612	520,142	442,127	357,731
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 15,495,179	\$ 14,573,540	\$ 12,891,946	\$ 10,731,867
Contributions as a Percentage of Covered Payroll	3.04%	3.57%	3.43%	3.33%

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

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

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

	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.000160296%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 6,970,666
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	11,858,406
Total	\$ 18,829,072
District's Covered Payroll	\$ 14,573,540
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	47.83%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

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

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

MELISSA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2018

	<u>2018</u>
Contractually Required Contribution	\$ 127,048
Contribution in Relation to the Contractually Required Contribution	127,048
Contribution Deficiency (Excess)	<u>\$ -0-</u>
District's Covered Payroll	\$ 15,495,179
Contributions as a Percentage of Covered Payroll	0.82%

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

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

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2018

A. Notes to Schedules for the TRS Pension

Changes of Benefit terms:

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

Changes of Assumptions:

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

B. Notes to Schedules for the TRS OPEB Plan

Changes in Benefit terms:

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

Changes in Assumptions:

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

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

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

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

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

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

COMBINING STATEMENTS

MELISSA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2018

Data Control Codes	211 ESSA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary	
ASSETS					
1110	Cash and Cash Equivalents	\$ (1,976)	\$ 11,131	\$ -	\$ -
1240	Due from Other Governments	6,380	-	-	-
1000	Total Assets	<u>\$ 4,404</u>	<u>\$ 11,131</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES					
2160	Accrued Wages Payable	\$ 3,995	\$ 10,096	\$ -	\$ -
2200	Accrued Expenditures	409	1,035	-	-
2300	Unearned Revenue	-	-	-	-
2000	Total Liabilities	<u>4,404</u>	<u>11,131</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3490	Other Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 4,404</u>	<u>\$ 11,131</u>	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	255 ESSA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	385 Visually Impaired SSVI	410 Instructional Materials Allotment	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ 1,000	\$ (7,846)	\$ (3,902)	\$ -	\$ 6,180	\$ 193,666	\$ 198,253
2,310	7,846	3,902	-	-	-	20,438
<u>\$ 3,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,180</u>	<u>\$ 193,666</u>	<u>\$ 218,691</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,091
-	-	-	-	-	-	1,444
-	-	-	-	6,180	-	6,180
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,180</u>	<u>-</u>	<u>21,715</u>
3,310	-	-	-	-	-	3,310
-	-	-	-	-	193,666	193,666
<u>3,310</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>193,666</u>	<u>196,976</u>
<u>\$ 3,310</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,180</u>	<u>\$ 193,666</u>	<u>\$ 218,691</u>

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

Data Control Codes	211 ESSA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	103,963	299,547	5,708	198,368
5020 Total Revenues	103,963	299,547	5,708	198,368
EXPENDITURES:				
Current:				
0011 Instruction	103,963	299,547	5,708	198,368
0013 Curriculum and Instructional Staff Development	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
6030 Total Expenditures	103,963	299,547	5,708	198,368
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

240 National Breakfast and Lunch Program	255 ESSA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	385 Visually Impaired SSVI	410 Instructional Materials Allotment	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ 421,883	\$ -	\$ -	\$ -	\$ -	\$ 437,317	\$ 859,200
21,262	-	-	210	475,510	-	496,982
175,874	12,861	3,902	-	-	-	800,223
619,019	12,861	3,902	210	475,510	437,317	2,156,405
-	-	3,902	210	475,510	-	1,087,208
-	12,861	-	-	-	-	12,861
633,931	-	-	-	-	-	633,931
-	-	-	-	-	429,323	429,323
633,931	12,861	3,902	210	475,510	429,323	2,163,323
(14,912)	-	-	-	-	7,994	(6,918)
18,222	-	-	-	-	-	18,222
3,310	-	-	-	-	7,994	11,304
-	-	-	-	-	185,672	185,672
\$ 3,310	\$ -	\$ -	\$ -	\$ -	\$ 193,666	\$ 196,976

