

SONORA INDEPENDENT SCHOOL DISTRICT
Annual Financial Report
Year Ended August 31, 2018

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CERTIFICATE OF THE BOARD

SONORA INDEPENDENT SCHOOL DISTRICT

Name of School District

SUTTON

County


218-901

County -
District
Number

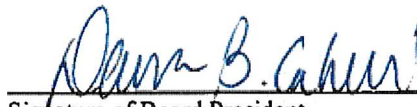
We, the undersigned, certify that the attached annual financial report of the above-named School District was reviewed and

X approved ___ disapproved for the year ended August 31, 2018, at a meeting of the Board of Trustees of such School District
(Check One)

on the 14th day of November, 2018.



Signature of Board Secretary



Signature of Board President

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

FINANCIAL SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

(325) 944-3571
FAX: (325) 942-1093
www.eckertcpa.com

Members of
American Institute of CPAs
Texas Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sonora Independent School District
807 South Concho
Sonora, TX 76950-3999

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sonora 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 risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

As discussed in Note I., H. to the financial statements, in 2018 the District adopted new accounting guidance prescribed by GASB Statement No. 75 for its other postemployment benefit (OPEB) plan - a multiple-employer, cost-sharing defined other postemployment benefit (OPEB) plan that has a special funding situation. Because GASB Statement No. 75 implements new measurement criteria and reporting provisions, significant information has been added to the government-wide statements. Exhibit A-1 discloses the District's net OPEB liability and some deferred resource outflows and deferred resource inflows related to the District's OPEB plan. Exhibit B-1 discloses the adjustment to the District's beginning net position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and net pension liability and contributions information and net OPEB liability and contributions information for the Teacher Retirement System of Texas on pages 4 through 8, 42, and 43 through 46, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Sonora Independent School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates 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 information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018, on our consideration of the Sonora 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 the effectiveness of the Sonora Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sonora Independent School District's internal control over financial reporting and compliance.

Eckert & Company, LLP

October 15, 2018



807 S. Concho
Sonora, Texas 76950
(325) 387-6940
FAX:(325) 387-5090

Ross Aschenbeck, Superintendent

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Sonora Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2018. It should be read in conjunction with the District's basic financial statements and independent auditor's report.

Financial Highlights

The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the end of the current year by \$24,362,970 (net position). Of this amount, \$6,366,292 (unrestricted) may be used to meet the District's ongoing obligations.

The District's total net position decreased by \$5,209,845 or 18%. This amount consists of a \$583,605 increase attributable to current year operations and a \$5,793,450 decrease attributable to a prior period adjustment described in Note IV., J. to the financial statements. The District's statement of activities shows total revenues of \$9,498,867 and total expenses of \$8,915,262.

The total fund balance of the General Fund is \$12,444,968 which is an increase of \$840,824 or 7% compared to the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Overview of the Financial Statements - Continued

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The governmental activities of the District include all activities related to public elementary and secondary education within the jurisdiction of the District

The District has no component units.

Fund Financial Statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. Data from other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund and Food Service Special Revenue Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with the budget for each fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis

Net Position - A summary of the District’s net position is presented below:

NET POSITION

| | Governmental Activities | |
|-----------------------------------|-------------------------|---------------|
| | August 31, | |
| | 2018 | 2017 |
| Current and Other Assets | \$ 13,324,590 | \$ 12,723,943 |
| Capital Assets | 17,986,267 | 19,098,737 |
| Total Assets | \$ 31,310,857 | \$ 31,822,680 |
| Deferred Outflows of Resources | \$ 739,147 | \$ 997,050 |
| Long-Term Liabilities Outstanding | \$ 5,189,949 | \$ 2,258,436 |
| Other Liabilities | 629,630 | 857,693 |
| Total Liabilities | \$ 5,819,579 | \$ 3,116,129 |
| Deferred Inflows of Resources | \$ 1,867,455 | \$ 130,786 |
| Net Position | | |
| Net Investment in Capital Assets | \$ 17,986,267 | \$ 19,098,737 |
| Restricted | 10,411 | 26,805 |
| Unrestricted | 6,366,292 | 10,447,273 |
| Total Net Position | \$ 24,362,970 | \$ 29,572,815 |

A large portion of the District's net position (\$17,986,267) reflects the District's investment in capital assets. These capital assets are used to provide public elementary and secondary education within the jurisdiction of the District; consequently, these assets are not available for future spending. An additional portion of the District’s net position (\$10,411) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$6,366,292) may be used to meet the District’s ongoing obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis - Continued

Governmental Activities - Governmental activities increased the District's net position by \$583,605 and \$1,502,655 for the fiscal years ended August 31, 2018 and 2017, respectively. Key elements of these increases are as follows:

CHANGES IN NET POSITION

| | <u>Governmental Activities</u> | |
|--|--------------------------------|----------------------|
| | <u>Year Ended August 31,</u> | |
| | <u>2018</u> | <u>2017</u> |
| Revenues | | |
| Program Revenues | | |
| Charges for Services | \$ 524,938 | \$ 506,749 |
| Operating Grants and Contributions* | (670,738) | 1,439,385 |
| General Revenues | | |
| Maintenance and Operations Taxes | 5,428,993 | 5,387,013 |
| Debt Service Taxes | 0 | 178,566 |
| State Aid - Formula Grants | 3,640,141 | 4,062,388 |
| Investment Earnings | 194,503 | 97,289 |
| Other | 381,030 | 2,990,343 |
| | <u>\$ 9,498,867</u> | <u>\$ 14,661,733</u> |
| Expenses | | |
| Instruction and Instructional-Related Services | \$ 4,518,252 | \$ 7,169,316 |
| Instructional and School Leadership | 501,196 | 792,758 |
| Support Services - Student (Pupil) | 1,726,919 | 2,559,654 |
| Administrative Support Services | 341,490 | 465,552 |
| Support Services - Nonstudent Based | 1,656,461 | 1,981,656 |
| Debt Service | 0 | 3,866 |
| Intergovernmental Charges | 170,944 | 186,276 |
| | <u>\$ 8,915,262</u> | <u>\$ 13,159,078</u> |
| Change in Net Position | \$ 583,605 | \$ 1,502,655 |
| Net Position - Beginning | 29,572,815 | 28,087,631 |
| Prior Period Adjustments | <u>(5,793,450)</u> | <u>(17,471)</u> |
| Net Position - Ending | <u>\$ 24,362,970</u> | <u>\$ 29,572,815</u> |

*See Note IV., I.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The District's governmental funds reported combined ending fund balances of \$12,554,714, an increase of \$841,349 or 7% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$12,444,968. Of this balance \$6,000,000 is assigned for capital expenditures for equipment.

