

ROYAL
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2019

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Royal Independent School District
Annual Financial Report
For The Year Ended August 31, 2019

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Introductory Section

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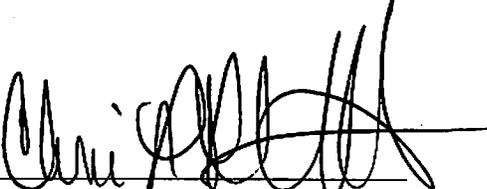
CERTIFICATE OF BOARD

Royal Independent School District
Name of School District

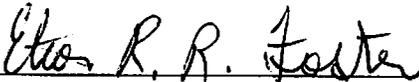
Waller
County

237-905
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) 7 approved disapproved for the year ended August 31, 2019, at a meeting of the board of trustees of such school district on the 13th day of January, 2020.



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
Royal Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Independent School District (the "District") as of and for the year ended August 31, 2019, 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, 2019, 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.

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 net pension and other postemployment benefit 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 3, 2020 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.

The logo features the names 'Belt Harris Pechacek' in a large, elegant, cursive script. To the right of the script, the text 'PECHACEK, LLLP' is written in a smaller, bold, sans-serif font.

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 3, 2020

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Management's Discussion and Analysis

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ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2019

This discussion and analysis of Royal Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2019. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2019 was a deficit of \$13,856,276.
- For the fiscal year ended August 31, 2019, the District's general fund reported a total fund balance of \$6,514,802, which is unassigned. The national school breakfast/lunch program fund reported a fund balance of \$40,099, of which \$9,357 is nonspendable and \$30,742 is restricted. The debt service fund reported a fund balance of \$1,222,602, which is restricted.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds and the debt service fund) reported combined ending fund balances of \$7,801,318.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2019

FUND FINANCIAL STATEMENTS

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

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

The District has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was a deficit of \$13,856,276 at August 31, 2019. *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, 2019. Within *Table 2*, the District reported an increase of \$602,048 in net position from the prior year. Long-term liabilities increased due to the increases in the net pension/other postemployment benefits (OPEB) liabilities. Current assets increased due to an increase in property tax revenue, while capital assets decreased. Current liabilities increased due in part to a foundation school fund overpayment. Revenues for the District increased significantly in operating grants and contributions due to prior year negative revenues related to nonemployer contributing entity (NECE) on-behalf accruals for the OPEB plan. Property taxes increased due to an increase in appraised values within the District. Expenses increased significantly for the District in instruction; school leadership; guidance, counseling, and evaluation services; student transportation; and plant maintenance and operations due to the prior year negative expenses related to NECE on-behalf accruals for the OPEB plan and the current year increases in the net pension/OPEB liabilities.

ROYAL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2019

Table 1
Net Position

Description	Governmental Activities		Total Change
	2019	2018	2019-2018
Current assets	\$ 9,986,275	\$ 7,796,091	\$ 2,190,184
Capital assets	58,322,221	60,684,071	(2,361,850)
Total Assets	68,308,496	68,480,162	(171,666)
Deferred charge on refunding	1,413,088	1,422,188	(9,100)
Deferred outflows related to pensions	4,322,803	1,967,377	2,355,426
Deferred outflows related to OPEB	1,709,043	134,677	1,574,366
Total Deferred Outflows of Resources	7,444,934	3,524,242	3,920,692
Current liabilities	1,061,266	268,259	793,007
Long-term liabilities	84,962,595	82,226,871	2,735,724
Total Liabilities	86,023,861	82,495,130	3,528,731
Deferred inflows related to pensions	518,230	730,529	(212,299)
Deferred inflows related to OPEB	3,067,615	3,237,069	(169,454)
Total Deferred Inflows of Resources	3,585,845	3,967,598	(381,753)
Net Position:			
Net invested in capital assets	(7,439,087)	(7,605,614)	166,527
Restricted	1,277,159	1,312,019	(34,860)
Unrestricted	(7,694,348)	(8,164,729)	470,381
Total Net Position	\$ (13,856,276)	\$ (14,458,324)	\$ 602,048

ROYAL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2019

Table 2
Changes in Net Position

	Governmental		Total
	Activities		
	2019	2018	2019-2018
Revenues			
Program revenues:			
Charges for services	\$ 24,448	\$ 172,335	\$ (147,887)
Operating grants and contributions	4,430,026	463,166	3,966,860
General revenues:			
Property taxes	19,078,666	16,950,915	2,127,751
Grants and contributions not restricted	9,370,379	9,032,869	337,510
Investment earnings	211,558	97,901	113,657
Miscellaneous	613,483	131,408	482,075
Total Revenue	33,728,560	26,848,594	6,879,966
Expenses			
Instruction	17,019,778	10,378,229	6,641,549
Instructional resources and media services	332,235	332,790	(555)
Curriculum and staff development	788,848	693,539	95,309
Instructional leadership	594,166	473,499	120,667
School leadership	1,580,442	958,916	621,526
Guidance, counseling, and evaluation services	855,669	527,032	328,637
Social work/health services	418,798	288,935	129,863
Student transportation	1,341,262	1,036,924	304,338
Food services	1,612,570	1,642,170	(29,600)
Co-curricular/extracurricular activities	1,204,528	1,069,672	134,856
General administration	1,092,104	798,923	293,181
Plant maintenance and operations	2,860,672	2,428,238	432,434
Security and monitoring	198,099	73,804	124,295
Data processing services	464,720	354,124	110,596
Community services	7,305	9,003	(1,698)
Interest on long-term debt	2,331,382	2,221,338	110,044
Bond issuance costs	102,990	4,100	98,890
Payments related to shared services arrangements	26,543	21,999	4,544
Other intergovernmental charges	294,401	293,036	1,365
Total Expenses	33,126,512	23,606,271	9,520,241
Change in Net Position	602,048	3,242,323	(2,640,275)
Beginning net position	(14,458,324)	(17,700,647)	3,242,323
Ending Net Position	\$ (13,856,276)	\$ (14,458,324)	\$ 602,048

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2019, the District's governmental funds reported a combined fund balance of \$7,801,318. This compares to a combined fund balance of \$6,555,112 at August 31, 2018. The fund balance in the general fund increased primarily due to an increase in local revenue due to an increase in property tax revenue. The national school breakfast/lunch program fund fund balance decreased due to expenses in excess of local, state, and federal program revenue. The debt service fund fund balance decreased due to debt service payments in excess of property tax collections and the issuance of the Unlimited Tax Refunding Bonds, Series 2018 (the "series 2018 bonds") during the year. The District's combined governmental funds revenue increased by \$648,255. This consisted of an increase in local revenue due to an increase in property tax revenue due to an increase in appraised values within the District. The total combined revenue was \$32,555,957 this year compared to \$31,907,702 last year. The District's combined governmental funds expenditures increased by \$3,588,246. This increase as primarily due to an increase in instruction costs as well as the current refunding of series 2010 bonds using the proceeds from the issuance of series 2018 bonds. The total combined expenditures were \$34,691,703 this year compared to \$31,103,457 last year.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the period ended August 31, 2019, 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. The general fund's actual revenues exceeded budgeted revenues by \$344,469 primarily due to an increase in local revenue due to an increase in property tax revenue and an increase in federal revenue due to an increase in school health and related services. Budgeted expenditures exceeded actual expenditures by \$1,482,930 due primarily to spending less in instruction, curriculum and staff development, and student transportation.

