

SOMERVILLE
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2018

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

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Introductory Section

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CERTIFICATE OF BOARD

Somerville Independent School District
Name of School District

Burleson
County

026-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____approved _____disapproved for the year ended August 31, 2018, at a meeting of the board of trustees of such school district on the ____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

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

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Financial Section

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Independent Auditors' Report

To the Board of Trustees of
Somerville 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 Somerville 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 to selected school first indicators are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 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 February 11, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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,

 BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
February 11, 2019

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Management's Discussion and Analysis

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SOMERVILLE INDEPENDENT SCHOOL DISTRICT

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

This discussion and analysis of Somerville 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 \$1,113,870.
- For the fiscal year ended August 31, 2018, the District's general fund reported a total fund balance of \$1,321,191, of which all was unassigned. The debt service fund reported a fund balance of \$365,845. The capital projects fund reported a fund balance of \$132,796.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the capital projects fund, and the debt service fund) reported combined ending fund balances of \$1,999,167.

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 are 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*. Most of 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.

SOMERVILLE 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. 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 \$1,113,870 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 \$1,263,518 in net position from the prior year. Long-term liabilities decreased due primarily to the decrease in the net other postemployment benefits (OPEB) liability. 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, instructional leadership, school leadership, co-curricular activities, general administration, 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.

SOMERVILLE 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	\$ 4,941,934	\$ 12,970,643	\$ (8,028,709)
Capital assets	15,919,212	5,624,960	10,294,252
Total Assets	20,861,145	18,595,603	2,265,542
Deferred charges on refunding	78,195	86,883	(8,688)
Deferred outflows related to pensions	313,885	335,630	(21,745)
Deferred outflows related to OPEB	31,364	22,613	8,751
Total Deferred Outflows of Resources	423,444	445,126	(21,682)
Current liabilities	2,535,211	482,582	2,052,629
Long-term liabilities	16,733,630	18,662,878	(1,929,248)
Total Liabilities	19,268,840	19,145,460	123,380
Deferred inflows related to pensions	110,692	44,917	65,775
Deferred inflows related to OPEB	791,187	-	791,187
Total Deferred Inflows of Resources	901,879	44,917	856,962
Net Position:			
Net investment in capital assets	2,011,712	1,893,688	118,024
Restricted	541,180	452,558	88,622
Unrestricted	(1,439,022)	(2,495,894)	1,056,872
Total Net Position	\$ 1,113,870	\$ (149,648)	\$ 1,263,518

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

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

Table 2
Changes in Net Position

	Governmental Activities		Total Change
	2018	2017	2018-2017
Revenues			
Program revenues:			
Charges for services	\$ 138,949	\$ 119,842	\$ 19,107
Operating grants and contributions	51,725	935,976	(884,251)
General revenues:			
Property taxes	3,928,587	3,511,290	417,297
State foundation program	1,754,595	1,242,177	512,418
Investment earnings	130,732	100,136	30,596
Miscellaneous	19,684	373,155	(353,471)
Total Revenue	6,024,272	6,282,576	(258,304)
Expenses			
Instruction	1,864,071	3,166,547	(1,302,476)
Instructional resources and media services	27,056	58,877	(31,821)
Curriculum and staff development	27,784	24,497	3,287
Instructional leadership	37,959	121,834	(83,875)
School leadership	145,194	242,262	(97,068)
Guidance, counseling, and evaluation services	84,058	114,560	(30,502)
Health services	29,432	27,452	1,980
Student (pupil) transportation	153,676	182,605	(28,929)
Food services	361,148	340,773	20,375
Co-curricular/extracurricular activities	326,501	393,443	(66,942)
General administration	303,242	459,487	(156,245)
Plant maintenance and operations	695,691	639,018	56,673
Security and monitoring	5,918	13,971	(8,053)
Data processing services	118,175	86,929	31,246
Interest on long-term debt	409,590	320,774	88,816
Bond issuance costs and fees	1,100	121,847	(120,747)
Payments related to shared services arrangements	50,666	50,626	40
Other intergovernmental charges	119,493	110,702	8,791
Total Expenses	4,760,754	6,476,203	(1,715,449)
Change in Net Position	1,263,518	(193,627)	1,457,145
Beginning net position	(149,648)	43,979	(193,627)
Ending Net Position	\$ 1,113,870	\$ (149,648)	\$ 1,263,518

SOMERVILLE 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 \$1,999,167. This compares to a combined fund balance of \$12,232,781 at August 31, 2017. The fund balance in the general fund increased due to an increase in revenues received from state and federal program revenue for the fiscal year when compared to last year, as well as a decrease in instruction and facilities maintenance and operations expenditures. The debt service fund balance increased as a direct result of an increase in revenue received from local sources, particularly tax revenue resulting from an increase in the interest and sinking tax rate. The fund balance in the capital projects fund decreased due to the expenditures related to the completion of construction projects. The District's combined governmental funds revenue increased by \$685,332. This consisted of an increase in state and federal revenues due to an increase in state foundation payments and an increase in funds received for flood control from the state. The total combined revenue was \$6,899,155 this year compared to \$6,213,823 last year. The District's combined governmental funds expenditures increased by \$8,474,638. This consisted primarily of the completion of construction projects for the elementary school and baseball fields. The total combined expenditures were \$17,132,769 this year compared to \$8,658,131 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. The District budgets the capital projects fund for each *project*, which normally covers multiple years. 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 no material changes between the original budget and the final amended budget. The general fund's actual revenues were more than budgeted revenues by \$226,393 due to the District receiving more in state and federal revenues than budgeted. In addition, the District's actual expenditures were less than budgeted expenditures by \$119,497 with the District spending less than budgeted in expenses associated with instruction, instruction leadership, student transportation, and general administration.

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 \$15,919,212 invested in capital assets such as land, buildings, and District equipment. This total includes \$12,545,456 invested during the fiscal year ended August 31, 2018.

Major additions included:

- Completion of the baseball fields for \$600,000
- Completion of the elementary school for \$11,945,456

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

LONG-TERM DEBT

At year end, the District had \$13,141,178 in general obligation bonds, maintenance tax notes, and loans outstanding versus \$13,601,081 last year. The net decrease is due to principal payments paid this fiscal year totaling \$459,903.

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

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

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

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS

The following factors were considered in establishing the District's budget for 2018-2019:

- Student enrollment for 2018-2019 is expected to increase slightly when compared to 2017-2018. District officials anticipate a slight increase in the rate of attendance for the 2019 school year compared to the year 2018; therefore, the refined daily attendance, which is a significant component of the formula upon which State Foundation Program entitlements are based, is projected to increase slightly for 2018-2019.
- The District's total tax rate decreased from the previous year to \$1.34 per \$100 valuation with the maintenance and operations tax rate at \$1.04 and the interest and sinking tax rate at \$0.30. The entire decrease in tax rate was in the interest and sinking portion.
- The District's construction and renovation projects from the proceeds from the issuance of the Unlimited Tax School Building Bonds, Series 2016 and Series 2017 are almost wrapped up in their entirety and shall be finalized in the 2019 fiscal year.
- No new programs were added and no significant changes to existing programs occurred during the current year. No significant changes are planned for 2018-2019.
- District officials anticipate that the fund balance for the general fund will not materially change for 2018-2019 compared to 2017-2018.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and creditors with a general overview of the District's finances and to demonstrate the District's commitment to accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Somerville Independent School District Administration office at (979) 596-2154.