Special Revenue Funds \$109,746. Of this balance \$10,411 is restricted for use in the Food Service Fund, and \$99,335 is committed for use by the Campus Activity Funds of the District.

General Fund Budget

The original budget for the General Fund was \$10,064,165, and the final amended budget was \$10,003,456 which represents a \$60,709 decrease in appropriations. Variances between the original budget and the final amended budget are reflected in Exhibit E-1 in the required supplementary information section of the audit report.

The District has adopted a budget for the General Fund in the amount of \$9,268,636 for the fiscal year 2019, which is a decrease of \$734,820 from the fiscal year 2018.

Capital Assets and Debt

Capital Assets - Financial statement footnote III., D. discloses the District's capital asset activity for the year ended August 31, 2018.

Long-Term Debt - The District had no long-term debt outstanding.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Ross Aschenbeck, Superintendent, Sonora Independent School District, 807 South Concho, Sonora, TX 76950-3999.

Basic Financial Statements

SONORA 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 | \$ 12,994,276 |
| 1220 Property Taxes - Delinquent | 211,740 |
| 1230 Allowance for Uncollectible Taxes | (71,494) |
| 1240 Due from Other Governments | 189,365 |
| 1290 Other Receivables, Net | 703 |
| Capital Assets: | |
| 1510 Land | 176,444 |
| 1520 Buildings, Net | 17,071,769 |
| 1530 Furniture and Equipment, Net | 710,152 |
| 1580 Construction in Progress | 27,902 |
| 1000 Total Assets | 31,310,857 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| 1705 Deferred Outflow Related to TRS Pension | 686,778 |
| 1706 Deferred Outflow Related to TRS OPEB | 52,369 |
| 1700 Total Deferred Outflows of Resources | 739,147 |
| LIABILITIES | |
| 2110 Accounts Payable | 5,043 |
| 2160 Accrued Wages Payable | 378,346 |
| 2180 Due to Other Governments | 232,711 |
| 2200 Accrued Expenses | 9,844 |
| 2300 Unearned Revenue | 3,686 |
| Noncurrent Liabilities: | |
| 2540 Net Pension Liability (District's Share) | 1,742,088 |
| 2545 Net OPEB Liability (District's Share) | 3,447,861 |
| 2000 Total Liabilities | 5,819,579 |
| DEFERRED INFLOWS OF RESOURCES | |
| 2605 Deferred Inflow Related to TRS Pension | 425,208 |
| 2606 Deferred Inflow Related to TRS OPEB | 1,442,247 |
| 2600 Total Deferred Inflows of Resources | 1,867,455 |
| NET POSITION | |
| 3200 Net Investment in Capital Assets | 17,986,267 |
| 3820 Restricted for Federal and State Programs | 10,411 |
| 3900 Unrestricted | 6,366,292 |
| 3000 Total Net Position | \$ 24,362,970 |

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

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

EXHIBIT B-1

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

Primary Government:

GOVERNMENTAL ACTIVITIES:

| | | | | |
|---|--------------|------------|--------------|----------------|
| 11 Instruction | \$ 4,201,552 | \$ 115,410 | \$ (497,001) | \$ (4,583,143) |
| 12 Instructional Resources and Media Services | 114,800 | 2,917 | 14,895 | (96,988) |
| 13 Curriculum and Instructional Staff Development | 201,900 | - | (42,065) | (243,965) |
| 21 Instructional Leadership | 94,124 | - | (24,519) | (118,643) |
| 23 School Leadership | 407,072 | - | (102,253) | (509,325) |
| 31 Guidance, Counseling, and Evaluation Services | 246,214 | - | (50,732) | (296,946) |
| 33 Health Services | 30,176 | - | 21,543 | (8,633) |
| 34 Student (Pupil) Transportation | 186,343 | - | (34,036) | (220,379) |
| 35 Food Services | 435,793 | 129,538 | 315,780 | 9,525 |
| 36 Extracurricular Activities | 828,393 | 180,116 | (71,748) | (720,025) |
| 41 General Administration | 341,490 | - | (49,985) | (391,475) |
| 51 Facilities Maintenance and Operations | 1,321,948 | 96,957 | (116,012) | (1,341,003) |
| 52 Security and Monitoring Services | 24,962 | - | - | (24,962) |
| 53 Data Processing Services | 309,551 | - | (34,605) | (344,156) |
| 99 Other Intergovernmental Charges | 170,944 | - | - | (170,944) |
| [TP] TOTAL PRIMARY GOVERNMENT: | \$ 8,915,262 | \$ 524,938 | \$ (670,738) | \$ (9,061,062) |

| Data Control Codes | General Revenues: | |
|--------------------------|--|---------------|
| | Taxes: | |
| MT | Property Taxes, Levied for General Purposes | 5,428,993 |
| SF | State Aid - Formula Grants | 3,640,141 |
| IE | Investment Earnings | 194,503 |
| MI | Miscellaneous Local and Intermediate Revenue | 381,030 |
| TR | Total General Revenues | 9,644,667 |
| CN | Change in Net Position | 583,605 |
| NB | Net Position - Beginning | 29,572,815 |
| PA | Prior Period Adjustment | (5,793,450) |
| NE | Net Position--Ending | \$ 24,362,970 |

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

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

| Data Control Codes | 10 General Fund | Other Funds | Total Governmental Funds |
|--|-----------------------|-------------------|--------------------------------|
| ASSETS | | | |
| 1110 Cash and Cash Equivalents | \$ 12,886,421 | \$ 107,855 | \$ 12,994,276 |
| 1220 Property Taxes - Delinquent | 211,740 | - | 211,740 |
| 1230 Allowance for Uncollectible Taxes | (71,494) | - | (71,494) |
| 1240 Due from Other Governments | 121,863 | 67,502 | 189,365 |
| 1260 Due from Other Funds | 22,911 | - | 22,911 |
| 1290 Other Receivables | 703 | - | 703 |
| 1000 Total Assets | <u>\$ 13,172,144</u> | <u>\$ 175,357</u> | <u>\$ 13,347,501</u> |
| LIABILITIES | | | |
| 2110 Accounts Payable | \$ 4,846 | \$ 197 | \$ 5,043 |
| 2160 Accrued Wages Payable | 342,249 | 36,097 | 378,346 |
| 2170 Due to Other Funds | - | 22,911 | 22,911 |
| 2180 Due to Other Governments | 232,711 | - | 232,711 |
| 2200 Accrued Expenditures | 7,124 | 2,720 | 9,844 |
| 2300 Unearned Revenue | - | 3,686 | 3,686 |
| 2000 Total Liabilities | <u>586,930</u> | <u>65,611</u> | <u>652,541</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| 2601 Unavailable Revenue - Property Taxes | 140,246 | - | 140,246 |
| 2600 Total Deferred Inflows of Resources | <u>140,246</u> | <u>-</u> | <u>140,246</u> |
| FUND BALANCES | | | |
| Restricted Fund Balance: | | | |
| 3450 Federal or State Funds Grant Restriction | - | 10,411 | 10,411 |
| Committed Fund Balance: | | | |
| 3545 Other Committed Fund Balance | - | 99,335 | 99,335 |
| Assigned Fund Balance: | | | |
| 3570 Capital Expenditures for Equipment | 6,000,000 | - | 6,000,000 |
| 3600 Unassigned Fund Balance | 6,444,968 | - | 6,444,968 |
| 3000 Total Fund Balances | <u>12,444,968</u> | <u>109,746</u> | <u>12,554,714</u> |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 13,172,144</u> | <u>\$ 175,357</u> | <u>\$ 13,347,501</u> |