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, 2019, 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, 2019, the District had a total of \$58,322,221 invested in capital assets (net of accumulated depreciation) such as land, vehicles, buildings, and District equipment. This total includes \$131,704 invested during the fiscal year ended August 31, 2019.

Major capital asset events during the year included the following:

- Purchase of two bus engine replacements for \$17,589 and \$17,768
- Purchase of a police car for \$29,135
- Purchase of maintenance pickups for \$12,930
- Purchase of playground equipment of \$13,642
- Purchase of a golf cart for \$7,283
- Purchase of a power washer for \$9,330
- Purchase of an FFA trailer for \$24,028

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

LONG-TERM DEBT

At August 31, 2019, the District had \$62,965,641 in general obligation bonds, tax notes, and time warrants outstanding versus \$64,755,198 last year. The District issued series 2018 bonds in the amount of \$3,065,000 during the year to refund the outstanding balance on the series 2010 bonds.

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

ROYAL INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2019

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The District's management takes into consideration all aspects that influence school district budgets during the budget development process. This includes instructional improvements, student enrollment, property values, facility needs, economy, location, and new legislative mandates. The District encompasses 161 square miles located 35 miles west of Houston in southern Waller County along the West I-10 Corridor.

The prime location of commercial land along and near I-10, and the District's approved freeport exemption, attracts major manufacturing and distribution centers such as Amazon, Costco, Goya Foods, Grundfos, Houston Executive Airport, Igloo, Man Diesel & Turbo SE's North American headquarters, Rooms-to-Go, Ross distribution and Twinwood business park that provide additional jobs and extends the tax base.

- New home development has also increased within recent years. LGI Homes completed Crystal Lakes in September 2017, a 214-home subdivision in Brookshire. Two other housing developments are under construction consisting of 915 homes located in the northeast area of the District, to be completed within three years, and 650 homes in Kingsland Ranch south of I-10.
- Since tax year 2013, the assessed property values increased 36.52%, averaging 7.0% per year. From tax year 2017 to 2018, values increased by 8.44% which reflects the continued uptick in the economy. Within the past ten years, assessment increased by 66.92%. Values are expected to continue to increase for the 2019 tax year.
- Since 2013-14, the total student population increased 8.71% from 2,182 to 2,371 in 2018-19, averaging 1.7% per year during this period. At the beginning of the 2019-20 school year, enrollment exceeded 2,500. Contributed to the growing job market from the new businesses and the new housing developments, the District expects enrollment to continually increase.
- The District has continued its partnership with the Boys and Girls Club of Greater Houston with its location on the District's premises, to provide sports and quality after school programs and activities for the students. The average daily attendance for the Royal Boys and Girls Club is approximately 150 students.
- A Royal ISD Education Foundation was established to supplement the District's programs and activities. The Foundation received its 501(c)(3) exemption status in November 2016. The District received grants totaling \$12,305 during its first year in 2017-18 and \$81,267 in 2018-19.
- The District contracted Huckabee and Associates Inc. in October 2018 to do an assessment of enrollment, facility needs, and bond projections, for a ten-year plan.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

AUGUST 31, 2019

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 467,674
1120	<i>Current Investments</i>	7,421,638
1220	<i>Property Taxes Receivable</i>	2,055,421
1230	<i>Allowance for Uncollectible Taxes</i>	(532,666)
1240	<i>Due from Other Governments</i>	545,863
1290	<i>Other Receivables (Net)</i>	18,988
1300	<i>Inventories</i>	9,357
Capital Assets:		
1510	<i>Land</i>	816,227
1520	<i>Buildings and Improvements, Net</i>	56,941,046
1530	<i>Furniture and Equipment, Net</i>	211,545
1530	<i>Vehicles, Net</i>	353,403
1000	Total Assets	<u>68,308,496</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1700	<i>Deferred Charges on Refunding</i>	1,413,088
1705	<i>Deferred Outflows Related to Pensions</i>	4,322,803
1706	<i>Deferred Outflows Related to OPEB</i>	1,709,043
1700	Total Deferred Outflows of Resources	<u>7,444,934</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	379,305
2140	<i>Interest Payable</i>	399,064
2165	<i>Accrued Liabilities</i>	35
2180	<i>Due to Other Governments</i>	273,505
2300	<i>Deferred Revenue</i>	9,357
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	1,790,647
2502	<i>Due in More Than One Year</i>	65,383,751
2540	<i>Net Pension Liability</i>	8,087,433
2545	<i>Net OPEB Liability</i>	9,700,764
2000	Total Liabilities	<u>86,023,861</u>
DEFERRED INFLOWS OF RESOURCES:		
2605	<i>Deferred Inflows Related to Pensions</i>	518,230
2606	<i>Deferred Inflows Related to OPEB</i>	3,067,615
2600	Total Deferred Inflows of Resources	<u>3,585,845</u>
NET POSITION:		
3200	Net Investment in Capital Assets	(7,439,087)
Restricted For:		
3820	Federal and State Programs	30,742
3850	Debt Service	1,222,602
3870	Campus Activities	20,829
3890	Other Purposes	2,986
3900	Unrestricted	(7,694,348)
3000	Total Net Position	<u>\$ (13,856,276)</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	Governmental Activities		
	Governmental Activities:					
11	Instruction	\$ 17,019,778	\$ --	\$ 3,207,318	\$ (13,812,460)	
12	Instructional Resources and Media Services	332,235	--	21,198	(311,037)	
13	Curriculum and Staff Development	788,848	--	174,943	(613,905)	
21	Instructional Leadership	594,166	--	98,851	(495,315)	
23	School Leadership	1,580,442	--	165,266	(1,415,176)	
31	Guidance, Counseling, and Evaluation Services	855,669	--	247,268	(608,401)	
32	Social Work Services	106,708	--	6,754	(99,954)	
33	Health Services	312,090	--	31,434	(280,656)	
34	Student Transportation	1,341,262	--	80,299	(1,260,963)	
35	Food Service	1,612,570	24,448	--	(1,588,122)	
36	Cocurricular/Extracurricular Activities	1,204,528	--	37,238	(1,167,290)	
41	General Administration	1,092,104	--	110,561	(981,543)	
51	Facilities Maintenance and Operations	2,860,672	--	124,012	(2,736,660)	
52	Security and Monitoring Services	198,099	--	20,982	(177,117)	
53	Data Processing Services	464,720	--	25,266	(439,454)	
61	Community Services	7,305	--	3,816	(3,489)	
72	Interest on Long-term Debt	2,331,382	--	48,286	(2,283,096)	
73	Bond Issuance Costs and Fees	102,990	--	--	(102,990)	
93	Payments Related to Shared Services Arrangements	26,543	--	26,534	(9)	
99	Other Intergovernmental Charges	294,401	--	--	(294,401)	
TG	Total Governmental Activities	<u>33,126,512</u>	<u>24,448</u>	<u>4,430,026</u>	<u>(28,672,038)</u>	
TP	Total Primary Government	<u>\$ 33,126,512</u>	<u>\$ 24,448</u>	<u>\$ 4,430,026</u>	<u>(28,672,038)</u>	
	General Revenues:					
MT	Property Taxes, Levied for General Purposes				14,592,046	
DT	Property Taxes, Levied for Debt Service				4,486,620	
IE	Investment Earnings				211,558	
GC	Grants and Contributions Not Restricted to Specific Programs				9,370,379	
MI	Miscellaneous				613,483	
TR	Total General Revenues				<u>29,274,086</u>	
CN	Change in Net Position				602,048	
NB	Net Position - Beginning				(14,458,324)	
NE	Net Position - Ending				<u>\$ (13,856,276)</u>	

