

ROYAL
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2018

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Royal Independent School District
Annual Financial Report
For The Year Ended August 31, 2018

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Introductory Section

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Financial Section

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Independent Auditors' Report

To the Board of Trustees of
Royal Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Independent School District (the "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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 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

Change in Accounting Principle

In 2018, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedules of the District's proportionate share of the net pension and OPEB liability, and schedules of District contributions, identified as Required Supplementary Information in the table of contents, be presented to supplement the basic financial statements. Such information although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and the schedule of required responses are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and the schedule of required responses to selected school first indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2019 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 District's internal control over financial reporting and compliance.

Respectfully submitted,

The logo features the names 'BELT HARRIS PECHACEK, LLLP' in a serif font. The letters 'B', 'H', and 'P' are significantly larger and more ornate, with decorative flourishes extending from them. The remaining letters are smaller and more standard.

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 17, 2019

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Management's Discussion and Analysis

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ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2018

This discussion and analysis of Royal Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2018. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2018 was a deficit of \$14,458,324.
- For the fiscal year ended August 31, 2018, the District's general fund reported a total fund balance of \$5,243,093, of which \$200,592 is nonspendable and \$5,042,501 is unassigned. The debt service fund reported a fund balance of \$1,243,075.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds and the debt service fund) reported combined ending fund balances of \$6,555,112.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the fiduciary resources belong. This fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current period's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The government-wide statements report the District's net position and how it has changed. Net position is the difference between the District's assets and liabilities and is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base, staffing patterns, enrollment, and attendance.

The government-wide financial statements of the District include the *governmental activities*. The District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

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

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees (the "Board") establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was a deficit of \$14,458,324 at August 31, 2018. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2018. Within *Table 2*, the prior year revenues and expenses have been updated to remove fund level on-behalf revenues and expenses (excluding Medicare Part D) for pension contributions for comparative purposes, as a result of current year recognition changes. This change has no impact on the change in net position. The District reported an increase of \$3,242,323 in net position from the prior year. Long-term liabilities decreased due primarily to the decrease in the net other postemployment benefits (OPEB) liability. Unrestricted net position reflects a deficit created by a prior period adjustment resulting from the implementation of GASB 75 in the current fiscal year for OPEB. Although the District reports a deficit, the deficit is primarily due to reporting the District's proportionate share of the net OPEB liability. The total district liability is reported in the governmental activities; however, the actual liability does not require the use of current resources at the fund level, which results in a timing difference since the TRS-Care plan is funded on a pay-as-you-go basis. The District has made all contractually required contributions as noted in the required supplementary information and has sufficient fund balance to meet the District's ongoing obligations to students and creditors.

Revenues for the District decreased due to a decrease in operating grants and contributions due to the decrease in on-behalf revenues related to the decrease in the pension and OPEB liabilities. Expenses decreased significantly in instruction; curriculum and staff development; school leadership; guidance, counseling, and evaluation services; co-curricular activities; general administration; data processing; interest on long-term debt; and bond issuance costs due to expending less throughout the year and as the result of the decrease in the OPEB liability, pension liability, and the related decrease in on-behalf expenses.

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

Table 1
Net Position

Description	Governmental Activities		Total Change
	2018	2017	2018-2017
Current assets	\$ 7,796,091	\$ 7,570,625	\$ 225,466
Capital assets	60,684,071	62,831,116	(2,147,045)
Total Assets	68,480,162	70,401,741	(1,921,579)
Deferred charge on refunding	1,422,188	1,503,080	(80,892)
Deferred outflows related to pensions	1,967,377	2,594,581	(627,204)
Deferred outflows related to OPEB	134,677	92,519	42,158
Total Deferred Outflows of Resources	3,524,242	4,190,180	(665,938)
Current liabilities	268,259	513,517	(245,258)
Long-term liabilities	82,226,871	91,459,776	(9,232,905)
Total Liabilities	82,495,130	91,973,293	(9,478,163)
Deferred inflows related to pensions	730,529	319,275	411,254
Deferred inflows related to OPEB	3,237,069	-	3,237,069
Total Deferred Inflows of Resources	3,967,598	319,275	3,648,323
Net Position:			
Net invested in capital assets	(7,605,614)	(5,952,215)	(1,653,399)
Restricted	1,312,019	1,710,042	(398,023)
Unrestricted	(8,164,729)	(13,458,474)	5,293,745
Total Net Position	\$ (14,458,324)	\$ (17,700,647)	\$ 3,242,323

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

Table 2
Changes in Net Position

	Governmental		Total
	Activities		
	2018	2017	2018-2017
Revenues			
Program revenues:			
Charges for services	\$ 172,335	\$ 187,134	\$ (14,799)
Operating grants and contributions	463,166	3,240,909	(2,777,743)
General revenues:			
Property taxes	16,950,915	17,008,836	(57,921)
Grants and contributions not restricted	9,032,869	8,725,371	307,498
Investment earnings	97,901	54,096	43,805
Miscellaneous	131,408	696,796	(565,388)
Total Revenue	<u>26,848,594</u>	<u>29,913,142</u>	<u>(3,064,548)</u>
Expenses			
Instruction	10,378,229	15,301,034	(4,922,805)
Instructional resources and media services	332,790	389,215	(56,425)
Curriculum and staff development	693,539	920,139	(226,600)
Instructional leadership	473,499	564,943	(91,444)
School leadership	958,916	1,368,707	(409,791)
Guidance, counseling, and evaluation services	527,032	677,453	(150,421)
Social work/health services	288,935	394,743	(105,808)
Student transportation	1,036,924	1,034,382	2,542
Food services	1,642,170	1,459,899	182,271
Co-curricular/extracurricular activities	1,069,672	1,242,285	(172,613)
General administration	798,923	989,107	(190,184)
Plant maintenance and operations	2,428,238	2,399,218	29,020
Security and monitoring	73,804	82,227	(8,423)
Data processing services	354,124	466,120	(111,996)
Community services	9,003	12,069	(3,066)
Interest on long-term debt	2,221,338	2,403,839	(182,501)
Bond issuance costs	4,100	433,690	(429,590)
Payments related to shared services arrangements	21,999	5,907	16,092
Other intergovernmental charges	293,036	271,960	21,076
Total Expenses	<u>23,606,271</u>	<u>30,416,937</u>	<u>(6,810,666)</u>
Change in Net Position	<u>3,242,323</u>	<u>(503,795)</u>	<u>3,746,118</u>
Beginning net position	(17,700,647)	(17,196,852)	(503,795)
Ending Net Position	<u>\$ (14,458,324)</u>	<u>\$ (17,700,647)</u>	<u>\$ 3,242,323</u>

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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2018, the District's governmental funds reported a combined fund balance of \$6,555,112. This compares to a combined fund balance of \$5,750,867 at August 31, 2017. The fund balance in the general fund increased primarily due to an increase in local revenue due to an increase in property tax revenue and an increase in state foundation revenue. The debt service fund fund balance decreased due to debt service payments in excess of property tax collections. The District's combined governmental funds revenue increased by \$2,620,205. This consisted of an increase in state and federal revenue due to increase in state foundation revenue and funds related to Hurricane Harvey. The total combined revenue was \$31,907,702 this year compared to \$29,287,497 last year.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting principles, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2018, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were material changes between the original budget and the final amended budget for increases in instruction, general administration, and capital outlay. The general fund's budgeted revenues exceeded actual revenues by \$451,925 primarily due to receiving more state foundation revenue. Budgeted expenditures exceeded actual expenditures by \$969,081 due primarily to spending less in instruction, student transportation, and plant maintenance and operations.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost of an amount determined by the Board. Donated capital assets are recorded at acquisition value at the date of donation. During the fiscal year ended August 31, 2018, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At August 31, 2018, the District had a total of \$60,684,071 invested in capital assets (net of accumulated depreciation) such as land, vehicles, construction in progress, buildings, and District equipment. This total includes \$386,586 invested and \$272,523 disposed of during the fiscal year ended August 31, 2018.

Major capital asset events during the year included the following:

- Purchase of two buses for \$99,127 and \$96,926
- Purchase of a van for \$22,388
- Purchase of four convection ovens for \$39,986
- Purchase of server refresh for \$60,382
- Purchase of playground equipment of \$5,923
- Purchase of a gooseneck trailer for \$6,950
- Purchase of security cameras for elementary campus for \$34,866
- Purchase of livestock pens \$10,300
- Purchase of jump pits for \$9,738

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At August 31, 2018, the District had \$64,755,198 in general obligation bonds, tax notes, and time warrants outstanding versus \$66,379,440 last year.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The District's management takes into consideration all aspects that influence school district budgets during the budget development process. This includes instructional improvements, student enrollment, property values, facility needs, economy, location, and new legislative mandates. The District encompasses 161 square miles located thirty-five miles west of Houston in southern Waller County along the West I-10 Corridor.