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

SONORA 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 | \$ | 12,554,714 |
| 1 Capital assets net of accumulated depreciation used in governmental activities are not reported in governmental funds. | | 17,986,267 |
| 2 Deferred outflows of resources related to pensions are not reported in governmental funds. | | 686,778 |
| 3 Deferred outflows of resources related to other postemployment benefits are not reported in governmental funds. | | 52,369 |
| 4 Recognition of the District's proportionate share of the net pension liability is not reported in governmental funds. | | (1,742,088) |
| 5 Recognition of the District's proportionate share of the net other postemployment benefit liability is not reported in governmental funds. | | (3,447,861) |
| 6 Deferred inflows of resources related to pensions are not reported in governmental funds. | | (425,208) |
| 7 Deferred inflows of resources related to other postemployment benefits are not reported in governmental funds. | | (1,442,247) |
| 8 Property taxes unavailable to pay for current period expenditures are deferred in governmental funds. | | 140,246 |
| 19 Net Position of Governmental Activities | \$ | 24,362,970 |

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

SONORA 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 | Other Funds | Total Governmental Funds |
|--|-----------------------|-------------------|--------------------------------|
| REVENUES: | | | |
| 5700 Total Local and Intermediate Sources | \$ 6,263,664 | \$ 278,439 | \$ 6,542,103 |
| 5800 State Program Revenues | 4,108,399 | 33,693 | 4,142,092 |
| 5900 Federal Program Revenues | 37,277 | 734,026 | 771,303 |
| 5020 Total Revenues | <u>10,409,340</u> | <u>1,046,158</u> | <u>11,455,498</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 Instruction | 4,975,802 | 351,867 | 5,327,669 |
| 0012 Instructional Resources and Media Services | 108,399 | 30,491 | 138,890 |
| 0013 Curriculum and Instructional Staff Development | 248,643 | 10,748 | 259,391 |
| 0021 Instructional Leadership | 124,411 | - | 124,411 |
| 0023 School Leadership | 531,079 | - | 531,079 |
| 0031 Guidance, Counseling, and Evaluation Services | 309,358 | 8,500 | 317,858 |
| 0033 Health Services | 38,890 | - | 38,890 |
| 0034 Student (Pupil) Transportation | 221,061 | - | 221,061 |
| 0035 Food Services | 20,936 | 535,978 | 556,914 |
| 0036 Extracurricular Activities | 780,932 | 134,892 | 915,824 |
| 0041 General Administration | 405,908 | - | 405,908 |
| 0051 Facilities Maintenance and Operations | 1,446,265 | - | 1,446,265 |
| 0052 Security and Monitoring Services | 24,962 | - | 24,962 |
| 0053 Data Processing Services | 358,814 | - | 358,814 |
| Debt Service: | | | |
| 0071 Principal on Long-Term Debt | - | - | - |
| 0072 Interest on Long-Term Debt | - | - | - |
| 0073 Bond Issuance Cost and Fees | - | - | - |
| Capital Outlay: | | | |
| 0081 Facilities Acquisition and Construction | 27,622 | - | 27,622 |
| Intergovernmental: | | | |
| 0099 Other Intergovernmental Charges | 170,944 | - | 170,944 |
| 6030 Total Expenditures | <u>9,794,026</u> | <u>1,072,476</u> | <u>10,866,502</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>615,314</u> | <u>(26,318)</u> | <u>588,996</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| 7915 Transfers In | - | 44,891 | 44,891 |
| 8911 Transfers Out (Use) | (44,891) | - | (44,891) |
| 7080 Total Other Financing Sources (Uses) | <u>(44,891)</u> | <u>44,891</u> | <u>-</u> |
| 1200 Net Change in Fund Balances | 570,423 | 18,573 | 588,996 |
| 0100 Fund Balance - September 1 (Beginning) | 11,604,144 | 109,221 | 11,713,365 |
| 1300 Increase (Decrease) in Fund Balance | <u>270,401</u> | <u>(18,048)</u> | <u>252,353</u> |
| 3000 Fund Balance - August 31 (Ending) | <u>\$ 12,444,968</u> | <u>\$ 109,746</u> | <u>\$ 12,554,714</u> |

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

SONORA 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 | \$ 588,996 |
| Capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. | 83,751 |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. | (1,196,221) |
| Changes in the net pension liability and related deferred inflows and outflows are recognized in the government-wide financial statements but are not reported in governmental funds. | (88,346) |
| Changes in the net other postemployment benefit liability and related deferred inflows and outflows are recognized in the government-wide financial statements but are not reported in governmental funds. | 1,208,064 |
| Revenues from property taxes are deferred in governmental funds until they are considered available to finance current expenditures. In the government-wide financial statements, revenues are recognized when assessed, net of an allowance for uncollectible taxes. | (12,639) |
| Change in Net Position of Governmental Activities | \$ 583,605 |

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

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

| | Agency Funds |
|-----------------------------|-------------------|
| <hr/> | |
| ASSETS | |
| Cash and Cash Equivalents | \$ 100,556 |
| Total Assets | <u>\$ 100,556</u> |
| LIABILITIES | |
| Other Liabilities - Current | \$ 700 |
| Due to Student Groups | 99,856 |
| Total Liabilities | <u>\$ 100,556</u> |

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

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
August 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sonora Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally, the District complies with the requirements of the 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.

A. Reporting Entity

The District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Sonora Independent School District (the primary government). There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services - payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the District and (2) grants and contributions - payments from organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function or segment of the District. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide statement of net position.

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included in the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, revenues received from the state, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as unearned revenue until related and authorized expenditures have been made.

The government reports the following major governmental fund:

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

Additionally, the government reports the following fund type:

Agency Funds account for the activities of funds which are the property of student groups.

D. Interfund Receivables and Payables

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net position.