Basic Financial Statements

SOMERVILLE INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET POSITION**

AUGUST 31, 2018

Data Control Codes		1	Governmental Activities
ASSETS:			
1110	Cash and Cash Equivalents	\$	1,438,231
1120	Current Investments		2,676,405
1220	Property Taxes Receivable		603,769
1230	Allowance for Uncollectible Taxes		(172,876)
1240	Due from Other Governments		396,405
1260	Internal Balances		
Capital Assets:			
1510	Land		153,935
1520	Buildings and Improvements, Net		15,413,114
1530	Furniture and Equipment, Net		352,163
1000	Total Assets		<u>20,861,145</u>
DEFERRED OUTFLOWS OF RESOURCES:			
1700	Deferred Charges on Refunding		78,195
1705	Deferred Outflows Related to Pensions		313,885
1706	Deferred Outflows Related to OPEB		31,364
1700	Total Deferred Outflows of Resources		<u>423,444</u>
LIABILITIES:			
2110	Accounts Payable		1,691,220
2140	Interest Payable		19,896
2165	Accrued Liabilities		205,694
2180	Due to Other Governments		4
2300	Deferred Revenue		60,567
2400	Payable from Restricted Assets		557,830
Noncurrent Liabilities:			
2501	Due Within One Year		546,178
2502	Due in More Than One Year		13,572,313
2540	Net Pension Liability		723,713
2545	Net OPEB Liability		1,891,426
2000	Total Liabilities		<u>19,268,840</u>
DEFERRED INFLOWS OF RESOURCES:			
2605	Deferred Inflows Related to Pensions		110,692
2606	Deferred Inflows Related to OPEB		791,187
2600	Total Deferred Inflows of Resources		<u>901,879</u>
NET POSITION:			
3200	Net Investment in Capital Assets		2,011,712
Restricted For:			
3820	Federal and State Programs		1,097
3850	Debt Service		365,845
3890	Other Purposes		174,238
3900	Unrestricted		(1,439,022)
3000	Total Net Position	\$	<u>1,113,870</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE 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	Program Revenues Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 1,864,071	\$ 20,058	\$ (178,705)	\$ (2,022,718)
12	Instructional Resources and Media Services	27,056	--	9,661	(17,395)
13	Curriculum and Staff Development	27,784	--	24,517	(3,267)
21	Instructional Leadership	37,959	--	(24,090)	(62,049)
23	School Leadership	145,194	--	(24,982)	(170,176)
31	Guidance, Counseling, and Evaluation Services	84,058	--	(11,515)	(95,573)
33	Health Services	29,432	--	726	(28,706)
34	Student Transportation	153,676	--	(1,037)	(154,713)
35	Food Service	361,148	52,326	270,427	(38,395)
36	Cocurricular/Extracurricular Activities	326,501	63,155	(12,145)	(275,491)
41	General Administration	303,242	--	(29,471)	(332,713)
51	Facilities Maintenance and Operations	695,691	3,410	9,069	(683,212)
52	Security and Monitoring Services	5,918	--	165	(5,753)
53	Data Processing Services	118,175	--	11,338	(106,837)
72	Interest on Long-term Debt	409,590	--	6,396	(403,194)
73	Bond Issuance Costs and Fees	1,100	--	--	(1,100)
93	Payments Related to Shared Services Arrangements	50,666	--	1,371	(49,295)
99	Other Intergovernmental Charges	119,493	--	--	(119,493)
TG	Total Governmental Activities	<u>4,760,754</u>	<u>138,949</u>	<u>51,725</u>	<u>(4,570,080)</u>
TP	Total Primary Government	<u>\$ 4,760,754</u>	<u>\$ 138,949</u>	<u>\$ 51,725</u>	<u>(4,570,080)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				3,005,970
DT	Property Taxes, Levied for Debt Service				922,617
IE	Investment Earnings				130,732
GC	Grants and Contributions Not Restricted to Specific Programs				1,754,595
MI	Miscellaneous				19,684
TR	Total General Revenues				<u>5,833,598</u>
CN	Change in Net Position				1,263,518
NB	Net Position - Beginning				3,166,956
PA	Prior Period Adjustment				(3,316,604)
	Net Position - Beginning, as Restated				(149,648)
NE	Net Position - Ending				<u>\$ 1,113,870</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ 1,052,816	\$ 365,845
1120 <i>Current Investments</i>	148,267	--
1220 <i>Property Taxes Receivable</i>	513,538	90,231
1230 <i>Allowance for Uncollectible Taxes</i>	(156,468)	(16,408)
1240 <i>Due from Other Governments</i>	333,312	--
1260 <i>Due from Other Funds</i>	35,270	--
1000 Total Assets	<u>\$ 1,926,735</u>	<u>\$ 439,668</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ 11,020	\$ --
2150 <i>Payroll Deductions and Withholdings</i>	2,856	--
2160 <i>Accrued Wages Payable</i>	199,397	--
2170 <i>Due to Other Funds</i>	--	--
2180 <i>Due to Other Governments</i>	4	--
2300 <i>Deferred Revenue</i>	31,197	--
2400 <i>Payable from Restricted Assets</i>	--	--
2000 Total Liabilities	<u>244,474</u>	<u>--</u>
DEFERRED INFLOWS OF RESOURCES:		
2600 <i>Unavailable Revenue for Property Taxes</i>	357,070	73,823
2600 Total Deferred Inflows of Resources	<u>357,070</u>	<u>73,823</u>
FUND BALANCES:		
Restricted Fund Balances:		
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--
3470 <i>Capital Acquisitions and Contractual Obligations</i>	--	--
3480 <i>Retirement of Long-Term Debt</i>	--	365,845
3490 <i>Other Restrictions of Fund Balance</i>	--	--
3600 Unassigned	1,325,191	--
3000 Total Fund Balances	<u>1,325,191</u>	<u>365,845</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,926,735</u>	<u>\$ 439,668</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 4,252	\$ 15,318	\$ 1,438,231
2,366,574	161,564	2,676,405
--	--	603,769
--	--	(172,876)
--	63,093	396,405
--	--	35,270
<u>\$ 2,370,826</u>	<u>\$ 239,975</u>	<u>\$ 4,977,204</u>
\$ 1,680,200	\$ --	\$ 1,691,220
--	--	2,856
--	--	199,397
--	35,270	35,270
--	--	4
--	29,370	60,567
557,830	--	557,830
<u>2,238,030</u>	<u>64,640</u>	<u>2,547,144</u>
--	--	430,893
--	--	430,893
--	1,097	1,097
132,796	--	132,796
--	--	365,845
--	174,238	174,238
--	--	1,325,191
<u>132,796</u>	<u>175,335</u>	<u>1,999,167</u>
<u>\$ 2,370,826</u>	<u>\$ 239,975</u>	<u>\$ 4,977,204</u>