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2018

This prime location of land along I-10 and the District's approved Freeport exemption provides competition for potential development of prospective commercial businesses. The most recent additions during 2018 are the completion of Amazon's one million-square-foot fulfillment center, a Hyundai dealership, and Goya's expansion that doubled the manufacturing facility and distribution center. The new Twinwood business park, located south of I-10 between Woods Road and FM 1489, will be the relocation site for Man Diesel & Turbo SE's North American headquarters, a 137,434 square foot facility, to be completed in 2019.

- LGI Homes, Inc. opened Crystal Lakes in September 2017, a 214-new home construction development in Brookshire. Another 915-home development broke ground located in the northeast part of the District to be completed within four years.
- Since tax year 2012, the assessed property values increased 38.52%, averaging 6.73% per year. From tax year 2016 to 2017, values increased by 3.78% which reflects the uptick in the economy. Values are expected to continue to increase for the 2018 tax year.
- Since 2012-13, the total student population increased 15.46% from 2,089 to 2,412 in 2017-18, averaging 2.93% per year during this period. The District expects this trend to continue.
- Through a competitive bid process, the District refunded a par amount of \$3,220,000 in Unlimited Tax Refunding Bonds, Series 2018, with a Permanent School Fund Guarantee Program. This transaction resulted in a net present value savings of \$78,875, a percentage savings of 2.4775329%.
- District has continued its partnership with the Boys and Girls Club of Greater Houston with its location on the District's premises, to provide sports and quality after school programs and activities for the students. The average daily attendance for the Royal Boys and Girls Club is approximately 150 students.
- A Royal Independent School District Education Foundation was established to supplement the District's programs and activities. The Foundation received its 501(c)(3) exemption status in November 2016. The District received grants totaling \$12,305 during its first year in 2017-18.
- The District received a \$312,217 Impact Aid for Displaced Students and a \$109,905 Restart Grant that covered related general fund reimbursable expenditures resulting from Hurricane Harvey in August 2017.
- The District contracted Huckabee and Associates Inc. in October 2018 to do an assessment of enrollment, facility needs and bond projections for a ten-year plan.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at P.O. Box 489, Pattison, Texas 77466 or by calling (281) 934-1330.

Basic Financial Statements

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

1

Data Control Codes	Governmental Activities
ASSETS:	
1110 <i>Cash and Cash Equivalents</i>	\$ 1,931,925
1120 <i>Current Investments</i>	3,427,115
1220 <i>Property Taxes Receivable</i>	1,690,263
1230 <i>Allowance for Uncollectible Taxes</i>	(543,815)
1240 <i>Due from Other Governments</i>	1,064,852
1290 <i>Other Receivables (Net)</i>	8,188
1300 <i>Inventories</i>	16,971
1410 <i>Prepaid Items</i>	200,592
Capital Assets:	
1510 <i>Land</i>	816,227
1520 <i>Buildings and Improvements, Net</i>	59,141,503
1530 <i>Equipment, Net</i>	285,760
1530 <i>Vehicles, Net</i>	440,581
1000 Total Assets	<u>68,480,162</u>
DEFERRED OUTFLOWS OF RESOURCES:	
1700 <i>Deferred Charges on Refunding</i>	1,422,188
1705 <i>Deferred Outflows Related to Pensions</i>	1,967,377
1706 <i>Deferred Outflows Related to OPEB</i>	134,677
1700 Total Deferred Outflows of Resources	<u>3,524,242</u>
LIABILITIES:	
2110 <i>Accounts Payable</i>	62,120
2140 <i>Interest Payable</i>	173,729
2165 <i>Accrued Liabilities</i>	178
2180 <i>Due to Other Governments</i>	15,261
2300 <i>Deferred Revenue</i>	16,971
Noncurrent Liabilities:	
2501 <i>Due Within One Year</i>	1,519,557
2502 <i>Due in More Than One Year</i>	68,192,317
2540 <i>Net Pension Liability</i>	4,776,402
2545 <i>Net OPEB Liability</i>	7,738,595
2000 Total Liabilities	<u>82,495,130</u>
DEFERRED INFLOWS OF RESOURCES:	
2605 <i>Deferred Inflows Related to Pensions</i>	730,529
2606 <i>Deferred Inflows Related to OPEB</i>	3,237,069
2600 Total Deferred Inflows of Resources	<u>3,967,598</u>
NET POSITION:	
3200 Net Investment in Capital Assets	(7,605,614)
Restricted For:	
3820 <i>Federal and State Programs</i>	48,945
3850 <i>Debt Service</i>	1,243,075
3870 <i>Campus Activities</i>	18,080
3890 <i>Other Purposes</i>	1,919
3900 Unrestricted	(8,164,729)
3000 Total Net Position	<u>\$ (14,458,324)</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 10,378,229	\$ --	\$ (779,288)	\$ (11,157,517)
12	Instructional Resources and Media Services	332,790	--	(22,096)	(354,886)
13	Curriculum and Staff Development	693,539	--	(3,967)	(697,506)
21	Instructional Leadership	473,499	--	(8,986)	(482,485)
23	School Leadership	958,916	--	(171,703)	(1,130,619)
31	Guidance, Counseling, and Evaluation Services	527,032	--	91,019	(436,013)
32	Social Work Services	79,662	--	(7,543)	(87,205)
33	Health Services	209,273	--	(41,678)	(250,951)
34	Student Transportation	1,036,924	--	83,082	(953,842)
35	Food Service	1,642,170	149,811	1,268,551	(223,808)
36	Cocurricular/Extracurricular Activities	1,069,672	22,524	(49,457)	(1,096,605)
41	General Administration	798,923	--	(79,113)	(878,036)
51	Facilities Maintenance and Operations	2,428,238	--	139,173	(2,289,065)
52	Security and Monitoring Services	73,804	--	(6,607)	(80,411)
53	Data Processing Services	354,124	--	(22,382)	(376,506)
61	Community Services	9,003	--	1,988	(7,015)
72	Interest on Long-term Debt	2,221,338	--	50,179	(2,171,159)
73	Bond Issuance Costs and Fees	4,100	--	--	(4,100)
93	Payments Related to Shared Services Arrangements	21,999	--	21,994	(5)
99	Other Intergovernmental Charges	293,036	--	--	(293,036)
TG	Total Governmental Activities	23,606,271	172,335	463,166	(22,970,770)
TP	Total Primary Government	\$ 23,606,271	\$ 172,335	\$ 463,166	(22,970,770)
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				12,890,567
DT	Property Taxes, Levied for Debt Service				4,060,348
IE	Investment Earnings				97,901
GC	Grants and Contributions Not Restricted to Specific Programs				9,032,869
MI	Miscellaneous				131,408
TR	Total General Revenues				26,213,093
CN	Change in Net Position				3,242,323
NB	Net Position - Beginning				(4,131,067)
PA	Prior Period Adjustment				(13,569,580)
	Net Position - Beginning, as Restated				(17,700,647)
NE	Net Position - Ending				\$ (14,458,324)

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2018

Data Control Codes	10 General Fund	Hurricane Recovery Grants
ASSETS:		
1110	\$ 747,244	\$ --
1120	3,244,313	--
1220	1,181,446	--
1230	(362,468)	--
1240	412,111	422,122
1260	683,710	--
1290	6,920	--
1300	--	--
1410	200,592	--
1000	<u>\$ 6,113,868</u>	<u>\$ 422,122</u>
LIABILITIES:		
Current Liabilities:		
2110	\$ 51,796	\$ --
2150	--	--
2170	--	422,122
2180	--	--
2300	--	--
2000	<u>51,796</u>	<u>422,122</u>
DEFERRED INFLOWS OF RESOURCES:		
2600	818,978	--
2600	<u>818,978</u>	<u>--</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410	--	--
3430	200,592	--
Restricted Fund Balances:		
3450	--	--
3480	--	--
3490	--	--
3600	5,042,501	--
3000	<u>5,243,093</u>	<u>--</u>
4000	<u>\$ 6,113,868</u>	<u>\$ 422,122</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 1,019,740	\$ 164,941	\$ 1,931,925
182,802	--	3,427,115
508,817	--	1,690,263
(181,347)	--	(543,815)
40,533	190,086	1,064,852
--	--	683,710
--	1,268	8,188
--	16,971	16,971
--	--	200,592
<u>\$ 1,570,545</u>	<u>\$ 373,266</u>	<u>\$ 8,479,801</u>
\$ --	\$ 10,324	\$ 62,120
--	178	178
--	261,588	683,710
--	15,261	15,261
--	16,971	16,971
<u>--</u>	<u>304,322</u>	<u>778,240</u>
<u>327,470</u>	<u>--</u>	<u>1,146,448</u>
<u>327,470</u>	<u>--</u>	<u>1,146,448</u>
--	16,971	16,971
--	--	200,592
--	31,974	31,974
1,243,075	--	1,243,075
--	19,999	19,999
--	--	5,042,501
<u>1,243,075</u>	<u>68,944</u>	<u>6,555,112</u>
<u>\$ 1,570,545</u>	<u>\$ 373,266</u>	<u>\$ 8,479,801</u>

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

Total fund balances - governmental funds balance sheet	\$ 6,555,112
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	60,684,071
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,146,448
Payables for bond principal which are not due in the current period are not reported in the funds.	(66,039,685)
Payables for bond interest which are not due in the current period are not reported in the funds.	(173,729)
Payables for notes which are not due in the current period are not reported in the funds.	(2,250,000)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(4,776,402)
Deferred inflows of resources related to Teacher Retirement System of Texas (TRS) are not reported in the funds.	(730,529)
Deferred outflows of resources related to TRS are not reported in the funds.	1,967,377
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(7,738,595)
Deferred inflows of resources related to the OPEB plan are not reported in the funds.	(3,237,069)
Deferred outflows of resources related to the OPEB plan are not reported in the funds.	<u>134,677</u>
Net position of governmental activities - Statement of Net Position	<u>\$ (14,458,324)</u>

The accompanying notes are an integral part of this statement.