E. Receivables and Payables

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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

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

F. Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Capital Assets - Continued

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

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and Improvements | 10-40 |
| Vehicles | 5-10 |
| Furniture and Equipment | 5-10 |

G. Pensions

In accordance with accounting guidance prescribed by GASB Statement No. 68, the fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

H. Other Postemployment Benefits (OPEB)

In accordance with new accounting guidance prescribed by GASB Statement No. 75, the fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan, and all cash is held in a cash account.

I. Compensated Absences

The District pays auxiliary 12-month employees for their unused vacation leave upon termination of employment. The accumulated vacation leave cannot exceed 20 days.

A liability for these amounts is reported in governmental funds only if they are payable as a result of employee resignations and retirements.

J. Net Position on the Statement of Net Position

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents capital assets net of accumulated depreciation.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Net Position on the Statement of Net Position - Continued

Restricted for Federal and State Programs - This component of net position represents the balance of the Child Nutrition Program.

Unrestricted - This is the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources that is not reported as Net Investment in Capital Assets or Restricted for Federal and State Programs.

K. Fund Balances

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Board of Trustees.

Assigned - Amounts that are intended for a specific purpose but do not meet the definition of restricted or committed. The intent can be expressed by the Board of Trustees or by a Board designee.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

In the General Fund, the District strives to maintain a yearly fund balance in the general operating fund in which the total fund balance is five months of operating expenditures which includes unassigned fund balance of two months of operating expenditures.

L. Property Tax Revenues

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

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Property Tax Revenues - Continued

Taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles are based upon 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.

M. Interfund Transfers

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget

Formal budgetary accounting is employed for all required governmental fund types and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles.

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

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Food Service Special Revenue Fund. The remaining Special Revenue Funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments - Continued

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

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the District's name.

Concentration of Credit Risk: The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. The District is not exposed to this risk as described in the preceding paragraph

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At August 31, 2018, the District was not significantly exposed to credit risk.

Interest Rate Risk: Not applicable

Foreign Currency Risk: Not applicable

At August 31, 2018, the District's investments with respective maturities and credit ratings consisted of the following:

| <u>Public Funds Investment Pools</u> | <u>Fair Value</u> | <u>Percent</u> | <u>Weighted Average Maturity</u> | <u>Credit Rating</u> |
|--------------------------------------|----------------------|----------------|--|--------------------------|
| TexPool | \$ 5,843,360 | 55% | 28 Days | AAAm |
| TexPool <i>Prime</i> | 4,714,673 | 45% | 27 Days | AAAm |
| Total Public Funds Investment Pools | <u>\$ 10,558,033</u> | <u>100%</u> | | |

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the Pool and other persons who do not have a business relationship with the Pool and are qualified to advise the Pool; 2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments - Continued

The District's investment in Pools is reported at an amount determined by the fair value per share of the Pool's underlying portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940.

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments are summarized as follows:

| | State Entitlements | Federal Grants | Total |
|-----------------------|-----------------------|-------------------|------------|
| General Fund | \$ 121,863 | \$ 0 | \$ 121,863 |
| Special Revenue Funds | 0 | 67,502 | 67,502 |
| Totals | \$ 121,863 | \$ 67,502 | \$ 189,365 |

C. Interfund Transfers

Interfund transfers consist of the following:

| Transfers From | Transfers To | Amount | Purpose |
|----------------|-----------------------------|-----------|-------------------------|
| General Fund | Nonmajor Governmental Funds | \$ 44,891 | Subsidize Food Services |

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

D. Capital Assets

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

| <u>Governmental Activities</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Deletions</u> | <u>Reclassifications</u> | <u>Ending Balance</u> |
|---|------------------------------|-----------------------|--------------------|--------------------------|---------------------------|
| Capital Assets | | | | | |
| Land | \$ 176,444 | \$ 0 | \$ 0 | \$ 0 | \$ 176,444 |
| Buildings and Improvements | 35,675,152 | 25,122 | 0 | 3,071,541 | 38,771,815 |
| Furniture and Equipment | 4,010,499 | 51,129 | 53,442 | 0 | 4,008,186 |
| Construction in Progress | 3,091,943 | 7,500 | 0 | (3,071,541) | 27,902 |
| Total Capital Assets | <u>\$ 42,954,038</u> | <u>\$ 83,751</u> | <u>\$ 53,442</u> | <u>\$ 0</u> | <u>\$ 42,984,347</u> |
| Less Accumulated Depreciation | | | | | |
| Buildings and Improvements | \$ (20,745,723) | \$ (954,323) | \$ 0 | \$ 0 | \$ (21,700,046) |
| Furniture and Equipment | <u>(3,109,578)</u> | <u>(241,898)</u> | <u>(53,442)</u> | <u>0</u> | <u>(3,298,034)</u> |
| Total Accumulated Depreciation | <u>\$ (23,855,301)</u> | <u>\$ (1,196,221)</u> | <u>\$ (53,442)</u> | <u>\$ 0</u> | <u>\$ (24,998,080)</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 19,098,737</u> | <u>\$ (1,112,470)</u> | <u>\$ 0</u> | <u>\$ 0</u> | <u>\$ 17,986,267</u> |

Depreciation expense was charged to governmental activities functions as follows:

| | |
|--|---------------------|
| Instruction | \$ 730,422 |
| Instructional Resources and Media Services | 13,741 |
| Curriculum and Instructional Staff Development | 37,573 |
| Instructional Leadership | 18,581 |
| School Leadership | 78,631 |
| Guidance, Counseling, and Evaluation Services | 42,419 |
| Health Services | 5,139 |
| Student (Pupil) Transportation | 23,882 |
| Foods Services | 38,193 |
| Extracurricular Activities | 60,379 |
| General Administration | 44,833 |
| Facilities Maintenance and Operations | 79,389 |
| Data Processing Services | <u>23,039</u> |
| Total | <u>\$ 1,196,221</u> |

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

E. Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of a government's net position (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period.

A deferred inflow of resources is an acquisition of a government's net position (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period

Deferred outflows and inflows of resources are reported as described below:

Deferred Outflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) pension plan deferred outflows as detailed in financial statement footnote IV., A.

District's proportionate share of Teacher Retirement System of Texas (TRS) OPEB plan deferred outflows as detailed in financial statement footnote IV., B.

Deferred Inflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) pension plan deferred inflows as detailed in financial statement footnote IV., A.

District's proportionate share of Teacher Retirement System of Texas (TRS) OPEB plan deferred inflows as detailed in financial statement footnote IV., B.

Deferred Inflows (Balance Sheet - Governmental Funds)

Unavailable revenue - property taxes.