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SOMERVILLE 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	\$ 1,999,167
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.	15,919,212
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	430,893
The liabilities for workers' compensation are included in governmental activities in the SNP.	(3,441)
Payables for bond principal which are not due in the current period are not reported in the funds.	(13,859,118)
Payables for bond interest which are not due in the current period are not reported in the funds.	(19,896)
Payables for notes which are not due in the current period are not reported in the funds.	(181,178)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(723,713)
Deferred inflows of resources related to Teacher Retirement System of Texas (TRS) are not reported in the funds.	(110,692)
Deferred outflows of resources related to TRS are not reported in the funds.	313,885
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(1,891,426)
Deferred inflows of resources related to the OPEB plan are not reported in the funds.	(791,187)
Deferred outflows of resources related to the OPEB plan are not reported in the funds.	31,364
Net position of governmental activities - Statement of Net Position	\$ <u>1,113,870</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	50 Debt Service Fund
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 3,042,706	\$ 904,580
5800 <i>State Program Revenues</i>	1,962,270	6,396
5900 <i>Federal Program Revenues</i>	126,927	--
5020 <i>Total Revenues</i>	<u>5,131,903</u>	<u>910,976</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	2,484,615	--
0012 <i>Instructional Resources and Media Services</i>	19,583	--
0013 <i>Curriculum and Staff Development</i>	2,926	--
0021 <i>Instructional Leadership</i>	88,924	--
0023 <i>School Leadership</i>	216,335	--
0031 <i>Guidance, Counseling, and Evaluation Services</i>	120,660	--
0033 <i>Health Services</i>	30,343	--
0034 <i>Student Transportation</i>	106,731	--
0035 <i>Food Service</i>	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	236,427	--
0041 <i>General Administration</i>	396,478	--
0051 <i>Facilities Maintenance and Operations</i>	671,858	--
0052 <i>Security and Monitoring Services</i>	5,918	--
0053 <i>Data Processing Services</i>	112,378	--
0071 <i>Principal on Long-term Debt</i>	84,894	375,000
0072 <i>Interest on Long-term Debt</i>	9,784	445,107
0073 <i>Bond Issuance Costs and Fees</i>	--	1,100
0081 <i>Capital Outlay</i>	--	--
0093 <i>Payments to Shared Services Arrangements</i>	50,666	--
0099 <i>Other Intergovernmental Charges</i>	119,493	--
6030 <i>Total Expenditures</i>	<u>4,758,013</u>	<u>821,207</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>		
1100 <i>Expenditures</i>	<u>373,890</u>	<u>89,769</u>
Other Financing Sources and (Uses):		
7915 <i>Transfers In</i>	--	--
8911 <i>Transfers Out</i>	(17,500)	--
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>(17,500)</u>	<u>--</u>
1200 <i>Net Change in Fund Balances</i>	<u>356,390</u>	<u>89,769</u>
0100 <i>Fund Balances - Beginning</i>	968,801	276,076
3000 <i>Fund Balances - Ending</i>	<u>\$ 1,325,191</u>	<u>\$ 365,845</u>

The accompanying notes are an integral part of this statement.

60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 108,007	\$ 99,106	\$ 4,154,399
--	44,230	2,012,896
--	604,933	731,860
<u>108,007</u>	<u>748,269</u>	<u>6,899,155</u>
--	299,181	2,783,796
--	22,593	42,176
--	25,176	28,102
--	30	88,954
--	5,716	222,051
--	--	120,660
--	--	30,343
--	1,000	107,731
--	357,775	357,775
--	46,592	283,019
--	--	396,478
--	--	671,858
--	--	5,918
--	8,853	121,231
--	--	459,894
--	--	454,891
--	--	1,100
10,786,633	--	10,786,633
--	--	50,666
--	--	119,493
<u>10,786,633</u>	<u>766,916</u>	<u>17,132,769</u>
<u>(10,678,626)</u>	<u>(18,647)</u>	<u>(10,233,614)</u>
--	17,500	17,500
--	--	(17,500)
--	17,500	--
<u>(10,678,626)</u>	<u>(1,147)</u>	<u>(10,233,614)</u>
10,811,422	176,482	12,232,781
<u>\$ 132,796</u>	<u>\$ 175,335</u>	<u>\$ 1,999,167</u>

SOMERVILLE 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 \$ (10,233,614)

Amounts reported for governmental activities in the Statement of Activities
(SOA) are different because:

Capital outlays are not reported as expenses in the SOA.	10,786,633
The depreciation of capital assets used in governmental activities is not reported in the funds.	(492,381)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	63,554
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(206,035)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	206,035
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	375,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	84,903
Bond premium and refunding differences are amortized in the SOA but not in the funds.	42,495
(Increase) decrease in accrued interest from beginning of period to end of period.	2,797
The net expense of workers' compensation liability is reported with governmental activities.	1,022
GASB 68 revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	145,020
GASB 68 expenses in the SOA not providing current financial resources are not reported as expenses in the funds.	(177,267)
GASB 75 revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(877,422)
GASB 75 expenses in the SOA not providing current financial resources are not reported as expenses in the funds.	<u>1,542,778</u>

Change in net position of governmental activities - Statement of Activities \$ 1,263,518

The accompanying notes are an integral part of this statement.

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

		Agency Fund
Data Control Codes		Student Activity
	ASSETS:	
1110	<i>Cash and Cash Equivalents</i>	\$ 41,916
1000	Total Assets	<u>41,916</u>
	LIABILITIES:	
	Current Liabilities:	
2190	<i>Due to Student Groups</i>	<u>41,916</u>
2000	Total Liabilities	<u>41,916</u>
	NET POSITION:	
3000	Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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SOMERVILLE 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 Somerville 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.

Debt Service Fund: This fund is used to account for tax revenues and for the payment for 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 debt obligations have been met.

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

Capital Projects Fund: This fund is used to account for revenues and expenditures related to projects financed by the proceeds of bond issues or for capital projects otherwise mandated to be accounted for in this fund. This fund is not required to be budgeted on an annual basis, rather expenditures of this fund are controlled by project budget.

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 or entitlements from federal, state, and local agencies. These funds are primarily on a reimbursement basis and have a program year that does not always coincide with the District's fiscal year. Nearly all of these funds cannot carry a fund balance and, other than the food service fund, none of these funds are legally required to have an adopted budget.

Permanent Funds: These funds are governmental funds that are not used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

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 District's policy to use restricted resources first, then unrestricted resources.