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2019

Data Control Codes	10 General Fund	24 National School Breakfast/Lunch Program
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ 192,920	\$ 72,168
1120 <i>Current Investments</i>	6,279,047	--
1220 <i>Property Taxes Receivable</i>	1,484,230	--
1230 <i>Allowance for Uncollectible Taxes</i>	(356,097)	--
1240 <i>Due from Other Governments</i>	52,229	259,093
1260 <i>Due from Other Funds</i>	301,170	--
1290 <i>Other Receivables</i>	17,739	1,249
1300 <i>Inventories</i>	--	9,357
1000 Total Assets	<u>\$ 7,971,238</u>	<u>\$ 341,867</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ 76,639	\$ 292,411
2150 <i>Payroll Deductions and Withholdings</i>	--	--
2170 <i>Due to Other Funds</i>	--	--
2180 <i>Due to Other Governments</i>	251,664	--
2300 <i>Deferred Revenue</i>	--	9,357
2000 Total Liabilities	<u>328,303</u>	<u>301,768</u>
DEFERRED INFLOWS OF RESOURCES:		
2600 <i>Unavailable Revenue for Property Taxes</i>	1,128,133	--
2600 Total Deferred Inflows of Resources	<u>1,128,133</u>	<u>--</u>
FUND BALANCES:		
Nonspendable Fund Balances:		
3410 <i>Inventories</i>	--	9,357
Restricted Fund Balances:		
3450 <i>Federal/State Funds Grant Restrictions</i>	--	30,742
3480 <i>Retirement of Long-Term Debt</i>	--	--
3490 <i>Other Restrictions of Fund Balance</i>	--	--
3600 Unassigned	6,514,802	--
3000 Total Fund Balances	<u>6,514,802</u>	<u>40,099</u>
4000 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 7,971,238</u>	<u>\$ 341,867</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

50 Debt Service Fund	Nonmajor Governmental Funds	98 Total Governmental Funds
\$ 65,109	\$ 137,477	\$ 467,674
1,142,591	--	7,421,638
571,191	--	2,055,421
(176,569)	--	(532,666)
14,902	219,639	545,863
--	--	301,170
--	--	18,988
--	--	9,357
<u>\$ 1,617,224</u>	<u>\$ 357,116</u>	<u>\$ 10,287,445</u>
\$ --	\$ 10,255	\$ 379,305
--	35	35
--	301,170	301,170
--	21,841	273,505
--	--	9,357
<u>--</u>	<u>333,302</u>	<u>963,372</u>
394,622	--	1,522,755
<u>394,622</u>	<u>--</u>	<u>1,522,755</u>
--	--	9,357
--	--	30,742
1,222,602	--	1,222,602
--	23,815	23,815
--	--	6,514,802
<u>1,222,602</u>	<u>23,815</u>	<u>7,801,318</u>
<u>\$ 1,617,224</u>	<u>\$ 357,116</u>	<u>\$ 10,287,445</u>

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ROYAL INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2019

Total fund balances - governmental funds balance sheet	\$ 7,801,318
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.	58,322,221
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,522,755
Payables for bond principal which are not due in the current period are not reported in the funds.	(63,970,662)
Payables for bond interest which are not due in the current period are not reported in the funds.	(399,064)
Payables for notes which are not due in the current period are not reported in the funds.	(1,790,647)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(8,087,433)
Deferred inflows of resources related to the pension plan are not reported in the funds.	(518,230)
Deferred outflows of resources related to the pension plan are not reported in the funds.	4,322,803
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(9,700,764)
Deferred inflows of resources related to the OPEB plan are not reported in the funds.	(3,067,615)
Deferred outflows of resources related to the OPEB plan are not reported in the funds.	<u>1,709,043</u>
Net position of governmental activities - Statement of Net Position	<u>\$ (13,856,276)</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	10 <u>General Fund</u>	24 <u>National School Breakfast/Lunch Program</u>
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ 14,862,506	\$ 142,805
5800 <i>State Program Revenues</i>	9,242,214	6,444
5900 <i>Federal Program Revenues</i>	906,735	1,228,355
5020 Total Revenues	<u>25,011,455</u>	<u>1,377,604</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	13,254,657	--
0012 <i>Instructional Resources and Media Services</i>	117,581	--
0013 <i>Curriculum and Staff Development</i>	620,396	--
0021 <i>Instructional Leadership</i>	516,280	--
0023 <i>School Leadership</i>	1,421,962	--
0031 <i>Guidance, Counseling, and Evaluation Services</i>	602,840	--
0032 <i>Social Work Services</i>	63,036	--
0033 <i>Health Services</i>	247,918	--
0034 <i>Student Transportation</i>	1,207,794	--
0035 <i>Food Service</i>	169	1,386,450
0036 <i>Cocurricular/Extracurricular Activities</i>	841,365	--
0041 <i>General Administration</i>	957,561	--
0051 <i>Facilities Maintenance and Operations</i>	2,632,151	--
0052 <i>Security and Monitoring Services</i>	203,629	--
0053 <i>Data Processing Services</i>	439,931	--
0061 <i>Community Services</i>	3,692	--
0071 <i>Principal on Long-term Debt</i>	160,000	--
0072 <i>Interest on Long-term Debt</i>	58,483	--
0073 <i>Bond Issuance Costs and Fees</i>	400	--
0073 <i>Payment to Escrow Agent</i>	--	--
0081 <i>Capital Outlay</i>	95,500	--
0093 <i>Payments to Shared Service Arrangements</i>	--	--
0099 <i>Other Intergovernmental Charges</i>	294,401	--
6030 Total Expenditures	<u>23,739,746</u>	<u>1,386,450</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	<u>1,271,709</u>	<u>(8,846)</u>
Other Financing Sources and (Uses):		
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	--
7916 <i>Premium or Discount on Issuance of Bonds</i>	--	--
7080 Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>1,271,709</u>	<u>(8,846)</u>
0100 Fund Balances - Beginning	<u>5,243,093</u>	<u>48,945</u>
3000 Fund Balances - Ending	<u>\$ 6,514,802</u>	<u>\$ 40,099</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-2