F. Unearned Revenue

Unearned revenue at year end consisted of the following:

| | |
|--------------------|-----------------------------|
| | Special Revenue Funds |
| | <hr/> |
| State Entitlements | \$ 3,686 |
| | <hr/> <hr/> |

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

G. Commitments Under Noncapitalized Leases

Commitments under operating lease agreements for equipment provide for minimum future rental payments as of August 31, 2018, as follows:

| <u>Year Ending</u> <u>August 31,</u> | |
|---|-------------------|
| 2019 | \$ 50,757 |
| 2020 | 50,757 |
| 2021 | <u>50,757</u> |
| Total Minimum Rentals | <u>\$ 152,271</u> |

Rental expenditures during the year ended August 31, 2018, were \$66,953.

H. Outstanding Encumbrances

There were no outstanding encumbrances that were provided for in the subsequent year's budget.

I. Revenues from Local and Intermediate Sources

Local and intermediate source revenues consists of the following:

| | General Fund | Special Revenue Funds | Total |
|--|---------------------|-----------------------------|---------------------|
| Property Taxes | \$ 5,499,860 | \$ 0 | \$ 5,499,860 |
| Tuition and Fees | 45,902 | 0 | 45,902 |
| Other Local Sources | 680,726 | 3,044 | 683,770 |
| Cocurricular, Enterprising Services, or Activities | <u>37,176</u> | <u>275,395</u> | <u>312,571</u> |
| Totals | <u>\$ 6,263,664</u> | <u>\$ 278,439</u> | <u>\$ 6,542,103</u> |

J. General Fund Federal Source Revenues

| <u>Program or Source</u> | <u>CFDA Number</u> | <u>Amount</u> |
|--|------------------------|------------------|
| E-Rate School and Library Program | -- | \$ 7,930 |
| School Health and Related Services (SHARS) | -- | <u>29,347</u> |
| Total | | <u>\$ 37,277</u> |

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description - The Sonora Independent School District participates in a cost-sharing multiple-employer defined benefit pension plan 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, Texas 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% (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; for those 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 postemployment benefit changes, including automatic COLAs. Ad hoc postemployment 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.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

| Contribution Rates | | |
|--|-------------|-------------|
| | <u>2017</u> | <u>2018</u> |
| Member | 7.7% | 7.7% |
| Non-Employer Contributing Entity (State) | 6.8% | 6.8% |
| Employers | 6.8% | 6.8% |
| District's 2018 Employer Contributions | | \$ 163,895 |
| District's 2018 Member Contributions | | 486,324 |
| District's 2017 NECE On-Behalf Contributions | | 276,834 |

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, 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, it 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.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Actuarial Assumptions - The total pension liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

| | |
|--|-----------------------------|
| Valuation Date | August 31, 2017 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Asset Valuation Method | Market Value |
| Single Discount Rate | 8.0% |
| Long-Term Expected Investment Rate of Return | 8.0% |
| Inflation | 2.5% |
| Salary Increases Including Inflation | 3.5% to 9.5% |
| Payroll Growth Rate | 2.5% |
| Benefit Changes During the Year | None |
| Ad hoc Postemployment Benefit Changes | None |

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

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

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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 System's target asset allocation as of August 31, 2017, are summarized below:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Real Return Geometric Basis</u> | <u>Long-Term Expected Portfolio Real Rate of Return*</u> |
|-------------------------------|--------------------------|------------------------------------|--|
| Global Equity | | | |
| U.S. | 18.0% | 4.6% | 1.0% |
| Non-U.S. Developed | 13.0% | 5.1% | 0.8% |
| Emerging Markets | 9.0% | 5.9% | 0.7% |
| Directional Hedge Funds | 4.0% | 3.2% | 0.1% |
| Private Equity | 13.0% | 7.0% | 1.1% |
| Stable Value | | | |
| U.S. Treasuries | 11.0% | 0.7% | 0.1% |
| Absolute Return | 0.0% | 1.8% | 0.0% |
| Hedge Funds (Stable Value) | 4.0% | 3.0% | 0.1% |
| Cash | 1.0% | -0.2% | 0.0% |
| Real Return | | | |
| Global Inflation Linked Bonds | 3.0% | 0.9% | 0.0% |
| Real Assets | 16.0% | 5.1% | 1.1% |
| Energy and Natural Resources | 3.0% | 6.6% | 0.2% |
| Commodities | 0.0% | 1.2% | 0.0% |
| Risk Parity | | | |
| Risk Parity | 5.0% | 6.7% | 0.3% |
| Inflation Expectations | | | 2.2% |
| Alpha | | | <u>1.0%</u> |
| Totals | <u>100.0%</u> | | <u>8.7%</u> |

* 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 2017 net pension liability:

| | <u>1% Decrease in Discount Rate (7%)</u> | <u>Discount Rate (8%)</u> | <u>1% Increase in Discount Rate (9%)</u> |
|--|--|-------------------------------|--|
| District's Proportionate Share of the Net Pension Liability | <u>\$ 2,936,816</u> | <u>\$ 1,742,088</u> | <u>\$ 747,283</u> |

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At August 31, 2018, the Sonora Independent School District reported a net pension liability of \$1,742,088 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|--|---------------------|
| District's Proportionate Share of the Collective Net Pension Liability | \$ 1,742,088 |
| State's Proportionate Share that is Associated with the District | <u>3,629,372</u> |
| Total | <u>\$ 5,371,460</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 0.000054483464% which was a decrease of 0.000005282% 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, the Sonora Independent School District recognized pension expense of \$276,834 and revenue of \$276,834 for support provided by the State in the government-wide statement of activities.

At August 31, 2018, the Sonora 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:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Actuarial Experience | \$ 25,488 | \$ 93,948 |
| Changes in Actuarial Assumptions | 79,355 | 45,429 |
| Net Difference Between Projected and Actual Investment Earnings | - | 126,959 |
| Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions | 418,040 | 158,872 |
| Contributions Paid to TRS Subsequent to the Measurement Date | <u>163,895</u> | <u>-</u> |
| Totals | <u>\$ 686,778</u> | <u>\$ 425,208</u> |

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

| <u>Year Ending August 31,</u> | <u>Pension Expense Amount</u> |
|-----------------------------------|---------------------------------------|
| 2019 | \$ 22,519 |
| 2020 | 133,721 |
| 2021 | 13,974 |
| 2022 | (22,832) |
| 2023 | (27,449) |
| Thereafter | (22,258) |

B. Defined Other Postemployment Benefit Plans

Plan Description - The Sonora Independent School District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined other postemployment 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 - Detailed 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% |

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

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 postemployment 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 and B coverage, with 20 to 29 years of service for the basic plan and the two optional plans:

TRS-Care Plan Premium Rates
Effective September 1, 2016 - December 31, 2017

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

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

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

Texas Insurance Code, Section 1575.202 establishes the state’s contribution rate which is 1% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor:

| Contribution Rates | | |
|---|-------------|-------------|
| | <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 Employer Contributions | \$ | 51,829 |
| District's 2018 Member Contributions | | 41,053 |
| District's 2017 NECE On-Behalf Contributions | | (1,774,178) |

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 million 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.