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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.

c. 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.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical costs. Donated capital assets are recorded at acquisition value at the date of the donation. The cost 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	50
Vehicles	2-15
Equipment	3-15

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

e. 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 expected services 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 differences 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 on the pension plan assets. 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, the 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.

f. 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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

g. 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.

h. Use of Estimates

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

i. 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.

j. 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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

k. 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.

l. 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.

m. 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.

n. 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) benefit plans 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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

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	\$ 367,756	\$ (546,461)	\$ (178,705)
12 - Instructional Resources and Media Services	22,198	(12,537)	9,661
13 - Curriculum and Instructional Staff Development	25,185	(668)	24,517
21 - Instructional Leadership	1,291	(25,381)	(24,090)
23 - School Leadership	12,646	(37,628)	(24,982)
31 - Guidance, Counseling, and Evaluation Services	4,636	(16,151)	(11,515)
33 - Health Services	1,490	(764)	726
34 - Student (Pupil) Transportation	5,412	(6,449)	(1,037)
35 - Food Services	280,191	(9,764)	270,427
36 - Extracurricular Activities	7,085	(19,230)	(12,145)
41 - General Administration	13,411	(42,882)	(29,471)
51 - Facilities Maintenance and Operations	22,810	(13,741)	9,069
52 - Security and Monitoring Services	165	--	165
53 - Data Processing Services	12,316	(978)	11,338
72 - Interest on Long-term Debt	6,396	--	6,396
93 - Payments Related to Shared Services Arrangements	1,371	--	1,371
	<u>\$ 784,359</u>	<u>\$ (732,634)</u>	<u>\$ 51,725</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 OPEB, OPEB 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 the GASB: Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other Than Pensions* (the "Statement").

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.

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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*. The financial statements and note disclosures have updated for the effects of the adoption of the Statement.

B. 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 \$1,480,147 and the bank balance was \$1,917,869. 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.

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>
LOGIC	\$ 2,366,574	-
TexPool	133,150	-
T. Rowe Price Mutual Funds	101,814	-
Certificates of Deposit	74,867	0.004
Total Investments	<u>\$ 2,676,405</u>	
Portfolio weighted average maturity		0.003

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Fair Value Measurements

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value establishing a three-level fair value hierarchy that describes the inputs used to measure assets and liabilities:

- * Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- * Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly.
- * Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Fair value is measured in a manner consistent with one of the three approaches: market approach, cost approach, and the income approach. The valuation methodology used is based upon whichever technique is the most appropriate and provides the best representation of fair value for that particular asset or liability. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows, to a single current (discounted) amount.

As of August 31, 2018, the District had the following recurring investments subject to fair value measurements:

<u>Fair Value Measurements Using</u>			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	
	August 31, 2018		
Investments by Fair Value Level			
<u>Mutual Funds</u>			
GNMA	\$ 3,855	\$ 3,855	
Spectrum Income	97,959	97,959	
Total	<u>\$ 101,814</u>	<u>\$ 101,814</u>	

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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

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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.

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.

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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 administration 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.

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 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.

C. 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	\$ 153,935	\$ --	\$ --	\$ 153,935
Construction in progress	1,758,823	--	1,758,823	--
Total capital assets not being depreciated	1,912,758	--	1,758,823	153,935
<i>Capital assets being depreciated:</i>				
Buildings and improvements	11,644,910	12,545,456	--	24,190,366
Equipment	865,510	--	--	865,510
Vehicles	919,216	--	--	919,216
Total capital assets being depreciated	13,429,636	12,545,456	--	25,975,092
Less accumulated depreciation for:				
Buildings and improvements	(8,377,030)	(400,222)	--	(8,777,252)
Equipment	(774,977)	(30,829)	--	(805,806)
Vehicles	(565,427)	(61,330)	--	(626,757)
Total accumulated depreciation	(9,717,434)	(492,381)	--	(10,209,815)
Total capital assets being depreciated, net	3,712,202	12,053,075	--	15,765,277
Governmental activities capital assets, net	\$ 5,624,960	\$ 12,053,075	\$ 1,758,823	\$ 15,919,212

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

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Instruction	\$ 227,740
Instructional Resources and Media Services	9,271
Curriculum and Staff Development	928
School Leadership	4,874
Guidance, Counseling, and Evaluation Services	715
Health Services	2,342
Student Transportation	62,979
Food Services	30,196
Extracurricular Activities	85,434
General Administration	4,443
Plant Maintenance and Operations	63,459
	<u>\$ 492,381</u>

D. Interfund Balances and Activities

1. Due To and From Other Funds

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

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Other Governmental Funds	\$ <u>35,270</u>	Short-term loans

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

2. Transfers To and From Other Funds

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

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Food Service Fund	\$ <u>17,500</u>	Supplement other funds sources

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
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E. 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>					
Bonds, notes and other payables:					
Tax refunding bonds, 2010	\$ 1,615,000	\$ --	\$ (140,000)	\$ 1,475,000	\$ 140,000
School building bonds, 2016	8,640,000	--	(235,000)	8,405,000	240,000
School building bonds, 2017	3,080,000	--	--	3,080,000	95,000
Maintenance tax note, 2007	180,000	--	(35,000)	145,000	35,000
Maintenance loan	14,792	--	(14,792)	--	--
Maintenance loan	71,289	--	(35,110)	36,178	36,178
Total bonds, notes, and loans	<u>13,601,081</u>	<u>--</u>	<u>(459,903)</u>	<u>13,141,178</u>	<u>546,178</u>
<u>Other liabilities:</u>					
Bond premium	1,028,496	--	(51,183)	977,313	--
Net pension liability	778,986	--	(55,273)	723,713	--
Net OPEB liability	3,339,217	--	(1,447,791)	1,891,426	--
Total governmental activities	<u>\$ 18,747,780</u>	<u>\$ --</u>	<u>\$ (2,014,150)</u>	<u>\$ 16,733,630</u>	<u>\$ 546,178</u>
Long-term liabilities due in more than one year				<u>\$ 16,187,452</u>	

Bonded indebtedness of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. These bonds were issued as school tax refunding bonds and school building bonds and the interest rates on the bonds ranged from 2.00% to 4.00% for Tax Refunding Bonds, Series 2010; 3.00% to 4.00% for School Building Bonds, Series 2016; and 3.00% to 3.75% for School Building Bonds, Series 2017. Interest expense was \$445,107 for the year ended August 31, 2018.

Notes payable of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the General Fund. The District approved the maintenance tax note at an interest rate of 4.41% for the acquisition and maintenance of facilities and equipment. Interest expense was \$7,166 for the year ended August 31, 2018.