ROYAL 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	Hurricane Recovery Grants
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 13,379,934	\$ --
5800 <i>State Program Revenues</i>	10,141,674	--
5900 <i>Federal Program Revenues</i>	667,872	446,359
5020 <i>Total Revenues</i>	<u>24,189,480</u>	<u>446,359</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	12,881,592	209,014
0012 <i>Instructional Resources and Media Services</i>	187,073	--
0013 <i>Curriculum and Staff Development</i>	811,092	--
0021 <i>Instructional Leadership</i>	576,203	--
0023 <i>School Leadership</i>	1,322,352	--
0031 <i>Guidance, Counseling, and Evaluation Services</i>	521,826	--
0032 <i>Social Work Services</i>	58,799	--
0033 <i>Health Services</i>	248,718	--
0034 <i>Student Transportation</i>	1,166,077	127,440
0035 <i>Food Service</i>	4,598	--
0036 <i>Cocurricular/Extracurricular Activities</i>	878,152	--
0041 <i>General Administration</i>	963,380	--
0051 <i>Facilities Maintenance and Operations</i>	2,287,333	109,905
0052 <i>Security and Monitoring Services</i>	88,215	--
0053 <i>Data Processing Services</i>	479,213	--
0061 <i>Community Services</i>	7,194	--
0071 <i>Principal on Long-term Debt</i>	105,000	--
0072 <i>Interest on Long-term Debt</i>	60,844	--
0073 <i>Bond Issuance Costs and Fees</i>	400	--
0081 <i>Capital Outlay</i>	34,866	--
0093 <i>Payments to Shared Services Arrangements</i>	--	--
0099 <i>Other Intergovernmental Charges</i>	293,036	--
6030 <i>Total Expenditures</i>	<u>22,975,963</u>	<u>446,359</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>		
1100 <i>Expenditures</i>	<u>1,213,517</u>	--
1200 <i>Net Change in Fund Balances</i>	<u>1,213,517</u>	--
0100 <i>Fund Balances - Beginning</i>	4,029,576	--
3000 <i>Fund Balances - Ending</i>	<u>\$ 5,243,093</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 4,128,611	\$ 171,821	\$ 17,680,366
50,179	55,534	10,247,387
--	2,865,718	3,979,949
<u>4,178,790</u>	<u>3,093,073</u>	<u>31,907,702</u>
--	1,360,034	14,450,640
--	4,756	191,829
--	95,870	906,962
--	29,431	605,634
--	1,835	1,324,187
--	167,390	689,216
--	--	58,799
--	--	248,718
--	--	1,293,517
--	1,454,260	1,458,858
--	18,788	896,940
--	1,914	965,294
--	3,861	2,401,099
--	--	88,215
--	--	479,213
--	1,809	9,003
1,519,242	--	1,624,242
2,996,246	--	3,057,090
3,700	--	4,100
--	--	34,866
--	21,999	21,999
--	--	293,036
<u>4,519,188</u>	<u>3,161,947</u>	<u>31,103,457</u>
(340,398)	(68,874)	804,245
<u>(340,398)</u>	<u>(68,874)</u>	<u>804,245</u>
1,583,473	137,818	5,750,867
<u>\$ 1,243,075</u>	<u>\$ 68,944</u>	<u>\$ 6,555,112</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds	\$ 804,245
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	386,586
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,533,631)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(326,838)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(1,084,525)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	1,084,525
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,519,242
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	105,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	111,333
The accretion of interest on capital appreciation bonds is not reported in the funds.	731,104
(Increase) decrease in accrued interest from beginning of period to end of period.	(6,685)
Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred outflows of resources.	573,776
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	(850,402)
Implementing GASB 75 required certain expenditures to be de-expended and recorded as deferred outflows of resources.	(4,221,520)
The District's share of the unrecognized deferred inflows and outflows for the OPEB plan was amortized.	<u>6,950,113</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 3,242,323</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
	<u>Private Purpose Trust Fund</u>	<u>Student Activity</u>
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ 1,500	\$ 36,563
1000 Total Assets	<u>1,500</u>	<u>36,563</u>
LIABILITIES:		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	--	36,563
2000 Total Liabilities	<u>--</u>	<u>36,563</u>
NET POSITION:		
3800 <i>Held in Trust</i>	1,500	--
3000 Total Net Position	<u>\$ 1,500</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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

	Private- Purpose Trusts
Additions:	
Investment Income	\$ --
Total Additions	<u> --</u>
Deductions:	--
Change in Net Position	--
Net Position-Beginning of the Year	1,500
Net Position-End of the Year	<u>\$ 1,500</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

A. Summary of Significant Accounting Policies

The basic financial statements of Royal Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees (the "Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state, and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation and Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

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

Hurricane Recovery Grant Funds: These funds are used to account for revenues and expenditures related to the Emergency Impact Aid and Restart Hurricane Recovery grant awards and entitlements. These funds are primarily on a reimbursement basis and have a program year that does not coincide with the District's fiscal year.

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

Debt Service Fund: This fund is used to account for tax revenues and for the repayment of principal, interest, and related costs on long-term debt for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for revenues and expenditures related to grant awards and entitlements from federal, state, and local agencies. These funds are primarily on a reimbursement basis. Nearly all of these funds are legally required to have an adopted budget.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

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

b. Measurement Focus and Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used it is the policy to use restricted resources first, then unrestricted resources.

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

3. Financial Statement Amounts

a. Property Taxes

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

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

b. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Agriculture. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Agriculture and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies, as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at acquisition value at the date of the 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. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Building and Improvements	7-39
Vehicles	5
Equipment	1-7

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

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement, *deferred outflows of resources*, represents a consumption of net position that applies to one or more future periods and so will *not* be recognized as an outflow of resources (expenses/expenditures) until then. The District has six items that qualify for reporting in this category on the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its acquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the service lives of pension plan members. A deferred charge has been recognized for employer pension and OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year. This amount is deferred and recognized as a reduction to the net pension and OPEB liability during the measurement period in which the contributions were made. Deferred outflows of resources are recognized for the difference between the projected and actual investment earnings on the OPEB plan assets. This amount is deferred and amortized over a period of five years. Another deferral is recognized for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined benefit pension and OPEB plans. These amounts are deferred and amortized over the average of the expected service lives of pension and OPEB plan members.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to one or more future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has four items that qualify for reporting in this category in the government-wide statement of net position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the District's defined pension and OPEB plans. These amounts are amortized over the average of the expected service lives of pension plan and OPEB plan members. Deferred inflows of resources are recognized for the difference between the projected and actual investment earnings in the pension plan. This amount is deferred and amortized over a period of five years. Another deferral is recognized for the changes in proportion and differences between the employer's contributions and the proportionate share of contributions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

e. Receivable and Payable Balances

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 of year end.

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

f. Interfund Activity

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

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board. Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board or by an official or body to which the Board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

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

j. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

k. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

l. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

m. 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 other postemployment benefit (OPEB) plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. Teacher Retirement System of Texas (TRS) and Texas Public School Retired Employees Group Insurance Program (TRS-Care) are 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 Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

During the year under audit, the NECE expense was negative due to changes in benefits within TRS-Care. 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.

ROYAL INDEPENDENT SCHOOL DISTRICT

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FOR THE YEAR ENDED AUGUST 31, 2018

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

	Operating Grants and Contributions (Excluding On- Behalf Accruals)	Negative On-Behalf Accruals	Operating Grants and Contributions As Reported
11 - Instruction	\$ 1,931,333	\$ (2,710,621)	\$ (779,288)
12 - Instructional Resources and Media Services	6,345	(28,441)	(22,096)
13 - Curriculum and Instructional Staff Development	114,830	(118,797)	(3,967)
21 - Instructional Leadership	53,528	(62,514)	(8,986)
23 - School Leadership	47,841	(219,544)	(171,703)
31 - Guidance, Counseling, and Evaluation Services	184,981	(93,962)	91,019
32 - Social Work Services	2,052	(9,595)	(7,543)
33 - Health Services	5,265	(46,943)	(41,678)
34 - Student (Pupil) Transportation	167,906	(84,824)	83,082
35 - Food Services	1,268,551	--	1,268,551
36 - Extracurricular Activities	16,225	(65,682)	(49,457)
41 - General Administration	37,302	(116,415)	(79,113)
51 - Facilities Maintenance and Operations	184,172	(44,999)	139,173
52 - Security and Monitoring Services	3,010	(9,617)	(6,607)
53 - Data Processing Services	14,360	(36,742)	(22,382)
61 - Community Services	1,988	--	1,988
72 - Interest on Long-Term Debt	50,179	--	50,179
93 - Payments Related to Shared Services Arrangements	21,994	--	21,994
	<u>\$ 4,111,861</u>	<u>\$ (3,648,695)</u>	<u>\$ 463,166</u>

4. Pensions

The fiduciary net position of 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' 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.