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% 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.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

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

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

Additional Actuarial Methods and Assumptions:

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

Discount Rate - A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The 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.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

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 | \$ 4,069,332 | \$ 3,447,861 | \$ 2,948,338 |

Healthcare Cost Trend Rates Sensitivity Analysis - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% 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 | \$ 2,870,689 | \$ 3,447,861 | \$ 4,205,183 |

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs - At August 31, 2018, the Sonora Independent School District reported a liability of \$3,447,861 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

| | |
|---|--------------|
| District's Proportionate Share of the Collective Net OPEB Liability | \$ 3,447,861 |
| State's Proportionate Share that is Associated with the District | 5,301,963 |
| Total | \$ 8,749,824 |

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 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective net OPEB liability was 0.000079286231% which was the same proportion measured as of August 31, 2016.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

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:

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

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

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.5%.
- 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, the Sonora Independent School District recognized OPEB expense of \$(1,774,178) and revenue of \$(1,774,178) for support provided by the State.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences Between Expected and Actual Actuarial Experience | \$ - | \$ 71,977 |
| Changes in Actuarial Assumptions | - | 1,370,270 |
| Net Difference Between Projected and Actual Investment Earnings | 524 | - |
| Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions | 16 | - |
| Contributions Paid to TRS Subsequent to the Measurement Date | 51,829 | - |
| Totals | \$ 52,369 | \$ 1,442,247 |

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 Ending August 31, | OPEB Expense Amount |
|---------------------------|---------------------------|
| 2019 | \$ (190,234) |
| 2020 | (190,234) |
| 2021 | (190,234) |
| 2022 | (190,234) |
| 2023 | (190,365) |
| Thereafter | (490,406) |

C. Health Care Coverage

The District participates in TRS-Active Care sponsored by the Teacher Retirement System of Texas. TRS-Active Care (the Plan) provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the Plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The Plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

D. 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, for which the District participated in a public entity risk pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding coverage for each of the past three fiscal years.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

E. Property and Liability Coverage

During the year ended August 31, 2018, the District entered into an interlocal participation agreement with the Texas Political Subdivisions Joint Self-Insurance Fund (TPS) for property and casualty coverage through a “guaranteed-cost plan.” TPS was formed on September 22, 1983, as the Texas Political Subdivisions Workers’ Compensation Joint Self-Insurance Fund to provide a vehicle for workers’ compensation coverage. The Texas Political Subdivisions Property Casualty Self-Insurance Fund was formed on October 1, 1991, to provide property and casualty coverage for members, and the two funds are operated jointly as TPS. Operated as a self-insurance pool, TPS offers workers’ compensation and property and casualty coverage to school districts, municipalities, hospital districts, counties, appraisal districts, port authorities, junior colleges, cities, housing authorities, municipal water districts, and other political subdivisions in accordance with the terms of interlocal agreements among members.

Guaranteed-cost members, who are nonassessable, combine their contributions to cover pooled losses and expenses. The required contribution for each guaranteed-cost member is based upon the member’s experience rated manual contribution affected by a factor for individual risk’s qualifications.

As required by interlocal agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the interlocal agreement, so that members will not have joint and several liability beyond their required contribution. TPS maintains adequate reinsurance to protect the integrity of the Fund and to reduce catastrophic and larger than anticipated losses. The terms and limits vary by line of coverage. The Fund uses an independent actuary to determine adequacy of reserves, and TPS fully funds those reserves. For the year ended August 31, 2018, TPS anticipates that the District has no additional liability beyond the contracted obligations for payment of contributions and/or any audits or addenda that may apply.

TPS is member owned and governed by a nine-member elected Board of Trustees, all active and committed volunteers representing local governments all across Texas. Trustees are Fund members themselves and operate the Fund on behalf of the Fund members pursuant to TPS Bylaws. TPS purchases reinsurance through A-rated carriers who require an independent annual actuarial study, which maintains the financial integrity and stability of the program. TPS is fully funded for losses, loss development and incurred but not reported losses (IBNR).

F. Unemployment Compensation Coverage

During the year ended August 31, 2018, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund’s Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2018, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund’s Board of Trustees in February of the following year. The Fund’s audited financial statements as of August 31, 2017, are available on the TASB Risk Management Fund website.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

G. Workers' Compensation Insurance

During the year ended August 31, 2018, the District met its statutory workers' compensation obligations through participation in the Deep East Texas Self Insurance Fund (the Fund), a public entity risk pool, which is self-sustained through member premiums. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, of the Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claim costs through the purchase of stop-loss coverage for any claims in excess of the Fund's self-insured retention of \$1,100,000. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2018, the Fund carries a discounted reserve of \$6,270,883 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2018, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on June 30. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of June 30, 2017, are available at the Fund's offices.

H. Contingencies

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

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

During the year under audit, the NECE expense related to GASB 75 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.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

I. Negative Operating Grants and Contributions - Statement of Activities - Continued

Following are the effects on the statement of activities related to GASB 75 as a result of the negative on-behalf accruals recorded:

| | <u>Operating Grants and Contributions</u> | <u>Negative On-Behalf Accruals</u> | <u>Operating Grants and Contributions (Excluding On-Behalf Accruals)</u> |
|---|---|--|--|
| 11 Instruction | \$ (497,001) | \$ 1,030,069 | \$ 533,068 |
| 12 Instructional Resources and Media Services | 14,895 | 15,418 | 30,313 |
| 13 Curriculum and Instructional Staff Development | (42,065) | 63,498 | 21,433 |
| 21 Instructional Leadership | (24,519) | 29,469 | 4,950 |
| 23 School Leadership | (102,253) | 122,933 | 20,680 |
| 31 Guidance, Counseling, and Evaluation Services | (50,732) | 71,216 | 20,484 |
| 33 Health Services | 21,543 | 9,385 | 30,928 |
| 34 Student (Pupil) Transportation | (34,036) | 40,913 | 6,877 |
| 35 Food Services | 315,780 | 63,853 | 379,633 |
| 36 Extracurricular Activities | (71,748) | 86,261 | 14,513 |
| 41 General Administration | (49,985) | 60,091 | 10,106 |
| 51 Facilities Maintenance and Operations | (116,012) | 139,468 | 23,456 |
| 53 Data Processing Services | <u>(34,605)</u> | <u>41,604</u> | <u>6,999</u> |
| Totals | <u>\$ (670,738)</u> | <u>\$ 1,774,178</u> | <u>\$ 1,103,440</u> |