50 Debt Service Fund	Nonmajor Governmental Funds	98 Total Governmental Funds
\$ 4,449,770	\$ 97,895	\$ 19,552,976
48,286	62,596	9,359,540
--	1,508,351	3,643,441
<u>4,498,056</u>	<u>1,668,842</u>	<u>32,555,957</u>
--	1,287,020	14,541,677
--	1,196	118,777
--	93,028	713,424
--	33,261	549,541
--	4,795	1,426,757
--	176,595	779,435
--	--	63,036
--	--	247,918
--	--	1,207,794
--	--	1,386,619
--	25,416	866,781
--	3,868	961,429
--	--	2,632,151
--	9,691	213,320
--	--	439,931
--	3,613	7,305
1,474,557	--	1,634,557
3,038,934	--	3,097,417
102,590	--	102,990
3,284,400	--	3,284,400
--	--	95,500
--	26,543	26,543
--	--	294,401
<u>7,900,481</u>	<u>1,665,026</u>	<u>34,691,703</u>
<u>(3,402,425)</u>	<u>3,816</u>	<u>(2,135,746)</u>
3,065,000	--	3,065,000
316,952	--	316,952
<u>3,381,952</u>	<u>--</u>	<u>3,381,952</u>
(20,473)	3,816	1,246,206
1,243,075	19,999	6,555,112
<u>\$ 1,222,602</u>	<u>\$ 23,815</u>	<u>\$ 7,801,318</u>

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ROYAL INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2019*

Net change in fund balances - total governmental funds	\$ 1,246,206
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:	
Capital outlays are not reported as expenses in the SOA.	131,704
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,493,554)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	376,307
Reversal of fiscal year on-behalf revenues reported in the funds but not in the SOA.	(1,061,476)
Reversal of fiscal year on-behalf expenditures reported in the funds but not in the SOA.	1,061,476
Bond premiums are reported in governmental funds when the debt is first issued, whereas these amounts are deferred and amortized in the SOA.	(316,952)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,634,557
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	142,902
The accretion of interest on capital appreciation bonds is not reported in the funds.	848,468
(Increase) decrease in accrued interest from beginning of period to end of period.	(225,335)
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.	3,284,400
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(3,065,000)
GASB 68 on-behalf revenues.	1,332,448
The District's share of the pension expense.	(2,075,754)
GASB 75 on-behalf revenues.	525,385
The District's share of the OPEB expense.	(743,672)
GASB 75 federal funding recognized in the SOA.	(62)
	<hr/>
Change in net position of governmental activities - Statement of Activities	\$ <u>602,048</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2019

Data Control Codes	Private- Purpose Trust Fund	Agency Fund
<u>ASSETS:</u>	<u>Private- Purpose Trust Fund</u>	<u>Student Activity</u>
1110 <i>Cash and Cash Equivalents</i>	\$ 1,500	\$ 44,824
1000 Total Assets	<u>1,500</u>	<u>44,824</u>
 LIABILITIES:		
Current Liabilities:		
2190 <i>Due to Student Groups</i>	--	44,824
2000 Total Liabilities	<u>--</u>	<u>44,824</u>
 NET POSITION:		
3800 <i>Held in Trust</i>	1,500	--
3000 Total Net Position	<u>\$ 1,500</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

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

The accompanying notes are an integral part of this statement.

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ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2019

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The District is an independent political subdivision of the State of Texas governed by a board elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District's financial reporting entity. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. 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. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following governmental funds:

General Fund

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
FOR THE YEAR ENDED AUGUST 31, 2019

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes other than debt service or capital projects. The restricted proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund. The child nutrition fund is considered a major fund for reporting purposes.

Fiduciary Funds

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District has the following types of fiduciary funds:

Agency Funds

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

Trust Funds

The trust funds are custodial in nature and do not present results of operations or have a measurement focus. Trust funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's private-purpose funds.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued* FOR THE YEAR ENDED AUGUST 31, 2019

governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for the revenue source (within 60 days of year end). All other revenue items are considered measurable and available only when cash is received by the District.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit are reported at cost.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Government investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

5. Capital Assets

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

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

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
FOR THE YEAR ENDED AUGUST 31, 2019

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	7 to 39 years
Vehicles	5 years
Equipment	1 to 7 years

6. Deferred Outflows/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 element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. 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 a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

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.

7. Receivable and Payables 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.

8. 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 consolidations. 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.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
FOR THE YEAR ENDED AUGUST 31, 2019

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The District's Board is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The District's Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. 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 fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

12. 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.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED AUGUST 31, 2019

13. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

14. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

15. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

16. Other Postemployment Benefits

The fiduciary net position of the TRS Texas Public School Retired Employees Group Insurance Program ("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 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.

G. Revenues and Expenditures/Expenses

1. 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 function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
FOR THE YEAR ENDED AUGUST 31, 2019

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with GAAP. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year.

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

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures.

III. DETAILED NOTES ON ALL FUNDS

A. 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, 2019, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$513,997 and the bank balance was \$1,020,025. The District's cash deposits at August 31, 2019 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.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED AUGUST 31, 2019

As of August 31, 2019, the District had the following investments:

<u>Investments</u>	<u>Amount</u>	<u>Rating</u>	<u>Weighted Average Maturity (Days)</u>
TexSTAR	\$ 1,612,508	AAAm*	0.14
TexPool Investment Pool	2,665,023	AAAm*	0.10
LOGIC	3,144,106	AAA*	0.12
	<u>\$ 7,421,637</u>		
Portfolio weighted average maturity			0.12
*Standard and Poor's Financial Services			

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. The District's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/P1' as provided by two of the to nationally recognized rating agencies. As of August 31, 2019, the District's investment in investment pools were rated 'AAAm' or 'AAA' by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that the District's deposits may not be returned in the event of a bank failure. The District's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of August 31, 2019, fair market values of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The District's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

TexSTAR

The Texas Short-Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR is measured at amortized cost. TexSTAR's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national or state emergency that affects TexSTAR's liquidity.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED AUGUST 31, 2019

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

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 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 '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 designated to be used for investment of funds which may be needed at any time.