5. Other Postemployment Benefits

The fiduciary net position of TRS-Care 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 pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments (including refunds of employee contributions) 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.

6. New Accounting Standards Adopted

In fiscal year 2018, the District adopted a new statement of financial accounting standards issued by GASB: Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (the "Statement").

ROYAL INDEPENDENT SCHOOL DISTRICT
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The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. It also improves information provided by state and local governmental employers about support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The financial statements and note disclosures have been updated for the effects of the adoption of the Statement.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2018, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,969,988 and the bank balance was \$2,361,856. The District's cash deposits at August 31, 2018, and during the year ended August 31, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions: 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas; 2) certificates of deposit; 3) certain municipal securities; 4) securities lending program; 5) repurchase agreements; 6) bankers' acceptances; 7) mutual funds; 8) investment pools; 9) guaranteed investment contracts; and 10) commercial paper.

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The District's investments at August 31, 2018 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
TexStar	\$ 348,585	-
TexPool	1,628,860	-
LOGIC	1,449,670	-
Total Investments	<u>\$ 3,427,115</u>	-
Portfolio weighted average maturity		-

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. 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 year end, the District was not significantly exposed to credit risk.

At August 31, 2018, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

<u>Investment or Investment Type</u>	<u>Administrator</u>	<u>Rating</u>
TexStar	First Southwest & JPMorgan Investment Mgmt, Inc	AAAm*
TexPool	Federated Investors, Inc	AAAm*
LOGIC	First Southwest & JPMorgan Investment Mgmt, Inc	AAA*

*Rated by Standard and Poor's Investor Services

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

ROYAL INDEPENDENT SCHOOL DISTRICT
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e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "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 'AAA-m' 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.

The District's investments in Pools are 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 (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

LOGIC

The District invests in the Local Government Investment Cooperative (LOGIC), which is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. LOGIC's governing body is a five-member board of directors comprised of employees, officers, or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators of LOGIC. The co-administrators of the day-to-day administrator of LOGIC are First Southwest Company and J. P. Morgan Investment Management, Inc. LOGIC is rated at a 'AAA' or equivalent rating from at least one nationally recognized rating agency and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. LOGIC seeks to maintain a net asset value of \$1.00 per unit and is designed to be used for investment of funds which may be needed at any time.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

TexSTAR

The District invests in the Texas Short-Term Asset Reserve Program ("TexSTAR"), which has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member board of directors (the "Board"). In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Company (FSC) serve as co-administrators for TexSTAR under an agreement with the Board. JPMIM provides investment management services and FSC provides participant services and marketing. Custodial, fund accounting, and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary, J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. The business affairs of TexSTAR are managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated 'AAAm' by Standard and Poor's and is not operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

TexPool

The District invests in the Texas Local Government Investment Pool ("TexPool"), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board (the "Board") to advise with respect to TexPool. The Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool and are qualified to advise in respect to TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool is rated 'AAAm' by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

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

D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 816,227	\$ --	\$ --	\$ 816,227
Total capital assets not being depreciated	<u>816,227</u>	<u>--</u>	<u>--</u>	<u>816,227</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	99,007,967	--	--	99,007,967
Equipment	1,281,227	168,145	--	1,449,372
Vehicles	2,683,365	218,441	272,523	2,629,282
Total capital assets being depreciated	<u>102,972,559</u>	<u>386,586</u>	<u>272,523</u>	<u>103,086,621</u>
Less accumulated depreciation for:				
Buildings and improvements	(37,658,532)	(2,207,932)	--	(39,866,464)
Equipment	(990,571)	(173,041)	--	(1,163,612)
Vehicles	(2,308,567)	(152,657)	(272,523)	(2,733,747)
Total accumulated depreciation	<u>(40,957,670)</u>	<u>(2,533,631)</u>	<u>(272,523)</u>	<u>(43,763,820)</u>
Total capital assets being depreciated, net	<u>62,014,889</u>	<u>(2,147,045)</u>	<u>--</u>	<u>59,867,844</u>
Governmental activities capital assets, net	<u>\$ 62,831,116</u>	<u>\$ (2,147,045)</u>	<u>\$ --</u>	<u>\$ 60,684,071</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,183,024
Instructional Resources and Media Services	197,621
Curriculum and Staff Development	18,268
Instructional Leadership	4,565
School Leadership	73,288
Guidance, Counseling, and Evaluation Services	22,691
Social Work Services	40,238
Health Services	45,632
Student Transportation	154,463
Food Services	223,297
Extracurricular Activities	337,765
General Administration	72,696
Plant Maintenance and Operations	136,928
Security and Monitoring Services	5,000
Data Processing Services	18,155
	<u>\$ 2,533,631</u>

E. Interfund Balances and Activities

Due To and From Other Funds

Balances due to and due from other funds at August 31, 2018 consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 261,589	Short-term loans
General Fund	Hurricane Recovery	422,121	Short-term loans
	Total	<u>\$ 683,710</u>	

All amounts due are scheduled to be repaid within one year.

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

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2018 are as follows:

	Beginning Balance	Increase	Decrease	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Building Bonds, Series 2008A \$	209,452 \$	--	\$ (85,020)	\$ 124,432	\$ 68,782
Refunding Bonds, Series 2010	3,960,000	--	(370,000)	3,590,000	370,000
Refunding Bonds, Series 2013	5,834,994	--	(50,000)	5,784,994	50,000
Refunding Bonds, Series 2014	6,015,000	--	(425,000)	5,590,000	445,000
Refunding Bonds, Series 2015	6,244,997	--	(524,222)	5,720,775	455,775
Maintenance Tax Notes, 2015	2,250,000	--	--	2,250,000	--
Time Warrants, Series 2015	165,000	--	(105,000)	60,000	60,000
Refunding Bonds, Series 2016	9,169,997	--	(65,000)	9,104,997	70,000
Refunding Bonds, Series 2017	32,530,000	--	--	32,530,000	--
Total bonds and notes	<u>\$ 66,379,440</u>	<u>\$ --</u>	<u>\$ (1,624,242)</u>	<u>\$ 64,755,198</u>	<u>\$ 1,519,557</u>
<u>Other liabilities:</u>					
Net issuance premiums (discounts)	\$ 3,906,971	\$ --	\$ (192,224)	\$ 3,714,747	--
Accreted interest	1,973,032	--	(731,104)	1,241,928	--
Net pension liability	5,538,234	--	(761,832)	4,776,402	--
Net OPEB liability	13,662,099	--	(5,923,504)	7,738,595	--
Total governmental activities	<u>\$ 91,459,776</u>	<u>\$ --</u>	<u>\$ (14,564,704)</u>	<u>\$ 82,226,870</u>	<u>\$ 1,519,557</u>
Long-term liabilities due in more than one year				<u>\$ 80,707,314</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in the governmental funds, but rather recognized as an expenditure when due.

Current requirements for principal and interest expenditures are accounted for in the General Fund and the Debt Service Fund. These bonds were issued as school building bonds, refunding bonds, tax notes, and time warrants. Interest rates on the Series 2008A are 5.08% to 5.420%, Series 2010 bonds are 3.00% to 4.00%, Series 2013 bonds are 2.00% to 4.00%, Series 2014 bonds are 2.50% to 4.00%, Series 2015 bonds are 3.00% to 4.00%, Series 2016 bonds are 1.60% to 4.00%, and Series 2017 are 3.00% to 5.00%. The interest rates on the maintenance tax notes are 2.00% to 3.50% and 1.65% on the time warrants. Interest expense was \$3,057,089 for the year ended August 31, 2018.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2018, are as follows:

Year Ending August 31,	Bonds		
	Principal	Interest	Total
2019	\$ 1,459,557	\$ 3,059,131	\$ 4,518,688
2020	1,650,647	2,816,340	4,466,988
2021	2,345,000	2,100,713	4,445,713
2022	2,460,000	1,997,238	4,457,238
2023	2,565,000	1,890,725	4,455,725
2024-2028	13,544,994	8,571,631	22,116,625
2029-2033	16,815,000	5,126,703	21,941,703
2034-2038	20,060,000	2,047,336	22,107,336
2039-2043	1,545,000	30,900	1,575,900
Totals	<u>\$ 62,445,198</u>	<u>\$ 27,640,716</u>	<u>\$ 90,085,914</u>

Year Ending August 31,	Maintenance Tax Notes and Time Warrant		
	Principal	Interest	Total
2019	\$ 60,000	\$ 59,483	\$ 119,483
2020	100,000	56,988	156,988
2021	175,000	53,488	228,488
2022	175,000	49,988	224,988
2023	180,000	46,388	226,388
2024-2028	970,000	159,238	1,129,238
2029-2033	650,000	21,075	671,075
Totals	<u>\$ 2,310,000</u>	<u>\$ 446,645</u>	<u>\$ 2,756,645</u>

G. Commitments Under Noncapitalized Leases

The District has various operating lease agreements for copiers. Rent expenditures recognized by the District were \$116,525. The future minimum lease payments for these leases are as follows:

Year Ending August 31,	Copy Machines
2019	\$ 144,487
2020	144,487
2021	144,487
2022	144,487
2023	<u>\$ 577,948</u>

H. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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I. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by 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.