J. Adjustments to Net Position/Fund Balances

During fiscal year 2018, the District adopted GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefit Other Than Pensions." With GASB 75, the District must assume its proportionate share of the net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The amount of the prior period adjustment is a decrease in net position of \$6,045,803.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2018

IV. OTHER INFORMATION - Continued

J. Adjustments to Net Position/Fund Balances - Continued

The financial statements reflect the following prior period adjustment:

| | Net Position <u>Exhibit B-1</u> | Fund Balances <u>Exhibit C-3</u> |
|--|---------------------------------------|--|
| General Fund | | |
| Foundation Adjustment | \$ 247,086 | \$ 247,086 |
| Debt Service Fund Balance Reclassification | 18,095 | 18,095 |
| Voided Checks | <u>5,220</u> | <u>5,220</u> |
| Total General Fund | \$ 270,401 | \$ 270,401 |
| Special Revenue Funds | | |
| Voided Checks | 47 | 47 |
| Debt Service Fund | | |
| Debt Service Fund Balance Reclassification | (18,095) | (18,095) |
| GASB 75 as Noted Above | <u>(6,045,803)</u> | <u>0</u> |
| Totals | <u>\$ (5,793,450)</u> | <u>\$ 252,353</u> |

K. Subsequent Events

The Sonora Independent School District entered into an agreement with the state enabling it to reduce its wealth per weighted student by purchasing attendance credits for the 2018-2019 school year.

The District's management has evaluated subsequent events through October 15, 2018, the date which the financial statements were available for issue.

Required Supplementary Information

SONORA 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 | \$ 5,745,425 | \$ 6,221,972 | \$ 6,263,664 | \$ 41,692 |
| 5800 | State Program Revenues | 4,105,122 | 4,072,653 | 4,108,399 | 35,746 |
| 5900 | Federal Program Revenues | 20,000 | 37,276 | 37,277 | 1 |
| 5020 | Total Revenues | 9,870,547 | 10,331,901 | 10,409,340 | 77,439 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 5,005,123 | 5,029,992 | 4,975,802 | 54,190 |
| 0012 | Instructional Resources and Media Services | 125,044 | 109,719 | 108,399 | 1,320 |
| 0013 | Curriculum and Instructional Staff Development | 267,747 | 253,690 | 248,643 | 5,047 |
| 0021 | Instructional Leadership | 122,020 | 127,020 | 124,411 | 2,609 |
| 0023 | School Leadership | 518,713 | 539,856 | 531,079 | 8,777 |
| 0031 | Guidance, Counseling, and Evaluation Services | 311,945 | 311,945 | 309,358 | 2,587 |
| 0033 | Health Services | 48,218 | 40,631 | 38,890 | 1,741 |
| 0034 | Student (Pupil) Transportation | 247,693 | 227,693 | 221,061 | 6,632 |
| 0035 | Food Services | 18,260 | 21,460 | 20,936 | 524 |
| 0036 | Extracurricular Activities | 833,374 | 799,203 | 780,932 | 18,271 |
| 0041 | General Administration | 397,730 | 412,542 | 405,908 | 6,634 |
| 0051 | Facilities Maintenance and Operations | 1,323,835 | 1,472,835 | 1,446,265 | 26,570 |
| 0052 | Security and Monitoring Services | 43,275 | 28,060 | 24,962 | 3,098 |
| 0053 | Data Processing Services | 363,859 | 363,859 | 358,814 | 5,045 |
| Capital Outlay: | | | | | |
| 0081 | Facilities Acquisition and Construction | 193,618 | 40,122 | 27,622 | 12,500 |
| Intergovernmental: | | | | | |
| 0099 | Other Intergovernmental Charges | 193,035 | 170,945 | 170,944 | 1 |
| 6030 | Total Expenditures | 10,013,489 | 9,949,572 | 9,794,026 | 155,546 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | (142,942) | 382,329 | 615,314 | 232,985 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 8911 | Transfers Out (Use) | (50,676) | (53,884) | (44,891) | 8,993 |
| 1200 | Net Change in Fund Balances | (193,618) | 328,445 | 570,423 | 241,978 |
| 0100 | Fund Balance - September 1 (Beginning) | 11,604,144 | 11,604,144 | 11,604,144 | - |
| 1300 | Increase (Decrease) in Fund Balance | - | - | 270,401 | 270,401 |
| 3000 | Fund Balance - August 31 (Ending) | \$ 11,410,526 | \$ 11,932,589 | \$ 12,444,968 | \$ 512,379 |

SONORA 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) | 0.000054483% | 0.000059765% | 0.000063402% | 0.000035715% |
| District's Proportionate Share of Net Pension Liability (Asset) | \$ 1,742,088 | \$ 2,258,436 | \$ 2,241,176 | \$ 953,997 |
| State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District | 3,629,372 | 4,659,739 | 4,598,223 | 3,958,383 |
| Total | <u>\$ 5,371,460</u> | <u>\$ 6,918,175</u> | <u>\$ 6,839,399</u> | <u>\$ 4,912,380</u> |
| District's Covered Payroll | \$ 6,771,380 | \$ 7,039,134 | \$ 6,971,739 | \$ 6,725,457 |
| District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll | 25.73% | 32.08% | 32.15% | 14.18% |
| 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."

SONORA 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 | \$ 163,895 | \$ 176,415 | \$ 189,889 | \$ 187,735 |
| Contribution in Relation to the Contractually Required Contribution | (163,895) | (176,415) | (189,889) | (187,735) |
| Contribution Deficiency (Excess) | \$ -0- | \$ -0- | \$ -0- | \$ -0- |
| District's Covered Payroll | \$ 6,315,895 | \$ 6,771,380 | \$ 7,039,134 | \$ 6,971,739 |
| Contributions as a Percentage of Covered Payroll | 2.59% | 2.61% | 2.70% | 2.69% |

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."

SONORA 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 Postemployment Benefits | 0.000079286% |
| District's Proportionate Share of Net Postemployment Benefit Liability (Asset) | \$ 3,447,861 |
| State's Proportionate Share of the Net Postemployment Benefit Liability (Asset) Associated with the District | 5,301,963 |
| Total | \$ 8,749,824 |
| District's Covered Payroll | \$ 6,771,380 |
| District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll | 50.92% |
| 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.

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

| | 2018 |
|---|--------------|
| Contractually Required Contribution | \$ 51,829 |
| Contribution in Relation to the Contractually Required Contribution | (51,829) |
| Contribution Deficiency (Excess) | \$ -0- |
| District's Covered Payroll | \$ 6,315,895 |
| 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.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Required Supplementary Information
August 31, 2018

Note A - Net Pension Liability

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.