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

Governmental Activities:	Beginning Balances	Increases	(Decreases)	Ending Balances
Capital assets not being depreciated:				
Land	\$ 816,227	\$ -	\$ -	\$ 816,227
Total capital assets not being depreciated	<u>816,227</u>	<u>-</u>	<u>-</u>	<u>816,227</u>
Capital assets being depreciated:				
Buildings and improvements	99,007,967	-	-	99,007,967
Equipment	1,449,372	54,282	-	1,503,654
Vehicles	2,629,282	77,422	-	2,706,704
Total capital assets being depreciated:	<u>103,086,621</u>	<u>131,704</u>	<u>-</u>	<u>103,218,325</u>
Less accumulated depreciation for:				
Buildings and improvements	(39,866,464)	(2,200,457)	-	(42,066,921)
Equipment	(1,163,612)	(128,497)	-	(1,292,109)
Vehicles	(2,188,701)	(164,600)	-	(2,353,301)
Total accumulated depreciation	<u>(43,218,777)</u>	<u>(2,493,554)</u>	<u>-</u>	<u>(45,712,331)</u>
Total capital assets being depreciated, net	<u>59,867,844</u>	<u>(2,361,850)</u>	<u>-</u>	<u>57,505,994</u>
Governmental Activities Capital Assets, Net	<u>\$ 60,684,071</u>	<u>\$ (2,361,850)</u>	<u>\$ -</u>	<u>\$ 58,322,221</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED AUGUST 31, 2019

Depreciation was charged to governmental functions as follows:

		Governmental Activities
11	Instruction	\$ 1,123,864
12	Instructional resources/media services	197,343
13	Curriculum and staff development	18,268
21	Instructional leadership	4,565
23	School leadership	73,732
31	Guidance, counseling, and evaluation services	22,615
32	Social work services	40,162
33	Health services	45,556
34	Student (pupil) transportation	158,792
35	Food service	225,951
36	Extracurricular activities	344,137
41	General administration	72,570
51	Plant maintenance and operations	137,440
52	Security and monitoring services	10,404
53	Data processing services	18,155
Total Depreciation Expense		\$ 2,493,554

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the debt service fund to liquidate governmental long-term liabilities.

	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:						
Bonds payable:						
Building Bonds, Series 2008A	\$ 19,998,357	\$ 124,432	\$ -	\$ (68,782)	\$ 55,650	\$ 55,650
Refunding Bonds, Series 2010	4,774,587	3,590,000	-	(3,590,000)	-	-
Refunding Bonds, Series 2013	6,089,994	5,784,994	-	(50,000)	5,734,994	50,000
Refunding Bonds, Series 2014	6,930,000	5,590,000	-	(445,000)	5,145,000	455,000
Refunding Bonds, Series 2015	6,564,997	5,720,775	-	(455,775)	5,265,000	-
Maintenance Tax Notes, 2015	2,250,000	2,250,000	-	(100,000)	2,150,000	175,000
Refunding Bonds, Series 2016	9,334,997	9,104,997	-	(70,000)	9,034,997	694,997
Refunding Bonds, Series 2017	32,530,000	32,530,000	-	-	32,530,000	-
Refunding Bonds, Series 2018	3,065,000	-	3,065,000	(15,000)	3,050,000	360,000
Direct Borrowings / Placements:						
Time Warrants, Series 2015	310,000	60,000	-	(60,000)	-	-
	<u>91,847,933</u>	<u>64,755,198</u>	<u>3,065,000</u>	<u>(4,854,557)</u>	<u>62,965,641</u> *	<u>\$ 1,790,647</u>
Other liabilities:						
Issuance premiums/discount	-	3,714,747	316,952	(216,403)	3,815,296 *	-
Accreted interest	-	1,241,928	-	(848,468)	393,460 *	-
Net pension liability	-	4,776,402	3,311,031	-	8,087,433	-
Net OPEB liability	-	7,738,595	1,962,169	-	9,700,764	-
Total Governmental Activities	<u>\$ 91,847,933</u>	<u>\$ 82,226,871</u>	<u>\$ 8,655,152</u>	<u>\$ (5,919,428)</u>	<u>\$ 84,962,595</u>	<u>\$ 1,790,647</u>
Long-term liabilities due in more than one year					<u>\$ 83,171,948</u>	
*Debt associated with capital assets					<u>\$ 67,174,398</u>	

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

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED AUGUST 31, 2019

Current requirements for principal and interest expenditures are account for in the general fund and the debt service fund. These bonds were issued as school building bonds, refunding bonds, maintenance tax notes, and time warrants. Interest rates on the Series 2008A bonds are 5.08% to 5.42%, Series 2010 bonds are 3.00% to 4.00%, Series 2013 bonds \$2.00% to 4.00%, Series 2014 bonds are 2.50% to 4.00%, Series 2015 bonds are 3.00% to 4.00%, Series 2016 bonds are 1.60% to 4.00%, Series 2017 bonds are 3.00% to 5.00%, and Series 2018 bonds are 1.90% to 2.65%. Interest rates on the maintenance tax notes are \$2.00% to 3.50% and 1.65% on the time warrants. Interest expense was \$3,097,416 for the year ended August 31, 2019.

Unlimited Tax Refunding Bonds, Series 2018

The District issued the Royal Independent School District Unlimited Tax Refunding Bonds, Series 2018 dated November 1, 2018, in the amount of \$3,065,000 of general obligation bonds for a current refunding of \$3,220,000 of the Series 2010 bonds. The refunding was undertaken to reduce the total of future debt service payments. The reacquisition price exceeded the net carrying amount of the old debt by \$155,135. This amount is being netted against the new debt and amortized over the remaining life of the new debt, which is shorter than the life of the old debt. The transaction also resulted in an economic gain of \$78,875 and a reduction of \$81,947 in future debt service payments.