Loans payable of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the General Fund. The District approved the maintenance loans at interest rates of 3.00% for the acquisition and maintenance of facilities, vehicles, and equipment. Interest expense was \$2,622 for the year ended August 31, 2018.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

2. Debt Service Requirements

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

Year Ending August 31.	Bonds Payable		
	Principal	Interest	Total
2019	\$ 475,000	\$ 420,688	\$ 895,688
2020	490,000	403,763	893,763
2021	510,000	385,463	895,463
2022	530,000	365,663	895,663
2023	555,000	344,988	899,988
2024-2028	2,890,000	1,397,013	4,287,013
2027-2031	2,540,000	971,013	3,511,013
2032-2036	2,960,000	553,950	3,513,950
2037-2041	2,010,000	97,581	2,107,581
Totals	\$ 12,960,000	\$ 4,940,119	\$ 17,900,119

Year Ending August 31.	Notes Payable		
	Principal	Interest	Total
2019	\$ 35,000	\$ 5,623	\$ 40,623
2020	35,000	4,079	39,079
2021	35,000	2,536	37,536
2022	40,000	882	40,882
Totals	\$ 145,000	\$ 13,120	\$ 158,120

Year Ending August 31.	Loans Payable		
	Principal	Interest	Total
2019	\$ 36,178	\$ 1,100	\$ 37,279
Totals	\$ 36,178	\$ 1,100	\$ 37,279

F. Commitments Under Noncapitalized Leases

The District has various operating lease agreements for copiers and postage meters. Rent expenditures recognized by the District were \$26,582. The future minimum lease payments for these leases are as follows:

Year Ending August 31.	Copy Machines	Postage Meter
2019	\$ 13,819	\$ 1,764
2020	13,819	1,764
2021	13,819	1,764
2022	13,819	1,764
2023	13,819	1,764
Total Minimum Rentals	\$ 69,094	\$ 8,822

G. 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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

H. 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.) above.

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 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

	<u>Contribution Rates</u>	
	2017	2018
Member	7.7%	7.7%
NECE - State	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 Employer Contributions	\$ 74,181	
District's 2017 Member Contributions	\$ 73,392	
NECE 2017 On-Behalf Contributions to District	\$ 194,471	

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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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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 the 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.

SOMERVILLE 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

Asset Class	Target Allocation*	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns **
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	-	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	100%		8.7%

* 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	\$ 1,220,037	\$ 723,713	\$ 310,443

SOMERVILLE 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 \$723,713 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	\$ 723,713
State's proportionate share that is associated with the District	<u>1,901,259</u>
Total	<u>\$ 2,624,972</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 0.0022634%, which was an increase of 0.000202% 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 \$145,020 and revenue of \$145,020 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 10,588	\$ 39,029
Changes in actuarial assumptions	32,966	18,872
Difference between projected and actual investment earnings	--	52,742
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	188,471	49
Contributions paid to TRS subsequent to the measurement date	<u>81,860</u>	<u>--</u>
Total	<u>\$ 313,885</u>	<u>\$ 110,692</u>

SOMERVILLE 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	\$ 17,781
2020	63,977
2021	14,230
2022	1,081
2023	17,124
Thereafter	7,140
Total	<u>\$ 121,333</u>

I. 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).

SOMERVILLE 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 Plan Premium Rates				
Effective September 1, 2016 - December 31, 2017				
	TRS-Care 1	TRS-Care 2	TRS-Care 3	
	Basic Plan	Optional Plan	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	\$ 28	\$ 62	\$ 82	
* or surviving spouse				

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:

Contribution Rates		
	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	\$	22,613
Current fiscal year Member contributions	\$	9,275
2017 measurement year NECE contributions	\$	31,357

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 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.

SOMERVILLE 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 are as follows:

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.

SOMERVILLE 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 on 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	\$ 2,232,352	\$ 1,891,426	\$ 1,617,398

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	\$ 1,574,801	\$ 1,891,426	\$ 2,306,878

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

At August 31, 2018, the District reported a liability of \$1,891,426 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	\$ 1,891,426
State's proportionate share that is associated with the District	2,622,787
Total	\$ 4,514,213

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 0.0043495%.

SOMERVILLE 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 \$(877,654) and revenue of \$(877,654) for support provided by the State.

SOMERVILLE 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	\$ --	\$ 39,485
Changes in actuarial assumptions	--	751,702
Differences between projected and actual investment earnings	287	--
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	8	--
Contributions paid to TRS subsequent to the measurement date	31,069	--
	<u>\$ 31,364</u>	<u>\$ 791,187</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	OPEB Amount
2019	\$ (104,358)
2020	(104,358)
2021	(104,358)
2022	(104,358)
2023	(104,432)
Thereafter	(269,027)
Total	<u>\$ (790,891)</u>

J. 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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2018

K. 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.

L. Shared Services Arrangements

The District participates in a shared services arrangement (SSA) for resource education with other participating independent school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Rockdale 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.

The District participates in an SSA for migrant services under the Title I, Part C grant with other participating independent school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, 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 career and technology education services with other participating independent school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, 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 the improvement of the education of limited English proficient children funded under ESEA Title III, Part A, English Language Acquisition and Language Enhancement. 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, Education Service Center, Region VI, 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 a regional program for the deaf with other participating independent school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Bryan 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.

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

M. Workers' Compensation

Claims Administrative Services

During the year ended August 31, 2018, employees of the District were covered by a Workers' Compensation Plan (the "Plan"). 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, Claims Administrative Services (CAS), acting on behalf of the self-funded pool, is renewable September 1, 2018, and terms, as well as costs of coverage, are included in the contractual provisions.

In accordance with state statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Midwest Employers Casualty, a commercial insurer licensed or eligible to do business in the state of Texas in accordance with Texas Insurance Code. Reinsurance coverage was in effect for individual claims exceeding \$750,000 and for aggregate claims with a statutory limit of \$3,000,000. According to CAS, the unfunded claim benefit obligation of \$3,441 included \$268 in estimated claims incurred, but not reported.

The claim liability is based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate of claims in which have been incurred, but not reported based on historical experience. Changes in the claims liability for workers' compensation benefits for the current and prior fiscal year are summarized below:

	Fiscal Year	
	2018	2017
Claims liability at beginning of year	\$ 4,463	\$ 6,075
Current year claims and estimated changes	(692)	(1,281)
Claims payments	(330)	(331)
Claims liability at year end	<u>\$ 3,441</u>	<u>\$ 4,463</u>

TASB Risk Management Fund

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' injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability.

The Fund and its members are protected against higher than expected costs through the purchase of stop-loss coverage for any claim 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 and reimbursable aggregate deductibles.

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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2018

N. 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 obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2017 are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

O. Prior Period Adjustment

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

	Governmental Activities
Beginning net position - as reported	\$ 3,166,956
Net OPEB liability	(3,339,217)
Deferred outflows - contributions after measurement date (OPEB)	22,613
Beginning net position - as restated	<u><u>\$ (149,648)</u></u>

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.