2. Pension Plan Fiduciary Net Position

Detailed information about TRS' 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 <https://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.

3. 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 5 highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the 3 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 cost-of-living adjustments (COLAs). Ad hoc postemployment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan description in (1.)

4. Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

ROYAL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
NECE - State	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$ 489,584	
District's 2017 Member Contributions	\$ 484,377	
NECE 2017 On-Behalf Contributions to District	\$ 769,430	

Contributors to the plan include members, employers, and the State of Texas as the only NECE. The State is the employer for senior colleges, medical schools, and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational, and general or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

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

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

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

5. 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%
Long-term Expected Investment Rate of Return	8%
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 ending August 31, 2014 and adopted on September 24, 2015.

6. 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 NECE are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

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:

**Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2017**

<u>Asset Class</u>	<u>Target Allocation*</u>	<u>Long-term Expected Geometric Real Rate of Return</u>	<u>Expected Contribution to Long-term Portfolio Returns **</u>
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	-	1.8%	-
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	-
Real Return			
Global Inflation Linked Bonds	3%	0.9%	-
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	-	1.2%	-
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	-		2.2%
Alpha	-		1.0%
Total	<u><u>100%</u></u>		<u><u>8.7%</u></u>

* Target allocations are based on the FY2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in FY2017, but the reallocation does not affect the long-term expected geometric real rate of return or expected contribution to long-term portfolio returns.

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

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the net pension liability.

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 8,052,070	\$ 4,776,402	\$ 2,048,877

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

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

At August 31, 2018, the District reported a liability of \$4,776,402 for its proportionate share of TRS' 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	\$ 4,776,402
State's proportionate share that is associated with the District	<u>7,522,370</u>
Total	<u>\$ 12,298,772</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 District's proportion of the net pension liability was based on the District'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 District's proportion of the collective net pension liability was 0.0149381%, which was an increase of 0.0002822% from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions of 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 District recognized pension expense of \$573,776 and revenue of \$573,776 for support provided by the State.

At August 31, 2018, the District reported its proportionate share of TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 69,881	\$ 257,585
Changes in actuarial assumptions	217,573	124,555
Difference between projected and actual investment earnings	--	348,094
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,185,893	295
Contributions paid to TRS subsequent to the measurement date	<u>494,030</u>	<u>--</u>
Total	<u>\$ 1,967,377</u>	<u>\$ 730,529</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

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

Year Ended August 31	Pension Expense
2019	\$ 134,915
2020	439,805
2021	111,487
2022	14,819
2023	35,527
Thereafter	6,265
Total	<u>\$ 742,818</u>

J. Defined Other Postemployment Benefit Plans

1. Plan Description

The District participates in TRS-Care. It is a multiple-employer, cost-sharing defined OPEB plan that has a special funding situation. TRS-Care is administered through a trust by TRS Board of Trustees (the "Board"). It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

2. OPEB Plan Fiduciary Net Position

Detailed information about 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 TRS-Care as of August 31, 2017 are as follows:

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%

3. Benefits Provided

TRS-Care provides a basic health insurance coverage, TRS-Care 1, (the "Basic Plan"), 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 (the "Optional Health Insurance"). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of 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 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 cost-of-living adjustments (COLAs).

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

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 Health Insurance Plans:

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

4. Contributions

Contribution rates for TRS-Care are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care 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 does not have the authority to set or amend contribution rates.

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor:

	2017	2018
Active Employee	0.65%	0.65%
NECE - State	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
Current fiscal year District contributions		\$ 92,519
Current fiscal year Member contributions		\$ 37,947
2017 measurement year NECE contributions		\$ 150,860

In addition to the employer contributions listed above, there is an additional surcharge, which all TRS employers are subject (regardless of whether they participate in the TRS-Care). When employers hire a TRS retiree, they are required to pay a monthly surcharge of \$535 per retiree to TRS-Care.

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

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

5. 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 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.

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:

- | | |
|----------------------------------|----------------------------|
| 1. Rates of Mortality | 5. General Inflation |
| 2. Rates of Retirement | 6. Wage Inflation |
| 3. Rates of Termination | 7. Expected Payroll Growth |
| 4. 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

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

**Includes inflation at 2.50%

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

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

6. 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, there are no investments and 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 NECE are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected not to 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.

7. 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 in measuring the net OPEB liability.

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of net OPEB liability	\$ <u>9,133,463</u>	\$ <u>7,738,595</u>	\$ <u>6,617,436</u>

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% less than and 1% greater than the assumed healthcare cost trend rate:

	1% Decrease Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase Healthcare Cost Trend Rate
District's proportionate share of net OPEB liability	\$ <u>6,443,154</u>	\$ <u>7,738,595</u>	\$ <u>9,438,378</u>

8. OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

At August 31, 2018, the District reported a liability of \$7,738,595 for its proportionate share of TRS' 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	\$ 7,738,595
State's proportionate share that is associated with the District	\$ <u>12,618,457</u>
Total	\$ <u>20,357,052</u>

The net OPEB liability was measured as of August 31, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to their 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 District's proportion of the collective net OPEB liability was 0.0177955%.

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

9. Changes Since the Prior Actuarial Valuation

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

- a. Significant plan changes were adopted during the fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- b. 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.
- c. The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered total OPEB liability.

The Affordable Care Act includes a 40% excise tax on high-cost health plans known as the "Cadillac Tax." In this valuation, the impact of this tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- a. 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50%.
- b. Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- c. 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 provision 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 District recognized OPEB expense of \$(4,222,471) and revenue of \$(4,222,471) for support provided by the State.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

At August 31, 2018, the District reported its proportionate share of TRS' 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 economic experience	\$ --	\$ 161,549
Changes in actuarial assumptions	--	3,075,520
Differences between projected and actual investment earnings	1,176	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	36	--
Contributions paid to TRS subsequent to the measurement date	<u>133,465</u>	<u>--</u>
	<u>\$ 134,677</u>	<u>\$ 3,237,069</u>

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

Year Ended August 31,	Expense Amount
2019	\$ (426,975)
2020	(426,975)
2021	(426,975)
2022	(426,975)
2023	(427,269)
Thereafter	(1,100,688)
Total	<u>\$ (3,235,857)</u>

K. Employee Health Care Coverage

During the year ended August 31, 2018, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third-party administrator is renewable September 1, 2018, and terms of coverage and premium costs are included in the contractual provisions.

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

L. Commitments and Contingencies

1. Contingencies

The District participates in 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 basic financial statements for such contingencies.

2: Litigation

No reportable litigation was pending against the District at August 31, 2018.

M. Shared Services Arrangements

The District participates in a shared services arrangement (SSA) with West-10 Regional Day School Program for the Deaf SSA with other districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Katy Regional Day School for the Deaf, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for all financial activities of the SSA.

The District participates in an SSA for electricity services (Energy for Schools). The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Deer Park Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for all financial activities of the SSA.

N. Workers' Compensation

During the year ended August 31, 2018, the District met its statutory workers' compensation obligations 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 workers' compensation program is authorized by Chapter 504, 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 claims costs through the purchase of stop-loss coverage for any claims in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2017, the Fund carries a discounted reserve of \$49,076,113 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 August 31. This 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 and have been filed with the Texas Department of Insurance in Austin.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

O. Unemployment Compensation

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 obligation for payment of contribution.

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 and have been filed with the Texas Department of Insurance in Austin.

P. Tax Abatements

The District has entered into a property tax abatement (the "Agreement") with a food manufacturing company (the "Company") for a limitation on appraised value of property for school district maintenance and operation (M&O) taxes pursuant to Chapter 313 of the Texas Tax Code, the Texas Economic Development Act (the "Act") as of December 10, 2012. This original agreement has been amended several times, with the most recent effective as of March 20, 2017.

Under the Act, a taxpayer agrees to build or install property and create jobs in exchange for a 10-year limitation on the taxable property value for school district maintenance and operations tax purposes. The minimum value varies by school district.