THIS PAGE LEFT BLANK INTENTIONALLY

REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	\$ 1.040000	\$ 0.500000	\$ 422,807,599
2010	1.040000	0.500000	422,733,905
2011	1.040000	0.500000	417,006,205
2012	1.040000	0.500000	426,933,889
2013	1.040000	0.500000	438,642,628
2014	1.170000	0.370000	481,248,624
2015	1.170000	0.370000	565,700,031
2016	1.170000	0.500000	659,376,119
2017	1.170000	0.500000	793,924,065
2018 (School year under audit)	1.170000	0.500000	974,074,754
1000 TOTALS			

(10) Beginning Balance 9/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2018
\$ 44,031	\$ -	\$ 6,137	\$ 2,950	\$ (1,842)	\$ 33,102
13,240	-	81	39	-	13,120
11,623	-	1,189	572	-	9,862
13,183	-	17,870	8,591	24,873	11,595
38,251	-	69,923	33,617	86,416	21,127
32,693	-	135,371	42,810	161,527	16,039
38,580	-	145,010	45,858	173,677	21,389
45,303	-	137,088	58,585	174,719	24,349
81,006	-	145,367	62,123	140,441	13,957
-	16,267,048	11,325,905	4,840,130	-	101,013
<u>\$ 317,910</u>	<u>\$ 16,267,048</u>	<u>\$ 11,983,941</u>	<u>\$ 5,095,275</u>	<u>\$ 759,811</u>	<u>\$ 265,553</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 431,000	\$ 411,000	\$ 421,883	\$ 10,883
5800 State Program Revenues	22,460	22,460	21,262	(1,198)
5900 Federal Program Revenues	191,770	191,770	175,874	(15,896)
5020 Total Revenues	<u>645,230</u>	<u>625,230</u>	<u>619,019</u>	<u>(6,211)</u>
EXPENDITURES:				
0035 Food Services	<u>645,230</u>	<u>645,230</u>	<u>633,931</u>	<u>11,299</u>
6030 Total Expenditures	<u>645,230</u>	<u>645,230</u>	<u>633,931</u>	<u>11,299</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(20,000)	(14,912)	5,088
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	20,000	18,222	(1,778)
1200 Net Change in Fund Balances	-	-	3,310	3,310
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,310</u>	<u>\$ 3,310</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 5,139,499	\$ 5,136,000	\$ 5,163,396	\$ 27,396
5800	State Program Revenues	610,000	610,000	553,150	(56,850)
5020	Total Revenues	5,749,499	5,746,000	5,716,546	(29,454)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	1,400,437	1,400,437	1,400,437	-
0072	Interest on Long-Term Debt	4,621,344	4,621,344	4,621,344	-
0073	Bond Issuance Cost and Fees	5,500	15,500	5,550	9,950
6030	Total Expenditures	6,027,281	6,037,281	6,027,331	9,950
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(277,782)	(291,281)	(310,785)	(19,504)
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	100,000	80,000	(20,000)
1200	Net Change in Fund Balances	(277,782)	(191,281)	(230,785)	(39,504)
0100	Fund Balance - September 1 (Beginning)	277,782	277,782	277,782	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ 86,501	\$ 46,997	\$ (39,504)

THIS PAGE LEFT BLANK INTENTIONALLY

FEDERAL AWARDS SECTION

Morgan, Davis & Company, P.C.
Post Office Box 8158
Greenville, Texas 75404

**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***

Independent Auditor's Report

Melissa Independent School District
1904 Cooper Street
Melissa, Texas 75454

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

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Melissa 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 Melissa Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Melissa Independent School District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

/s/ Morgan, Davis & Company, P.C.

Morgan, Davis & Company, P.C.
Greenville, Texas

December 31, 2018

Morgan, Davis & Company, P.C.
Post Office Box 8158
Greenville, Texas 75404

**Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and
Report on Schedule of Expenditures of Federal Awards Required by Uniform Guidance**

Independent Auditor's Report

Melissa Independent School District
1904 Cooper Street
Melissa, Texas 75454

Report on Compliance for Each Major Federal Program

We have audited Melissa 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 Melissa Independent School District's major federal programs for the year ended August 31, 2018. Melissa Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

Opinion on Each Major Federal Program

In our opinion, Melissa Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

Report on Internal Control Over Compliance

Management of Melissa 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 Melissa 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 Melissa Independent School District's internal control over compliance.