Note B - Net OPEB Liability

Changes of Benefit Terms

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

Changes of Assumptions

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

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

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

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.5%.
- 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.

Other Supplementary Information

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

| Last 10 Years Ended August 31 | (1) | (2) | (3) |
|----------------------------------|-------------|--------------|--|
| | Tax Rates | | Assessed/Appraised Value for School Tax Purposes |
| | Maintenance | Debt Service | |
| 2009 and prior years | Various | Various | \$ Various |
| 2010 | 1.040000 | 0.064000 | 1,328,940,181 |
| 2011 | 1.040000 | 0.079690 | 1,048,719,315 |
| 2012 | 1.040000 | 0.079690 | 761,822,627 |
| 2013 | 1.040000 | 0.050000 | 725,008,444 |
| 2014 | 1.040000 | 0.050000 | 610,253,586 |
| 2015 | 1.040000 | 0.050000 | 604,062,522 |
| 2016 | 1.040000 | 0.046370 | 572,173,916 |
| 2017 | 1.040000 | 0.034440 | 508,409,120 |
| 2018 (School year under audit) | 1.040000 | 0.000000 | 515,430,881 |
| 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 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 11,840 | \$ - | \$ 194 | \$ - | \$ (367) | \$ 11,279 |
| 2,689 | - | - | - | - | 2,689 |
| 2,614 | - | 264 | - | - | 2,350 |
| 2,470 | - | 16 | - | (388) | 2,066 |
| 3,265 | - | 155 | - | (746) | 2,364 |
| 12,591 | - | 1,523 | - | (1,198) | 9,870 |
| 25,091 | - | 5,650 | - | (1,642) | 17,799 |
| 47,554 | - | 13,929 | - | (8,863) | 24,762 |
| 94,390 | - | 41,281 | - | (3,598) | 49,511 |
| - | 5,467,671 | 5,378,621 | - | - | 89,050 |
| <u>\$ 202,504</u> | <u>\$ 5,467,671</u> | <u>\$ 5,441,633</u> | <u>\$ -</u> | <u>\$ (16,802)</u> | <u>\$ 211,740</u> |

SONORA 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 | \$ 112,050 | \$ 126,650 | \$ 129,544 | \$ 2,894 |
| 5800 State Program Revenues | 2,100 | 2,160 | 2,162 | 2 |
| 5900 Federal Program Revenues | 323,000 | 350,356 | 355,427 | 5,071 |
| 5020 Total Revenues | <u>437,150</u> | <u>479,166</u> | <u>487,133</u> | <u>7,967</u> |
| EXPENDITURES: | | | | |
| 0035 Food Services | <u>487,826</u> | <u>533,050</u> | <u>524,577</u> | <u>8,473</u> |
| 6030 Total Expenditures | <u>487,826</u> | <u>533,050</u> | <u>524,577</u> | <u>8,473</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | (50,676) | (53,884) | (37,444) | 16,440 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7915 Transfers In | <u>50,676</u> | <u>53,884</u> | <u>44,891</u> | <u>(8,993)</u> |
| 1200 Net Change in Fund Balances | - | - | 7,447 | 7,447 |
| 0100 Fund Balance - September 1 (Beginning) | 2,930 | 2,930 | 2,930 | - |
| 1300 Increase (Decrease) in Fund Balance | <u>-</u> | <u>-</u> | <u>34</u> | <u>34</u> |
| 3000 Fund Balance - August 31 (Ending) | <u>\$ 2,930</u> | <u>\$ 2,930</u> | <u>\$ 10,411</u> | <u>\$ 7,481</u> |

SONORA 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 | \$ - | \$ - | \$ - | \$ - |
| 5800 | State Program Revenues | - | - | - | - |
| 5900 | Federal Program Revenues | - | - | - | - |
| 5020 | Total Revenues | - | - | - | - |
| EXPENDITURES: | | | | | |
| Debt Service: | | | | | |
| 0071 | Principal on Long-Term Debt | - | - | - | - |
| 0072 | Interest on Long-Term Debt | - | - | - | - |
| 0073 | Bond Issuance Cost and Fees | - | - | - | - |
| 6030 | Total Expenditures | - | - | - | - |
| 1200 | Net Change in Fund Balances | - | - | - | - |
| 0100 | Fund Balance - September 1 (Beginning) | 18,095 | 18,095 | 18,095 | - |
| 1300 | Increase (Decrease) in Fund Balance | - | - | (18,095) | (18,095) |
| 3000 | Fund Balance - August 31 (Ending) | \$ 18,095 | \$ 18,095 | \$ - | \$ (18,095) |

COMPLIANCE AND INTERNAL CONTROLS SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

(325) 944-3571
FAX: (325) 942-1093
www.eckertcpa.com

Members of
American Institute of CPAs
Texas Society of CPAs

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

Board of Trustees
Sonora Independent School District
807 South Concho
Sonora, TX 76950-3999

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sonora 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 October 15, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Sonora Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sonora Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Sonora 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 District'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 the audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sonora Independent School District's financial statements are free of 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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eckert & Company, LLP

October 15, 2018

SONORA INDEPENDENT SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 Year Ended August 31, 2018

A. Summary of Auditor's Results

Financial Statements

| | Unmodified | | | |
|--|------------|-----|---|---------------|
| Type of auditor's report issued | | | | |
| Internal Control Over Financial Reporting | | | | |
| Material weaknesses identified? | ___ | Yes | X | No |
| Significant deficiencies identified that are not considered to be material weaknesses? | ___ | Yes | X | None Reported |
| Noncompliance material to financial statements noted? | ___ | Yes | X | No |

Federal Awards

Under the guidelines in the Uniform Guidance, a Single Audit was not required due to expenditures of federal awards being below \$750,000.

| | |
|--|------------|
| Total Federal Program Revenues Per Exhibit C-3 | \$ 771,303 |
| E-Rate School and Library Program (Not Subject to Single Audit) | (7,930) |
| School Health and Related Services (SHARS) (Not Subject to Single Audit) | (29,347) |
| Total Expenditures of Federal Awards Subject to Single Audit | \$ 734,026 |

B. Findings - Financial Statements Audit

None

C. Findings - State Compliance

None

SCHOOLS FIRST QUESTIONNAIRE

SONORA 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. | 0 |
| SF11 | Net Pension Assets (1920) at fiscal year-end. | 0 |
| SF12 | Net Pension Liabilities (2540) at fiscal year-end. | 1742088 |
| SF13 | Pension Expense (6147) at fiscal year-end. | 0 |