SOMERVILLE 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	\$ 3,069,762	\$ 3,069,762	\$ 3,042,706	\$ (27,056)
5800	State Program Revenues	1,478,148	1,821,248	1,962,270	141,022
5900	Federal Program Revenues	14,500	14,500	126,927	112,427
5020	Total Revenues	4,562,410	4,905,510	5,131,903	226,393
	EXPENDITURES:				
	Current:				
	Instruction and Instructional Related Services:				
0011	Instruction	2,175,066	2,495,066	2,484,615	10,451
0012	Instructional Resources and Media Services	19,649	19,649	19,583	66
0013	Curriculum and Staff Development	1,000	11,000	2,926	8,074
	Total Instruction and Instr. Related Services	2,195,715	2,525,715	2,507,124	18,591
	Instructional and School Leadership:				
0021	Instructional Leadership	110,713	102,913	88,924	13,989
0023	School Leadership	217,692	217,692	216,335	1,357
	Total Instructional and School Leadership	328,405	320,605	305,259	15,346
	Support Services - Student (Pupil):				
0031	Guidance, Counseling, and Evaluation Services	122,170	122,170	120,660	1,510
0033	Health Services	30,804	30,804	30,343	461
0034	Student (Pupil) Transportation	151,791	151,791	106,731	45,060
0036	Cocurricular/Extracurricular Activities	226,034	242,534	236,427	6,107
	Total Support Services - Student (Pupil)	530,799	547,299	494,161	53,138
	Administrative Support Services:				
0041	General Administration	412,966	411,966	396,478	15,488
	Total Administrative Support Services	412,966	411,966	396,478	15,488
	Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	678,354	678,354	671,858	6,496
0052	Security and Monitoring Services	5,000	10,300	5,918	4,382
0053	Data Processing Services	115,675	115,675	112,378	3,297
	Total Support Services - Nonstudent Based	799,029	804,329	790,154	14,175
	Debt Service:				
0071	Principal on Long-Term Debt	94,697	84,910	84,894	16
0072	Interest on Long-Term Debt	--	9,787	9,784	3
	Total Debt Service	94,697	94,697	94,678	19
	Intergovernmental Charges:				
0093	Payments to Fiscal Agent/Member Dist.-SSA	52,899	52,899	50,666	2,233
0099	Other Intergovernmental Charges	120,000	120,000	119,493	507
	Total Intergovernmental Charges	172,899	172,899	170,159	2,740
6030	Total Expenditures	4,534,510	4,877,510	4,758,013	119,497
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	27,900	28,000	373,890	345,890

SOMERVILLE 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			
		Original	Final	Actual	
	Other Financing Sources (Uses):				
8911	Transfers Out	\$ (28,000)	\$ (28,000)	\$ (17,500)	\$ 10,500
7080	Total Other Financing Sources and (Uses)	(28,000)	(28,000)	(17,500)	10,500
1200	Net Change in Fund Balance	(100)	--	356,390	356,390
0100	Fund Balance - Beginning	968,801	968,801	968,801	--
3000	Fund Balance - Ending	\$ 968,701	\$ 968,801	\$ 1,325,191	\$ 356,390

Notes to Required Supplementary Information:

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

SOMERVILLE 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)	0.0022634%	0.0020614%	0.0019645%	0.0013849%
District's proportionate share of the net pension liability (asset)	\$ 723,713	\$ 778,986	\$ 694,425	\$ 369,926
State's proportionate share of the net pension liability (asset) associated with the District	1,901,259	2,279,680	2,199,153	1,820,146
Total	<u>\$ 2,624,972</u>	<u>\$ 3,058,666</u>	<u>\$ 2,893,578</u>	<u>\$ 2,190,072</u>
District's covered payroll **	\$ 3,423,938	\$ 3,283,037	\$ 3,103,562	\$ 3,025,331
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	21.14%	23.73%	22.38%	12.23%
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 measurement date

Notes to Required Supplementary Information:*Changes in 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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT**EXHIBIT G-3***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	\$ 81,860	\$ 74,181	\$ 65,497	\$ 58,171	\$ 35,110
Contributions in relation to the contractually required contributions	81,860	74,181	65,497	58,171	35,110
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered payroll	\$ 3,156,047	\$ 3,423,938	\$ 3,283,037	\$ 3,103,562	\$ 3,025,331
Contributions as a percentage of covered payroll	2.59%	2.17%	2.00%	1.87%	1.16%

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

SOMERVILLE 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	0.0043495%
District's proportionate share of the collective net OPEB liability	\$ 1,891,426
State proportionate share of the collective net OPEB liability associated with the District	2,622,787
Total	<u>\$ 4,514,213</u>
District's covered payroll**	\$ 3,423,938
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	55.24%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

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

**As of the measurement date.

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.

SOMERVILLE 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*
	2018
Statutorily or contractually required District contribution	\$ 31,069
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	31,069
Contribution deficiency (excess)	\$ --
District's covered payroll	\$ 3,156,047
Contributions as a percentage of covered payroll	0.98%

*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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET****NONMAJOR GOVERNMENTAL FUNDS**

AUGUST 31, 2018

Data Control Codes		Special Revenue Funds	Permanent Funds	Total Nonmajor Governmental Funds (See Exhibit C-1)
ASSETS:				
1110	<i>Cash and Cash Equivalents</i>	\$ 14,563	\$ 755	\$ 15,318
1120	<i>Current Investments</i>	--	161,564	161,564
1240	<i>Due from Other Governments</i>	63,093	--	63,093
1000	Total Assets	<u>\$ 77,656</u>	<u>\$ 162,319</u>	<u>\$ 239,975</u>
LIABILITIES:				
Current Liabilities:				
2170	<i>Due to Other Funds</i>	\$ 33,723	\$ 1,547	\$ 35,270
2300	<i>Deferred Revenue</i>	29,370	--	29,370
2000	Total Liabilities	<u>63,093</u>	<u>1,547</u>	<u>64,640</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450	<i>Federal/State Funds Grant Restrictions</i>	1,097	--	1,097
3490	<i>Other Restrictions of Fund Balance</i>	13,466	160,772	174,238
3000	Total Fund Balances	<u>14,563</u>	<u>160,772</u>	<u>175,335</u>
4000	Total Liabilities and Fund Balances	<u>\$ 77,656</u>	<u>\$ 162,319</u>	<u>\$ 239,975</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