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ended August 31	Bonds Payable		
	Principal	Interest	Total Requirements
2020	\$ 1,615,647	\$ 2,838,940	\$ 4,454,587
2021	2,315,000	2,120,863	4,435,863
2022	2,430,000	2,014,563	4,444,563
2023	2,540,000	1,904,850	4,444,850
2024	2,645,000	1,791,225	4,436,225
2025-2029	14,009,994	8,034,118	22,044,113
2030-2034	17,565,000	4,583,994	22,148,994
2035-3039	17,695,000	1,386,283	19,081,283
	<u>\$ 60,815,641</u>	<u>\$ 24,674,835</u>	<u>\$ 85,490,477</u>

Year Ended August 31	Maintenance Tax Notes, Series 2015		
	Principal	Interest	Total Requirements
2020	\$ 175,000	\$ 55,238	\$ 230,238
2021	175,000	51,738	226,738
2022	180,000	48,188	228,188
2023	185,000	44,538	229,538
2024	185,000	40,375	225,375
2025-2029	1,025,000	114,938	1,139,938
2030-2034	225,000	3,656	228,656
	<u>\$ 2,150,000</u>	<u>\$ 358,669</u>	<u>\$ 2,508,669</u>

C. Commitments Under Noncapitalized Leases

The District has various operating lease agreements where the future minimum payments are immaterial to the operations of the District and, accordingly, the District has elected not to disclose future payments by fiscal year.

Rental Expenditures in 2019 \$ 117,791

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED AUGUST 31, 2019

E. Interfund Transactions

The interfund balances and transfers at August 31, 2019 were as follows:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Nonmajor Governmental Funds	\$ 301,170	Short-term loans
	Total	<u>\$ 301,170</u>	

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Defined Benefit Pension Plan

Teacher Retirement System

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. TRS'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 TRS.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED AUGUST 31, 2019

Pension Plan Fiduciary Net Position

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

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic 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 above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of TRS 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 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

<u>Contribution Rates</u>	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
NECE (State)	6.8%	6.8%
Employer	6.8%	6.8%

	<u>Measurement Year (2018)</u>	<u>Fiscal Year (2019)</u>
Employer contributions	\$ 494,973	\$ 461,668
Member contributions	\$ 1,280,458	\$ 1,256,583
NECE on-behalf contributions	\$ 823,441	\$ 864,215

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

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 FOR THE YEAR ENDED AUGUST 31, 2019

As the NECE for public education and junior colleges, the State contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of TRS 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 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 TRS 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 to which an employer is subject:

- 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 Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

Actuarial Assumptions

The total pension liability (TPL) in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 and was determined using the following actuarial assumptions:

Valuation date	August 31, 2017 rolled forward to August 31, 2018
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	6.907%
Long-term expected investment rate of return	7.25%
Municipal bond rate	3.69%. Source for the rate is the Fixed Income Market Data/Yield Curve/Data 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."
Last year ending August 31 in projection period (100 years)	2116
Inflation	2.3%
Salary increases including inflation	3.05% to 9.05%
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 three-year period ending August 31, 2017 and adopted in July 2018.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED AUGUST 31, 2019

Discount Rate

The single discount rate used to measure the TPL was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from TRS members and those of the contributing employers and the NECE are made at the statutorily required rates. Based on those assumptions, TRS's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2018 are summarized below:

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2018

	<u>Target Allocation</u>	<u>Long-Term Expected Geometric Real Rate of Return</u>	<u>Expected Contribution to Long-Term Portfolio Returns *</u>
Global Equity			
U.S.	18.0%	5.7%	1.0%
Non-U.S. Developed	13.0%	6.9%	0.9%
Emerging Markets	9.0%	8.9%	0.8%
Directional Hedge Funds	4.0%	3.5%	0.1%
Private Equity	13.0%	10.2%	1.3%
Stable Value			
U.S. Treasuries	11.0%	1.1%	0.1%
Absolute Returns	0.0%	0.0%	0.0%
Hedge Funds (Stable Value)	4.0%	3.1%	0.1%
Cash	1.0%	-0.3%	0.0%
Real Return			
Global Inflation-Linked Bonds	3.0%	0.7%	0.0%
Real Assets	14.0%	5.2%	0.7%
Energy and Natural Resources	5.0%	7.5%	0.4%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	3.7%	0.2%
Inflation Expectation	0.0%		2.3%
Alpha	0.0%		-0.8%
Total	<u>100.0%</u>		<u>7.1%</u>

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

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 FOR THE YEAR ENDED AUGUST 31, 2019

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability (NPL) if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the NPL:

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liability	<u>\$ 1,205,875</u>	<u>\$ 8,087,433</u>	<u>\$ 4,753,309</u>

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

At August 31, 2019, the District reported a liability of \$8,087,433 for its proportionate share of the TRS's NPL. 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 NPL, the related State support, and the total portion of the NPL that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 8,087,433
State's proportionate share that is associated with the District	13,462,697
Total	<u>\$ 21,550,130</u>

The NPL was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2017 rolled forward to August 31, 2018. The District's proportion of the NPL was based on the District's contributions to TRS relative to the contributions of all employers to TRS for the period September 1, 2017 through August 31, 2018.

At August 31, 2018, the District's proportion of the collective NPL was 0.0146931%, which was a decrease of 0.0002450% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the TPL since the prior measurement period.

- The TPL as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions, including post-retirement mortality, termination rates, and rates of retirement, were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions, including rates of salary increase for individual participants, were updated based on the same experience study.
- The discount rate changed from 8.000% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.00% to 7.25%.
- The change in the long-term assumed rate of return, combined with the change in the single discount rate, were the primary reasons for the increase in the NPL.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended August 31, 2019, the District recognized pension expense of \$1,332,448 and revenue of \$1,332,448 for support provided by the State.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
 FOR THE YEAR ENDED AUGUST 31, 2019

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 50,410	\$ (198,434)
Changes in actuarial assumptions	2,915,909	(91,122)
Difference between projected and actual investment earnings	-	(153,453)
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	894,816	(75,221)
Contributions paid to TRS subsequent to the measurement date	461,668	-
Total	\$ 4,322,803	\$ (518,230)

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:

Fiscal Year Ended August 31	Pension Expense
2020	\$ 923,450
2021	600,518
2022	505,039
2023	521,606
2024	481,117
Thereafter	211,175
Total	\$ 3,242,905

D. Defined Other Postemployment Benefit Plan

Plan Description

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

OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at 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, 2018 are as follows:

Total OPEB liability	\$ 50,729,490,103
Less: plan fiduciary net position	798,574,633
Net OPEB Liability	\$ 49,930,915,470

Net position as a percentage of total OPEB liability 1.57%

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 TRS. Optional dependent coverage is available for an additional fee.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

FOR THE YEAR ENDED AUGUST 31, 2019

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 the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least ten years of service credit in TRS. 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.