The District has granted the Company a tax limitation of \$20,000,000 for the period of beginning January 1, 2015 through December 31, 2022. In order to be eligible to receive the limitation, the Company must have completed a qualified investment of \$50,000,000 during the time period beginning December 10, 2012 and ending December 31, 2014. The qualified investment consists of a new canned food manufacturing plant in Waller County. Additionally, the Company must have created and maintained, subject to the provisions of Section 313.021 of the Texas Tax Code, new qualifying jobs as required by the Act and pay an average weekly wage of at least \$1,079 for all qualifying jobs created.

In order for the Company to receive and maintain the tax limitation, the Company must:

- Provide payments to the District sufficient to protect future revenues through payment of revenue offsets;
- Provide payments to the District that protect the District from the payment of extraordinary education-related expenses related to the project;
- Provide such supplemental payments;
- Create and maintain a viable presence on or with the qualified property beginning January 1, 2023 through December 31, 2025.

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

For the fiscal year ended August 31, 2018, the District abated poroperety taxes totaling \$85,384 under the agreement.

Q. Prior Period Adjustment

Beginning net position for governmental activities was restated to recognize OPEB liability for GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

	Governmental Activities
Beginning net position - as reported	\$ (4,131,067)
Net OPEB liability	(13,662,099)
Deferred outflows - contributions after measurement date (OPEB)	92,519
Beginning net position - restated	<u>\$ (17,700,647)</u>

R. Subsequent Event

The District issued the Royal Independent School District Unlimited Tax Refunding Bonds, Series 2018, dated October 29, 2018, in the amount of \$3,065,000. Proceeds from the sale of the bonds will be used to refund Unlimited Tax Refunding Bonds, Series 2010 for cash flow savings and to pay for the costs of issuing the bonds.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

ROYAL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1		2		3		Variance with Final Budget Positive (Negative)
		Budgeted Amounts				Actual		
		Original		Final				
REVENUES:								
5700	Local and Intermediate Sources	\$ 13,903,488	\$ 13,521,002	\$ 13,379,934	\$ (141,068)			
5800	State Program Revenues	9,552,853	9,552,853	10,141,674	588,821			
5900	Federal Program Revenues	257,500	663,700	667,872	4,172			
5020	Total Revenues	<u>23,713,841</u>	<u>23,737,555</u>	<u>24,189,480</u>	<u>451,925</u>			
EXPENDITURES:								
Current:								
Instruction and Instructional Related Services:								
0011	Instruction	12,659,747	13,240,131	12,881,592	358,539			
0012	Instructional Resources and Media Services	202,016	187,407	187,073	334			
0013	Curriculum and Staff Development	894,894	879,603	811,092	68,511			
	Total Instruction and Instr. Related Services	<u>13,756,657</u>	<u>14,307,141</u>	<u>13,879,757</u>	<u>427,384</u>			
Instructional and School Leadership:								
0021	Instructional Leadership	536,846	587,031	576,203	10,828			
0023	School Leadership	1,393,031	1,363,031	1,322,352	40,679			
	Total Instructional and School Leadership	<u>1,929,877</u>	<u>1,950,062</u>	<u>1,898,555</u>	<u>51,507</u>			
Support Services - Student (Pupil):								
0031	Guidance, Counseling, and Evaluation Services	524,253	543,673	521,826	21,847			
0032	Social Work Services	72,432	64,432	58,799	5,633			
0033	Health Services	269,065	249,065	248,718	347			
0034	Student (Pupil) Transportation	1,305,675	1,332,219	1,166,077	166,142			
0035	Food Services	300	5,300	4,598	702			
0036	Cocurricular/Extracurricular Activities	852,346	922,732	878,152	44,580			
	Total Support Services - Student (Pupil)	<u>3,024,071</u>	<u>3,117,421</u>	<u>2,878,170</u>	<u>239,251</u>			
Administrative Support Services:								
0041	General Administration	898,955	983,004	963,380	19,624			
	Total Administrative Support Services	<u>898,955</u>	<u>983,004</u>	<u>963,380</u>	<u>19,624</u>			
Support Services - Nonstudent Based:								
0051	Plant Maintenance and Operations	2,255,568	2,491,526	2,287,333	204,193			
0052	Security and Monitoring Services	77,013	95,238	88,215	7,023			
0053	Data Processing Services	474,681	497,521	479,213	18,308			
	Total Support Services - Nonstudent Based	<u>2,807,262</u>	<u>3,084,285</u>	<u>2,854,761</u>	<u>229,524</u>			
Ancillary Services:								
0061	Community Services	8,000	8,250	7,194	1,056			
	Total Ancillary Services	<u>8,000</u>	<u>8,250</u>	<u>7,194</u>	<u>1,056</u>			
Debt Service:								
0071	Principal on Long-Term Debt	105,000	105,000	105,000	--			
0072	Interest on Long-Term Debt	60,845	60,845	60,844	1			
0073	Bond Issuance Costs and Fees	1,000	1,000	400	600			
	Total Debt Service	<u>166,845</u>	<u>166,845</u>	<u>166,244</u>	<u>601</u>			
Capital Outlay:								
0081	Capital Outlay	53,000	35,000	34,866	134			
	Total Capital Outlay	<u>53,000</u>	<u>35,000</u>	<u>34,866</u>	<u>134</u>			

ROYAL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT G-1

Page 2 of 2

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
0099 Other Intergovernmental Charges	\$ 275,000	\$ 293,036	\$ 293,036	\$ --
Total Intergovernmental Charges	<u>275,000</u>	<u>293,036</u>	<u>293,036</u>	<u>--</u>
6030 Total Expenditures	<u>22,919,666</u> (794,175)	<u>23,945,044</u>	<u>22,975,963</u>	<u>969,081</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>794,175</u>	<u>(207,489)</u>	<u>1,213,517</u>	<u>1,421,006</u>
1200 Net Change in Fund Balance	<u>794,175</u>	<u>(207,489)</u>	<u>1,213,517</u>	<u>1,421,006</u>
0100 Fund Balance - Beginning	<u>4,029,576</u>	<u>4,029,576</u>	<u>4,029,576</u>	<u>--</u>
3000 Fund Balance - Ending	<u>\$ 4,823,751</u>	<u>\$ 3,822,087</u>	<u>\$ 5,243,093</u>	<u>\$ 1,421,006</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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ROYAL INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-2

SCHEDULE OF THE DISTRICT'S PROPORTIONATE
 SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
 FOR THE YEAR ENDED AUGUST 31, 2018

	Measurement Year*			
	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0149381%	0.0146559%	0.049568%	0.0084990%
District's proportionate share of the net pension liability (asset)	\$ 4,776,402	\$ 5,538,234	\$ 5,287,030	\$ 2,270,201
State's proportionate share of the net pension liability (asset) associated with the District	7,522,370	8,993,528	8,215,895	6,515,686
Total	\$ <u>12,298,772</u>	\$ <u>14,531,762</u>	\$ <u>13,502,925</u>	\$ <u>8,785,887</u>
District's covered employee payroll**	\$ 15,755,024	\$ 15,174,769	\$ 12,983,588	\$ 12,027,683
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	30.32%	36.50%	40.72%	18.87%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

* Only four years' worth of information is currently available.

** As of the measurement date.

Notes to Required Supplementary Information:*Changes of Assumptions:*

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

Changes of Benefits:

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

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS

TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)

FOR THE YEAR ENDED AUGUST 31, 2018

	Fiscal Year				
	2018	2017	2016	2015	2014
Contractually required contribution	\$ 494,030	\$ 489,585	\$ 465,654	\$ 420,813	\$ 215,472
Contributions in relation to the contractually required contribution	494,030	489,585	465,654	420,813	215,472
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered employee payroll	\$ 16,629,322	\$ 15,755,024	\$ 15,174,769	\$ 12,983,588	\$ 12,027,683
Contributions as a percentage of covered employee payroll	2.97%	3.11%	3.07%	3.24%	1.79%

*Only nine years' worth of information is currently available.

EXHIBIT G-3

Fiscal Year			
2013	2012	2011	2010
\$ 186,739	\$ 160,896	\$ 168,911	\$ 174,296
186,739	160,896	168,911	174,296
\$ --	\$ --	\$ --	\$ --
\$ 12,190,150	\$ 11,498,613	\$ 11,793,663	\$ 12,274,465
1.53%	1.40%	1.43%	1.42%

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE

SHARE OF THE NET OPEB LIABILITY

TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM (TRS-CARE)

FOR THE YEAR ENDED AUGUST 31, 2018

	Measurement Year*
	<u>2017</u>
District's proportion of the collective net OPEB liability (asset)	0.0177955%
District's proportionate share of the collective net OPEB liability (asset)	\$ 7,738,595
State proportionate share of the collective net OPEB liability (asset) associated with the District	12,618,457
Total	<u>\$ 20,357,052</u>
District's covered employee payroll	\$ 15,755,024
District's proportionate share of the net OPEB liability as a percentage of its covered employee payroll	49.12%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

Notes to Required Supplementary Information:

Changes in Assumptions:

There were no changes in assumptions that affected measurement of the total OPEB liability during the measurement period.