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

Data Control Codes		Special Revenue Funds	Permanent Funds	Total Nonmajor Governmental Funds (See Exhibit C-2)
REVENUES:				
5700	Local and Intermediate Sources	\$ 97,361	\$ 1,745	\$ 99,106
5800	State Program Revenues	44,230	--	44,230
5900	Federal Program Revenues	604,933	--	604,933
5020	Total Revenues	<u>746,524</u>	<u>1,745</u>	<u>748,269</u>
EXPENDITURES:				
Current:				
0011	Instruction	299,181	--	299,181
0012	Instructional Resources and Media Services	22,593	--	22,593
0013	Curriculum and Staff Development	25,176	--	25,176
0021	Instructional Leadership	30	--	30
0023	School Leadership	5,716	--	5,716
0034	Student Transportation	1,000	--	1,000
0035	Food Service	357,775	--	357,775
0036	Cocurricular/Extracurricular Activities	41,759	4,833	46,592
0053	Data Processing Services	8,853	--	8,853
6030	Total Expenditures	<u>762,083</u>	<u>4,833</u>	<u>766,916</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	<u>(15,559)</u>	<u>(3,088)</u>	<u>(18,647)</u>
Other Financing Sources and (Uses):				
7915	Transfers In	17,500	--	17,500
7080	Total Other Financing Sources and (Uses)	<u>17,500</u>	<u>--</u>	<u>17,500</u>
1200	Net Change in Fund Balances	<u>1,941</u>	<u>(3,088)</u>	<u>(1,147)</u>
0100	Fund Balances - Beginning	12,622	163,860	176,482
3000	Fund Balances - Ending	<u>\$ 14,563</u>	<u>\$ 160,772</u>	<u>\$ 175,335</u>

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

<u>Data Control Codes</u>	211 Title I Improving Basic Programs	212 Title I, Part C Migrant Children	240 National School Breakfast/Lunch Program
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ --	\$ 1,097
1240 <i>Due from Other Governments</i>	14,104	3,780	6,906
1000 Total Assets	<u>\$ 14,104</u>	<u>\$ 3,780</u>	<u>\$ 8,003</u>
LIABILITIES:			
Current Liabilities:			
2170 <i>Due to Other Funds</i>	\$ 14,104	\$ 3,780	\$ 6,906
2300 <i>Deferred Revenue</i>	--	--	--
2000 Total Liabilities	<u>14,104</u>	<u>3,780</u>	<u>6,906</u>
FUND BALANCES:			
Restricted Fund Balances:			
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	1,097
3490 <i>Other Restrictions of Fund Balance</i>	--	--	--
3000 Total Fund Balances	<u>--</u>	<u>--</u>	<u>1,097</u>
4000 Total Liabilities and Fund Balances	<u>\$ 14,104</u>	<u>\$ 3,780</u>	<u>\$ 8,003</u>

242 Summer Feeding Program	244 Career and Tech Basic Grant	255 Title II, Part A Supp. Effective Instruction	289 Title IV, Part A, Subpart 1	410 State Textbook
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	2,052	5,702	30,549
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,052</u>	<u>\$ 5,702</u>	<u>\$ 30,549</u>
\$ --	\$ --	\$ 2,052	\$ 5,702	\$ 1,179
--	--	--	--	29,370
<u>--</u>	<u>--</u>	<u>2,052</u>	<u>5,702</u>	<u>30,549</u>
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,052</u>	<u>\$ 5,702</u>	<u>\$ 30,549</u>

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SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2018

Data Control Codes	429 State Funded Special Revenue	461 Campus Activity	Total Nonmajor Special Revenue Funds (See Exhibit H-1)
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ --	\$ 13,466	\$ 14,563
1240 <i>Due from Other Governments</i>	--	--	63,093
1000 Total Assets	<u>\$ --</u>	<u>\$ 13,466</u>	<u>\$ 77,656</u>
LIABILITIES:			
Current Liabilities:			
2170 <i>Due to Other Funds</i>	\$ --	\$ --	\$ 33,723
2300 <i>Deferred Revenue</i>	--	--	29,370
2000 Total Liabilities	<u>--</u>	<u>--</u>	<u>63,093</u>
FUND BALANCES:			
Restricted Fund Balances:			
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	1,097
3490 <i>Other Restrictions of Fund Balance</i>	--	13,466	13,466
3000 Total Fund Balances	<u>--</u>	<u>13,466</u>	<u>14,563</u>
4000 Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ 13,466</u>	<u>\$ 77,656</u>

SOMERVILLE 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 Improving Basic Programs	212 Title I, Part C Migrant Children	240 National School Breakfast/Lunch Program
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ 52,657
5800 <i>State Program Revenues</i>	--	--	10,595
5900 <i>Federal Program Revenues</i>	274,699	3,780	270,808
5020 Total Revenues	<u>274,699</u>	<u>3,780</u>	<u>334,060</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	251,106	3,780	--
0012 <i>Instructional Resources and Media Services</i>	22,593	--	--
0013 <i>Curriculum and Staff Development</i>	--	--	--
0021 <i>Instructional Leadership</i>	--	--	--
0023 <i>School Leadership</i>	--	--	--
0034 <i>Student Transportation</i>	1,000	--	--
0035 <i>Food Service</i>	--	--	352,350
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--
0053 <i>Data Processing Services</i>	--	--	--
6030 Total Expenditures	<u>274,699</u>	<u>3,780</u>	<u>352,350</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>--</u>	<u>--</u>	<u>(18,290)</u>
Other Financing Sources and (Uses):			
7915 <i>Transfers In</i>	--	--	17,500
7080 Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>	<u>17,500</u>
1200 Net Change in Fund Balances	<u>--</u>	<u>--</u>	<u>(790)</u>
0100 Fund Balances - Beginning	--	--	1,887
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 1,097</u>

242 Summer Feeding Program	244 Career and Tech Basic Grant	255 Title II, Part A Supp. Effective Instruction	289 Title IV, Part A, Subpart 1	410 State Textbook
\$ 236	\$ --	\$ --	\$ --	\$ --
200	--	--	--	32,713
4,989	2,433	20,948	27,276	--
<u>5,425</u>	<u>2,433</u>	<u>20,948</u>	<u>27,276</u>	<u>32,713</u>
--	2,433	5,872	11,430	23,860
--	--	--	--	--
--	--	9,330	15,846	--
--	--	30	--	--
--	--	5,716	--	--
--	--	--	--	--
5,425	--	--	--	--
--	--	--	--	--
--	--	--	--	8,853
<u>5,425</u>	<u>2,433</u>	<u>20,948</u>	<u>27,276</u>	<u>32,713</u>
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
\$ --	\$ --	\$ --	\$ --	\$ --