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 a retiree with and without Medicare coverage:

TRS-Care Plan Premium Rates
Effective January 1, 2018- December 31, 2018

	Medicare	Non-Medicare
Retiree*	\$ 135	\$ 200
Retiree and spouse	\$ 529	\$ 689
Retiree* and children	\$ 468	\$ 408
Retiree and family	\$ 1,020	\$ 999

**or surviving spouse*

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 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate, which is 0.75% 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 TRS-Care by type of contributor:

Contribution Rates

	Fiscal Year	
	2018	2019
Active employee	0.65%	0.65%
NECE (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

	Measurement	Fiscal
	Year (2018)	Year (2019)
Employer contributions	\$ 133,465	\$ 135,921
Member contributions	\$ 108,091	\$ 106,075
NECE on-behalf contributions	\$ 199,277	\$ 203,991

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued

FOR THE YEAR ENDED AUGUST 31, 2019

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

TRS-Care received supplemental appropriations from the State as the NECE in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the fiscal year 2018-2019 biennium to continue to support TRS-Care. This was also received in fiscal year 2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions:

- A change was made in the measurement date of the total OPEB liability for the TRS 2018 fiscal year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total OPEB liability to August 31, 2018. This was the first year the roll-forward procedures were used.
- The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the TRS pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability; and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in the OPEB valuation were identical to those used in the respective TRS pension valuation.
- The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale.
- Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and an initial medical trend rate of 6.75% for non-Medicare retirees were used. The initial prescription drug trend rate was 11.00% for all retirees. The first-year trend rate increase for the Medicare Advantage (medical) premiums reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.

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 that was rolled forward to August 31, 2018:

- | | |
|----------------------------------|----------------------------|
| 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	8/31/2017 rolled forward to 8/31/2018
Actuarial cost method	Individual entry age normal
Inflation	2.30%
Single discount rate	3.69%. Sourced from fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal funds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.
Aging factors	Based on plan-specific experience
Election rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65.
Expenses	Third-party administrative expenses related to the delivery of healthcare benefits are included in the age-adjusted claims costs.
Projected salary increases*	3.05% to 9.05%, including inflation
Ad hoc postemployment benefit changes	None

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED AUGUST 31, 2019

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

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.5%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of 0.27% in the discount rate since the previous year. Because TRS-Care is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the NECE are made at the statutorily required rates. Based on those assumptions, TRS-Care’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Sensitivity of the Net OPEB Liability

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability:

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of net OPEB liability	\$ 11,547,242	\$ 9,700,764	\$ 8,240,081

Healthcare Cost Trend Rates Sensitivity Analysis – The following presents the net OPEB liability of TRS-Care using the assumed healthcare cost trend rate of 8.5%, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% less than or 1% higher than the assumed healthcare cost trend rate:

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
District's proportionate share of net OPEB liability	\$ 8,056,643	\$ 9,700,764	\$ 11,866,108

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

At August 31, 2019, the District reported a liability of \$9,700,764 for its proportionate share of TRS-Care’s net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 9,700,764
State's proportionate share that is associated with the District	14,443,974
Total	\$ 24,144,738

The net OPEB liability was measured as of August 31, 2017 and rolled forward to August 31, 2018 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 TRS-Care relative to the contributions of all employers to TRS-Care for the period September 1, 2017 through August 31, 2018.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued FOR THE YEAR ENDED AUGUST 31, 2019

At August 31, 2019, the employer's proportion of the collective net OPEB liability was 0.0194284%, compared to 0.0177955% as of August 31, 2018.

Changes Since the Prior Actuarial Valuation

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

- Adjustments were made for retirees that were known to have discontinued their healthcare coverage in fiscal year 2018. This change increased the total OPEB liability.
- The healthcare trend rate assumption was updated to reflect the anticipated return of the HIF in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability by \$2.3 billion.

The following are changes in benefit terms since the prior measurement date effective September 1, 2017 by the 85th Texas Legislature:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed TRS-Care to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during plan years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

For the year ended August 31, 2019, the District recognized OPEB expense of \$525,385 and revenue of \$525,385 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of TRS-Care's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 514,783	\$ (153,092)
Changes in actuarial assumptions	161,879	(2,914,523)
Differences between projected and actual investment earnings	1,697	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	895,298	-
Contributions paid to TRS subsequent to the measurement date	135,386	-
Total	\$ 1,709,043	\$ (3,067,615)

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED AUGUST 31, 2019

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:

<u>Fiscal Year Ended</u> <u>August 31</u>	<u>OPEB</u> <u>Expense</u>
2020	\$ (270,424)
2021	(270,424)
2022	(270,424)
2023	(270,745)
2024	(270,929)
Thereafter	(141,012)
Total	\$ (1,493,958)

Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2019, 2018, and 2017, the subsidy payments received by TRS-Care on behalf of the District were \$64,391, \$49,296, and \$46,750, respectively.

E. Employee Health Care Coverage

During the year ended August 31, 2019, 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 licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2019 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation

During the year ended August 31, 2019, 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 Cooperative 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 Fund and its members are protected against higher than expected claims 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, 2018, the Fund carries a discount reserve of \$48,977,531 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2019, the Fund anticipated no additional liability to members beyond their contractual obligation 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, 2018 are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, *Continued*
FOR THE YEAR ENDED AUGUST 31, 2019

G. Unemployment Compensation

During the year ended August 31, 2019, 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, 2019, the Fund anticipates that the District has no additional liability beyond the contractual obligation or payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan 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, 2018 are available at the TASB risk management fund website and have been filed with the Texas Department of Insurance in Austin.

H. Shared Services Arrangements

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

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

I. Tax Abatements

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

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

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

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
FOR THE YEAR ENDED AUGUST 31, 2019

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

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

For the fiscal year ended August 31, 2019, the District abated property taxes totaling \$253,736 under the Agreement.