Changes in Benefits:

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

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DISTRICT CONTRIBUTIONS

TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM (TRS-CARE)

FOR THE YEAR ENDED AUGUST 31, 2018

	Fiscal Year*
	<u>2018</u>
Statutorily or contractually required District contribution	\$ 133,465
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	<u>133,465</u>
Contribution deficiency (excess)	<u>\$ --</u>
District's covered employee payroll	\$ 16,629,322
Contributions as a percentage covered employee payroll	0.80%

*Only one year's worth of information is currently available.

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*Combining Statements
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

ROYAL INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2018

Data Control Codes	211 Title I, Part A - Improving Basic Programs	224 IDEA-B Formula	225 IDEA-B Preschool	240 National School Breakfast/Lunch Program
ASSETS:				
1110 <i>Cash and Cash Equivalents</i>	\$ 40,946	\$ 253	\$ --	\$ 47,677
1240 <i>Due from Other Governments</i>	67,026	104,311	568	--
1290 <i>Other Receivables</i>	--	--	--	1,268
1300 <i>Inventories</i>	--	--	--	16,971
1000 Total Assets	<u>\$ 107,972</u>	<u>\$ 104,564</u>	<u>\$ 568</u>	<u>\$ 65,916</u>
LIABILITIES:				
Current Liabilities:				
2110 <i>Accounts Payable</i>	\$ --	\$ 9,656	\$ 568	\$ --
2150 <i>Payroll Deductions & Withholdings</i>	178	--	--	--
2170 <i>Due to Other Funds</i>	107,794	94,908	--	--
2180 <i>Due to Other Governments</i>	--	--	--	--
2300 <i>Deferred Revenue</i>	--	--	--	16,971
2000 Total Liabilities	<u>107,972</u>	<u>104,564</u>	<u>568</u>	<u>16,971</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 <i>Inventories</i>	--	--	--	16,971
Restricted Fund Balances:				
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	--	31,974
3490 <i>Other Restrictions of Fund Balance</i>	--	--	--	--
3000 Total Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>	<u>48,945</u>
4000 Total Liabilities and Fund Balances	<u>\$ 107,972</u>	<u>\$ 104,564</u>	<u>\$ 568</u>	<u>\$ 65,916</u>

244 Carl D. Perkins Basic Formula Grant	255 Title II, Part A Suppt. Effective Instruction	263 Title III, Part A - ELA	270 Title V, B, SP 2, Rural and Income School	397 Advanced Placement Incentives
\$ 1,232	\$ 245	\$ 17,653	\$ 4,746	\$ 100
--	15,962	--	2,219	--
--	--	--	--	--
--	--	--	--	--
<u>\$ 1,232</u>	<u>\$ 16,207</u>	<u>\$ 17,653</u>	<u>\$ 6,965</u>	<u>\$ 100</u>
\$ --	\$ --	\$ --	\$ --	\$ 100
--	--	--	--	--
1,232	16,207	2,832	6,965	--
--	--	14,821	--	--
--	--	--	--	--
<u>1,232</u>	<u>16,207</u>	<u>17,653</u>	<u>6,965</u>	<u>100</u>
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>\$ 1,232</u>	<u>\$ 16,207</u>	<u>\$ 17,653</u>	<u>\$ 6,965</u>	<u>\$ 100</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2018

Data Control Codes	410 State Textbook	429 State Funded Special Revenue
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 31,650
1240 <i>Due from Other Governments</i>	--	--
1290 <i>Other Receivables</i>	--	--
1300 <i>Inventories</i>	--	--
1000 Total Assets	<u>\$ --</u>	<u>\$ 31,650</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ --	\$ --
2150 <i>Payroll Deductions & Withholdings</i>	--	--
2170 <i>Due to Other Funds</i>	--	31,650
2180 <i>Due to Other Governments</i>	--	--
2300 <i>Deferred Revenue</i>	--	--
2000 Total Liabilities	<u>--</u>	<u>31,650</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410 <i>Inventories</i>	--	--
Restricted Fund Balances:		
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--
3490 <i>Other Restrictions of Fund Balance</i>	--	--
3000 Total Fund Balances	<u>--</u>	<u>--</u>
4000 Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ 31,650</u>

461 Campus Activity Funds	480 Education Fund	499 Locally Funded Grants	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 18,080	\$ 440	\$ 1,919	\$ 164,941
--	--	--	190,086
--	--	--	1,268
--	--	--	16,971
<u>\$ 18,080</u>	<u>\$ 440</u>	<u>\$ 1,919</u>	<u>\$ 373,266</u>
\$ --	\$ --	\$ --	\$ 10,324
--	--	--	178
--	--	--	261,588
--	440	--	15,261
--	--	--	16,971
<u>--</u>	<u>440</u>	<u>--</u>	<u>304,322</u>
--	--	--	16,971
--	--	--	31,974
18,080	--	1,919	19,999
<u>18,080</u>	<u>--</u>	<u>1,919</u>	<u>68,944</u>
<u>\$ 18,080</u>	<u>\$ 440</u>	<u>\$ 1,919</u>	<u>\$ 373,266</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	211 Title I, Part A - Improving Basic Programs	224 IDEA-B Formula	225 IDEA-B Preschool	240 National School Breakfast/Lunch Program
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ --	\$ 134,432
5800 <i>State Program Revenues</i>	--	--	--	6,627
5900 <i>Federal Program Revenues</i>	940,652	438,132	4,682	1,261,790
5020 <i>Total Revenues</i>	<u>940,652</u>	<u>438,132</u>	<u>4,682</u>	<u>1,402,849</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	884,654	219,541	--	--
0012 <i>Instructional Resources and Media Services</i>	--	--	--	--
0013 <i>Curriculum and Staff Development</i>	53,628	4,453	--	--
0021 <i>Instructional Leadership</i>	--	29,431	--	--
0023 <i>School Leadership</i>	561	--	--	--
0031 <i>Guidance, Counseling, and Evaluation Services</i>	--	162,708	4,682	--
0035 <i>Food Service</i>	--	--	--	1,452,398
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--	--
0041 <i>General Administration</i>	--	--	--	--
0051 <i>Facilities Maintenance and Operations</i>	--	--	--	--
0061 <i>Community Services</i>	1,809	--	--	--
0093 <i>Payments to Shared Service Arrangements</i>	--	21,999	--	--
6030 <i>Total Expenditures</i>	<u>940,652</u>	<u>438,132</u>	<u>4,682</u>	<u>1,452,398</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	--	--	--	(49,549)
1200 <i>Net Change in Fund Balances</i>	--	--	--	(49,549)
0100 <i>Fund Balances - Beginning</i>	--	--	--	98,494
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 48,945</u>

244 Carl D. Perkins Basic Formula Grant	255 Title II, Part A Suppt. Effective Instruction	263 Title III, Part A - ELA	270 Title V, B, SP 2, Rural and Income School	397 Advanced Placement Incentives
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	2,850
29,799	98,145	44,475	48,043	--
<u>29,799</u>	<u>98,145</u>	<u>44,475</u>	<u>48,043</u>	<u>2,850</u>
29,799	68,132	44,475	47,119	--
--	--	--	--	--
--	28,099	--	--	5,550
--	--	--	--	--
--	--	--	924	--
--	--	--	--	--
--	--	--	--	--
--	1,914	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>29,799</u>	<u>98,145</u>	<u>44,475</u>	<u>48,043</u>	<u>5,550</u>
--	--	--	--	(2,700)
--	--	--	--	(2,700)
--	--	--	--	2,700
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	410 State Textbook	429 State Funded Special Revenue
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --
5800 <i>State Program Revenues</i>	21,041	25,016
5900 <i>Federal Program Revenues</i>	--	--
5020 <i>Total Revenues</i>	<u>21,041</u>	<u>25,016</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	33,271	29,387
0012 <i>Instructional Resources and Media Services</i>	--	--
0013 <i>Curriculum and Staff Development</i>	--	825
0021 <i>Instructional Leadership</i>	--	--
0023 <i>School Leadership</i>	350	--
0031 <i>Guidance, Counseling, and Evaluation Services</i>	--	--
0035 <i>Food Service</i>	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--
0041 <i>General Administration</i>	--	--
0051 <i>Facilities Maintenance and Operations</i>	--	--
0061 <i>Community Services</i>	--	--
0093 <i>Payments to Shared Service Arrangements</i>	--	--
6030 <i>Total Expenditures</i>	<u>33,620</u>	<u>30,212</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>		
1100 <i>Expenditures</i>	<u>(12,580)</u>	<u>(5,196)</u>
1200 <i>Net Change in Fund Balances</i>	<u>(12,580)</u>	<u>(5,196)</u>
0100 <i>Fund Balances - Beginning</i>	12,580	5,196
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ --</u>