SOMERVILLE 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	429 State Funded Special Revenue	461 Campus Activity	Total Nonmajor Special Revenue Funds (See Exhibit H-2)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ 44,468	\$ 97,361
5800 <i>State Program Revenues</i>	700	22	44,230
5900 <i>Federal Program Revenues</i>	--	--	604,933
5020 <i>Total Revenues</i>	<u>700</u>	<u>44,490</u>	<u>746,524</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	700	--	299,181
0012 <i>Instructional Resources and Media Services</i>	--	--	22,593
0013 <i>Curriculum and Staff Development</i>	--	--	25,176
0021 <i>Instructional Leadership</i>	--	--	30
0023 <i>School Leadership</i>	--	--	5,716
0034 <i>Student Transportation</i>	--	--	1,000
0035 <i>Food Service</i>	--	--	357,775
0036 <i>Cocurricular/Extracurricular Activities</i>	--	41,759	41,759
0053 <i>Data Processing Services</i>	--	--	8,853
6030 <i>Total Expenditures</i>	<u>700</u>	<u>41,759</u>	<u>762,083</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>--</u>	<u>2,731</u>	<u>(15,559)</u>
Other Financing Sources and (Uses):			
7915 <i>Transfers In</i>	<u>--</u>	<u>--</u>	<u>17,500</u>
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>--</u>	<u>--</u>	<u>17,500</u>
1200 <i>Net Change in Fund Balances</i>	<u>--</u>	<u>2,731</u>	<u>1,941</u>
0100 <i>Fund Balances - Beginning</i>	<u>--</u>	<u>10,735</u>	<u>12,622</u>
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ 13,466</u>	<u>\$ 14,563</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR PERMANENT FUNDS

AUGUST 31, 2018

Data Control Codes	477 Trust Scholarship Fund	806 Junior High Benevolence	Total Nonmajor Permanent Funds (See Exhibit H-1)
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ 345	\$ 410	\$ 755
1120 <i>Current Investments</i>	161,564	--	161,564
1000 Total Assets	<u>\$ 161,909</u>	<u>\$ 410</u>	<u>\$ 162,319</u>
LIABILITIES:			
Current Liabilities:			
2170 <i>Due to Other Funds</i>	\$ 1,547	\$ --	\$ 1,547
2000 Total Liabilities	<u>1,547</u>	<u>--</u>	<u>1,547</u>
FUND BALANCES:			
Restricted Fund Balances:			
3490 <i>Other Restrictions of Fund Balance</i>	160,362	410	160,772
3000 Total Fund Balances	<u>160,362</u>	<u>410</u>	<u>160,772</u>
4000 Total Liabilities and Fund Balances	<u>\$ 161,909</u>	<u>\$ 410</u>	<u>\$ 162,319</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		477 Trust Scholarship Fund	806 Junior High Benevolence	Total Nonmajor Permanent Funds (See Exhibit H-2)
REVENUES:				
5700	Local and Intermediate Sources	\$ 1,745	\$ --	\$ 1,745
5020	Total Revenues	<u>1,745</u>	<u>--</u>	<u>1,745</u>
EXPENDITURES:				
Current:				
0036	Cocurricular/Extracurricular Activities	<u>4,833</u>	<u>--</u>	<u>4,833</u>
6030	Total Expenditures	<u>4,833</u>	<u>--</u>	<u>4,833</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	<u>(3,088)</u>	<u>--</u>	<u>(3,088)</u>
1200	Net Change in Fund Balances	<u>(3,088)</u>	<u>--</u>	<u>(3,088)</u>
0100	Fund Balances - Beginning	163,450	410	163,860
3000	Fund Balances - Ending	<u>\$ 160,362</u>	<u>\$ 410</u>	<u>\$ 160,772</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.

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

Year Ended August 31	1	2	3
	Tax Rates		Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
2009 and Prior Years	Various	Various	Various
2010	\$ 1.04	\$.1065	\$ 194,255,037
2011	\$ 1.04	\$.1023	\$ 209,132,975
2012	\$ 1.04	\$.1005	\$ 202,477,298
2013	\$ 1.04	\$.0997	\$ 202,162,606
2014	\$ 1.04	\$.0997	\$ 204,909,582
2015	\$ 1.04	\$.0944	\$ 216,610,950
2016	\$ 1.04	\$.0727	\$ 280,433,153
2017	\$ 1.04	\$.2954	\$ 262,437,622
2018 (School Year Under Audit)	\$ 1.04	\$.3102	\$ 288,267,138

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
\$ 129,707	\$ --	\$ 1,619	\$ 164	\$ (5,372)	\$ 122,552
14,394	--	451	46	(216)	13,681
15,503	--	608	60	(215)	14,620
18,728	--	1,023	99	(474)	17,133
25,325	--	1,938	186	(93)	23,108
32,323	--	2,882	276	78	29,243
43,850	--	5,811	527	78	37,589
87,003	--	16,121	1,127	63	69,817
161,517	--	41,121	11,774	(13,754)	94,868
--	3,892,183	2,825,438	885,830	245	181,160
<u>\$ 528,349</u>	<u>\$ 3,892,183</u>	<u>\$ 2,897,012</u>	<u>\$ 900,089</u>	<u>\$ (19,662)</u>	<u>\$ 603,769</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

SOMERVILLE 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			
		Original	Final	Actual	
	REVENUES:				
5700	Local and Intermediate Sources	\$ 43,430	\$ 50,430	\$ 52,657	\$ 2,227
5800	State Program Revenues	10,757	10,757	10,595	(162)
5900	Federal Program Revenues	249,000	264,000	270,808	6,808
5020	Total Revenues	303,187	325,187	334,060	8,873
	EXPENDITURES:				
	Current:				
	Support Services - Student (Pupil):				
0035	Food Services	331,187	353,187	352,350	837
	Total Support Services - Student (Pupil)	331,187	353,187	352,350	837
6030	Total Expenditures	331,187	353,187	352,350	837
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	(28,000)	(28,000)	(18,290)	9,710
	Other Financing Sources (Uses):				
7915	Transfers In	28,000	28,000	17,500	(10,500)
7080	Total Other Financing Sources and (Uses)	28,000	28,000	17,500	(10,500)
1200	Net Change in Fund Balance	--	--	(790)	(790)
0100	Fund Balance - Beginning	1,887	1,887	1,887	--
3000	Fund Balance - Ending	\$ 1,887	\$ 1,887	\$ 1,097	\$ (790)

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
	REVENUES:				
5700	Local and Intermediate Sources	\$ 879,287	\$ 879,287	\$ 904,580	\$ 25,293
5800	State Program Revenues	5,969	5,969	6,396	427
5020	Total Revenues	885,256	885,256	910,976	25,720
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	821,208	375,000	375,000	--
0072	Interest on Long-Term Debt	--	445,108	445,107	1
0073	Bond Issuance Costs and Fees	--	1,100	1,100	--
	Total Debt Service	821,208	821,208	821,207	1
6030	Total Expenditures	821,208	821,208	821,207	1
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	64,048	64,048	89,769	25,721
1200	Net Change in Fund Balance	64,048	64,048	89,769	25,721
0100	Fund Balance - Beginning	276,076	276,076	276,076	--
3000	Fund Balance - Ending	\$ 340,124	\$ 340,124	\$ 365,845	\$ 25,721

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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
Somerville 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 Somerville 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 February 11, 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during 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, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
February 11, 2019

SOMERVILLE 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

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

SOMERVILLE 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		

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

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

<u>Data Control Codes</u>		<u>Responses</u>
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?	\$ --
SF11	Net pension asset (object 1920) at fiscal year-end	\$ --
SF12	Net pension liability (object 2540) at fiscal year-end	\$ 723,713

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