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of Melissa Independent School District as of and for the year ended August 31, 2018, and have issued our report thereon dated December 31, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

/s/ Morgan, Davis & Company, P.C.

Morgan, Davis & Company, P.C.
Greenville, Texas

December 31, 2018

MELISSA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2018

Summary of Auditor's Results:

The type of report we issued on whether the financial statements of Melissa Independent School District were prepared in accordance with GAAP as an unmodified opinion.

With respect to internal control over financial reporting, we identified no material weaknesses and we reported no significant deficiencies.

We noted no noncompliance material to the financial statements,

With respect to internal control over major federal programs, we identified no material weaknesses and we reported no significant deficiencies.

The type of report we issued on compliance for major programs was an unmodified opinion.

We disclosed no audit findings which the auditor is required to report in accordance with 2 CFR 200.516(a).

We identified the following major programs:

Special Education Cluster:

IDEA Part B, Formula, CFDA # 84.027

IDEA Part B, High Cost, CFDA # 84.027

IDEA Part B, Preschool, CFDA # 84.173

The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

The auditee does not qualify as a low risk auditee.

Financial Statements Findings:

There are no findings related to financial statements which are required to be reported in accordance with *Generally Accepted Auditing Standards*.

Federal Award Findings and Questioned Costs:

There are no findings or questioned costs related to federal awards which are required to be reported by 2 CFR 200.516(a).

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

(Prepared by the District's Administration)

There were no prior audit findings which required corrective action.

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

(Prepared by the District's Administration)

There were no corrective actions necessary for the year ended August 31, 2018.

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESSA, Title I, Part A - Improving Basic Programs	84.010A	17610101057950	\$ 1,500
ESSA, Title I, Part A - Improving Basic Programs	84.010A	18610101057950	102,463
Total CFDA Number 84.010A			103,963
*IDEA - Part B, Formula	84.027	18660001043908	299,547
*IDEA - Part B, High Cost	84.027	18660006043908	198,368
Total CFDA Number 84.027			497,915
*IDEA - Part B, Preschool	84.173	18661001043908	5,708
Total Special Education Cluster (IDEA)			503,623
Title III, Part A - English Language Acquisition	84.365A	18681001057950	3,902
ESSA, Title II, Part A, Supporting Effective Instr	84.367A	17694501057950	2,415
ESSA, Title II, Part A, Supporting Effective Instr	84.367A	18694501057950	10,446
Total CFDA Number 84.367A			12,861
Total Passed Through State Department of Education			624,349
TOTAL U.S. DEPARTMENT OF EDUCATION			624,349
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	N/A	2,154
Total Passed Through Texas Dept of Human Services			2,154
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			2,154
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	18-043908	40,377
*National School Lunch Program - Cash Assistance	10.555	18-043908	111,994
*National School Lunch Prog. - Non-Cash Assistance	10.555	18-043908	23,503
Total CFDA Number 10.555			135,497
Total Child Nutrition Cluster			175,874
Total Passed Through the State Department of Agriculture			175,874
TOTAL U.S. DEPARTMENT OF AGRICULTURE			175,874
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 802,377

*Clustered Programs

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2018

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.
3. The District participates in numerous Federal grant programs that 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, in any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2018, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.
4. The period performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Performance of Federal Funds, Part 3, Uniform Guidance Compliance Statement.
5. CFDA numbers for commodity assistance are the CFDA numbers of the programs under which USDA donated the commodities.
6. The District did not receive any indirect cost reimbursement for federal programs for this fiscal year.
7. The General Fund had SHARS program revenue of \$154,880 that is not considered federal financial assistance and is not included in the Schedule of Expenditures of Federal Awards.

SCHOOLS FIRST QUESTIONNAIRE

Melissa Independent School District

Fiscal Year 2018

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	227,029
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	4,261,468
SF13	Pension Expense (6147) at fiscal year-end.	