461 Campus Activity Funds	480 Education Fund	499 Locally Funded Grants	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ 15,411	\$ 12,305	\$ 9,673	\$ 171,821
--	--	--	55,534
--	--	--	2,865,718
<u>15,411</u>	<u>12,305</u>	<u>9,673</u>	<u>3,093,073</u>
--	2,798	858	1,360,034
--	4,480	276	4,756
--	447	2,868	95,870
--	--	--	29,431
--	--	--	1,835
--	--	--	167,390
--	--	1,862	1,454,260
12,318	4,580	1,890	18,788
--	--	--	1,914
--	--	3,861	3,861
--	--	--	1,809
--	--	--	21,999
<u>12,318</u>	<u>12,305</u>	<u>11,615</u>	<u>3,161,947</u>
3,093	--	(1,942)	(68,874)
<u>3,093</u>	<u>--</u>	<u>(1,942)</u>	<u>(68,874)</u>
14,987	--	3,861	137,818
<u>\$ 18,080</u>	<u>\$ --</u>	<u>\$ 1,919</u>	<u>\$ 68,944</u>

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2018

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1	2	
	Maintenance	Debt Service	
2009 and Prior Years	Various	Various	Various
2010	\$ 1.04	\$.4795	\$ 715,254,629
2011	\$ 1.04	\$.5900	\$ 733,799,563
2012	\$ 1.04	\$.5450	\$ 760,439,175
2013	\$ 1.04	\$.5264	\$ 798,783,864
2014	\$ 1.04	\$.5563	\$ 876,060,060
2015	\$ 1.04	\$.5000	\$ 995,418,384
2016	\$ 1.04	\$.4888	\$ 1,037,758,434
2017	\$ 1.04	\$.4888	\$ 1,066,145,568
2018 (School Year Under Audit)	\$ 1.17	\$.3588	\$ 1,100,969,227

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/17	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/18
\$ 352,947	\$ --	\$ 8,301	\$ 4,173	\$ (23,060)	\$ 317,412
52,211	--	2,340	1,079	(1)	48,791
53,353	--	3,067	1,740	--	48,546
81,782	--	3,201	1,678	(18,866)	58,037
101,052	--	9,452	4,784	(11)	86,804
82,753	--	10,993	5,880	(269)	65,611
87,642	--	16,034	7,709	(622)	63,277
194,167	--	64,251	30,199	741	100,458
1,010,851	--	296,280	136,665	(184,421)	393,485
--	16,831,618	12,505,083	3,839,999	21,305	507,841
<u>\$ 2,016,759</u>	<u>\$ 16,831,618</u>	<u>\$ 12,919,003</u>	<u>\$ 4,033,905</u>	<u>\$ (205,204)</u>	<u>\$ 1,690,263</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

ROYAL INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT J-2

Data Control Codes	1		2	3	Variance with Final Budget Positive (Negative)	
	Budgeted Amounts			Actual		
	Original	Final				
REVENUES:						
5700	Local and Intermediate Sources		\$ 205,419	\$ 209,420	\$ 134,432	\$ (74,988)
5800	State Program Revenues		7,589	7,589	6,627	(962)
5900	Federal Program Revenues		1,077,542	1,184,542	1,261,790	77,248
5020	Total Revenues		<u>1,290,550</u>	<u>1,401,551</u>	<u>1,402,849</u>	<u>1,298</u>
EXPENDITURES:						
Current:						
Support Services - Student (Pupil):						
0035	Food Services		1,290,550	1,458,971	1,452,398	6,573
	Total Support Services - Student (Pupil)		<u>1,290,550</u>	<u>1,458,971</u>	<u>1,452,398</u>	<u>6,573</u>
6030	Total Expenditures		<u>1,290,550</u>	<u>1,458,971</u>	<u>1,452,398</u>	<u>6,573</u>
1100	Excess (Deficiency) of Revenues Over (Under)					
1100	Expenditures		--	(57,420)	(49,549)	7,871
1200	Net Change in Fund Balance		--	(57,420)	(49,549)	7,871
0100	Fund Balance - Beginning		98,494	98,494	98,494	--
3000	Fund Balance - Ending		<u>\$ --</u>	<u>\$ 41,074</u>	<u>\$ 48,945</u>	<u>\$ 7,871</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2018

EXHIBIT J-3

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 4,163,393	\$ 4,163,393	\$ 4,128,611	\$ (34,782)
5800	State Program Revenues	--	--	50,179	50,179
5020	Total Revenues	<u>4,163,393</u>	<u>4,163,393</u>	<u>4,178,790</u>	<u>15,397</u>
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	1,519,242	1,519,242	1,519,242	--
0072	Interest on Long-Term Debt	2,996,246	2,996,246	2,996,246	--
0073	Bond Issuance Costs and Fees	20,000	20,000	3,700	16,300
	Total Debt Service	<u>4,535,488</u>	<u>4,535,488</u>	<u>4,519,188</u>	<u>16,300</u>
6030	Total Expenditures	<u>4,535,488</u>	<u>4,535,488</u>	<u>4,519,188</u>	<u>16,300</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(372,095)</u>	<u>(372,095)</u>	<u>(340,398)</u>	<u>31,697</u>
1200	Net Change in Fund Balance	<u>(372,095)</u>	<u>(372,095)</u>	<u>(340,398)</u>	<u>31,697</u>
0100	Fund Balance - Beginning	1,583,473	1,583,473	1,583,473	--
3000	Fund Balance - Ending	<u>\$ 1,211,378</u>	<u>\$ 1,211,378</u>	<u>\$ 1,243,075</u>	<u>\$ 31,697</u>

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Federal Awards and Other Compliance Section

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance With *Government Auditing Standards*

To the Board of Trustees of
Royal Independent School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Independent School District (the "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 January 17, 2019.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Respectfully submitted,

 BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 17, 2019



Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees of
Royal Independent School District:

Report on Compliance for Each Major Federal Program

We have audited Royal Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2018. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Respectfully submitted,

 BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 17, 2019

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2018

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553 and 10.555	Child Nutrition Cluster
84.938	Restart Hurricane Recovery
84.938	Emergency Impact Aid

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

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

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
NONE NOTED		

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

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER:			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
School Breakfast Program	10.553	01115	\$ 368,071
National School Lunch Program	10.555	01115	761,130
Total Passed Through State Department of Education			<u>1,129,201</u>
Total Child Nutrition Cluster			<u>1,129,201</u>
FOOD DISTRIBUTION CLUSTER:			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
Commodity Supplemental Food Program (Non-cash)	10.565	01115	92,603
Total Food Distribution Cluster			<u>92,603</u>
Total U. S. Department of Agriculture			<u>1,221,804</u>
MEDICAID CLUSTER:			
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
Medicaid Administrative Claiming Program	93.778	237-905	8,594
Total Medicaid Cluster			<u>8,594</u>
Total U. S. Department of Health and Human Services			<u>8,594</u>
SPECIAL EDUCATION (IDEA) CLUSTER:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>IDEA-B Formula</i>	84.027	186600012379056600	438,132
<i>IDEA-B Preschool</i>	84.173	186610012379056610	4,682
Total Passed Through State Department of Education			<u>442,814</u>
Total U. S. Department of Education			<u>442,814</u>
Total Special Education (IDEA) Cluster			<u>442,814</u>
OTHER PROGRAMS:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>Title I 1003(A) Priority and Focus</i>	84.010	17610112237905000	1,803
<i>Title I School Improvement</i>	84.010	18610123237905	195,829
<i>Title I Part A - Improving Basic Programs</i>	84.010	18610101237905	743,020
Total CFDA Number 84.010			<u>940,652</u>
<i>Carl D. Perkins Basic Formula Grant</i>	84.048	18420006237905	29,799
<i>Title V, B, SP 2, Rural & Low Income</i>	84.358	18696001237905	48,043
<i>Title III, Part A - ELA</i>	84.365	18671001237905	44,475

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

EXHIBIT K-1
Page 2 of 2

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
<i>Title II, Part A Supporting Effective Instruction</i>	84.367	18694501237905	\$ 98,145
<i>Summer School LEP</i>	84.369	69551702	10,684
<i>Title IV, Part A, Subpart 1</i>	84.424	18680101237905	13,553
<i>Restart Hurricane Harvey</i>	84.938	18511701237905	109,905
<i>Emergency Impact Aid</i>	84.938	51271901	312,217
Total CFDA Number 84.938			<u>422,122</u>
Total Passed Through State Department of Education			<u>2,050,287</u>
Total U. S. Department of Education			<u>2,050,287</u>
 <u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
National School Lunch Program Equipment Assistance Grant	10.579	6TX300355	39,986
Total U. S. Department of Agriculture			<u>39,986</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>3,320,671</u>
		Federal Revenue per SEFA	\$ 3,320,671
		General Fund SHARS Revenue	597,605
		General Fund ERATE Revenue	61,673
		Total Exhibit C-2 Federal Revenue	<u>3,979,949</u>

The accompanying notes are an integral part of this schedule.

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

Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the District. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

The District has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

ROYAL INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2018*

Data Control Codes		Responses
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?	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 Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> 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	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ 1,241,928
SF11	Net pension asset (object 1920) at fiscal year-end	\$ --
SF12	Net pension liability (object 2540) at fiscal year-end	\$ 4,776,402