Required Supplementary Information

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

ROYAL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT G-1

Page 1 of 2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 13,812,520	\$ 13,860,858	\$ 14,862,506	\$ 1,001,648
5800	State Program Revenues	10,098,628	10,098,628	9,242,214	(856,414)
5900	Federal Program Revenues	707,500	707,500	906,735	199,235
5020	Total Revenues	24,618,648	24,666,986	25,011,455	344,469
EXPENDITURES:					
Current:					
Instruction and Instructional Related Services:					
0011	Instruction	13,860,919	13,754,851	13,254,657	500,194
0012	Instructional Resources and Media Services	178,802	143,802	117,581	26,221
0013	Curriculum and Staff Development	831,985	831,985	620,396	211,589
	Total Instruction & and Instr. Related Services	14,871,706	14,730,638	13,992,634	738,004
Instructional and School Leadership:					
0021	Instructional Leadership	591,832	573,332	516,280	57,052
0023	School Leadership	1,528,050	1,528,300	1,421,962	106,338
	Total Instructional and School Leadership	2,119,882	2,101,632	1,938,242	163,390
Support Services - Student (Pupil):					
0031	Guidance, Counseling, and Evaluation Services	608,130	614,180	602,840	11,340
0032	Social Work Services	72,923	72,923	63,036	9,887
0033	Health Services	271,224	271,224	247,918	23,306
0034	Student (Pupil) Transportation	1,540,528	1,399,645	1,207,794	191,851
0035	Food Services	300	900	169	731
0036	Cocurricular/Extracurricular Activities	906,015	948,515	841,365	107,150
	Total Support Services - Student (Pupil)	3,399,120	3,307,387	2,963,122	344,265
Administrative Support Services:					
0041	General Administration	930,655	1,030,655	957,561	73,094
	Total Administrative Support Services	930,655	1,030,655	957,561	73,094
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	2,355,584	2,675,249	2,632,151	43,098
0052	Security and Monitoring Services	108,169	210,404	203,629	6,775
0053	Data Processing Services	509,437	494,961	439,931	55,030
	Total Support Services - Nonstudent Based	2,973,190	3,380,614	3,275,711	104,903
Ancillary Services:					
0061	Community Services	7,250	7,250	3,692	3,558
	Total Ancillary Services	7,250	7,250	3,692	3,558
Debt Service:					
0071	Principal on Long-Term Debt	160,000	160,000	160,000	--
0072	Interest on Long-Term Debt	58,483	58,483	58,483	--
0073	Bond Issuance Costs and Fees	1,500	600	400	200
	Total Debt Service	219,983	219,083	218,883	200
Capital Outlay:					
0081	Capital Outlay	250,000	151,000	95,500	55,500
	Total Capital Outlay	250,000	151,000	95,500	55,500

ROYAL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
0099	<i>Other Intergovernmental Charges</i>	\$ 300,317	\$ 294,417	\$ 294,401	\$ 16
	Total Intergovernmental Charges	<u>300,317</u>	<u>294,417</u>	<u>294,401</u>	<u>16</u>
6030	Total Expenditures	<u>25,072,103</u>	<u>25,222,676</u>	<u>23,739,746</u>	<u>1,482,930</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(453,455)</u>	<u>(555,690)</u>	<u>1,271,709</u>	<u>1,827,399</u>
1200	Net Change in Fund Balance	<u>(453,455)</u>	<u>(555,690)</u>	<u>1,271,709</u>	<u>1,827,399</u>
0100	Fund Balance - Beginning	5,244,093	5,243,093	5,243,093	--
3000	Fund Balance - Ending	<u>\$ 4,790,638</u>	<u>\$ 4,687,403</u>	<u>\$ 6,514,802</u>	<u>\$ 1,827,399</u>

Notes to the Required Supplementary Information:

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

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ROYAL INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT G-2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	<i>Local and Intermediate Sources</i>	\$ 205,419	\$ 205,419	\$ 142,805	\$ (62,614)
5800	<i>State Program Revenues</i>	7,589	7,589	6,444	(1,145)
5900	<i>Federal Program Revenues</i>	1,117,782	1,173,782	1,228,355	54,573
5020	Total Revenues	<u>1,330,790</u>	<u>1,386,790</u>	<u>1,377,604</u>	<u>(9,186)</u>
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	<i>Food Services</i>	1,330,790	1,386,790	1,386,450	340
	Total Support Services - Student (Pupil)	<u>1,330,790</u>	<u>1,386,790</u>	<u>1,386,450</u>	<u>340</u>
6030	Total Expenditures	<u>1,330,790</u>	<u>1,386,790</u>	<u>1,386,450</u>	<u>340</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	(8,846)	(8,846)
1200	Net Change in Fund Balance	--	--	(8,846)	(8,846)
0100	Fund Balance - Beginning	48,945	48,945	48,945	--
3000	Fund Balance - Ending	<u>\$ 48,945</u>	<u>\$ 48,945</u>	<u>\$ 40,099</u>	<u>\$ (8,846)</u>

Notes to the Required Supplementary Information:

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

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) FOR THE YEAR ENDED AUGUST 31, 2019

	Measurement Year*			
	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.0146931%	0.0149381%	0.0146559%	0.049568%
District's proportionate share of the net pension liability (asset)	\$ 8,087,433	\$ 4,776,402	\$ 5,538,234	\$ 5,287,030
State's proportionate share of the net pension liability (asset) associated with the District	13,462,697	7,522,370	8,993,528	8,215,895
Total	<u>\$ 21,550,130</u>	<u>\$ 12,298,772</u>	<u>\$ 14,531,762</u>	<u>\$ 13,502,925</u>
District's covered payroll**	\$ 16,629,322	\$ 15,755,024	\$ 15,174,769	\$ 12,983,588
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	48.63%	30.32%	36.50%	40.72%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	82.17%	78.00%	78.43%

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

** As of the measurement date.

Notes to Required Supplementary Information:

Changes in Assumptions:

The total pension liability (TPL) as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.

Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.

Economic assumptions including rates of salary increases for individual participants was updated based on the same experience study.

The discount rate changed from 8.00% as of August 31, 2017 to 6.907% as of August 31, 2018.

The long-term assumed rate of return changed from 8.00% to 7.25%.

The change in the long-term assumed rate of return, combined with the change in the single discount rate, were the primary reasons for the increase in the net pension liability.

Changes in Benefits:

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

2014

0.0084990%

\$ 2,270,201

6,515,686
\$ 8,785,887

\$ 12,027,683

18.87%

83.25%

ROYAL INDEPENDENT SCHOOL DISTRICT*SCHEDULE OF DISTRICT CONTRIBUTIONS**TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)**LAST TEN FISCAL YEARS*

	Fiscal Year				
	2019	2018	2017	2016	2015
Contractually required contribution	\$ 461,668	\$ 494,030	\$ 489,585	\$ 465,654	\$ 420,813
Contributions in relation to the contractually required contribution	461,668	494,030	489,585	465,654	420,813
Contribution deficiency (excess)	<u>\$ --</u>				
District's covered payroll	\$ 16,319,256	\$ 16,629,322	\$ 15,755,024	\$ 15,174,769	\$ 12,983,588
Contributions as a percentage of covered payroll	2.83%	2.97%	3.11%	3.07%	3.24%

					Fiscal Year				
2014		2013		2012		2011		2010	
\$	215,472	\$	186,739	\$	160,896	\$	168,911	\$	174,296
	<u>215,472</u>		<u>186,739</u>		<u>160,896</u>		<u>168,911</u>		<u>174,296</u>
\$	<u>--</u>								
\$	12,027,683	\$	12,190,150	\$	11,498,613	\$	11,793,663	\$	12,274,465
	1.79%		1.53%		1.40%		1.43%		1.42%

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE

SHARE OF THE NET OPEB LIABILITY

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

FOR THE YEAR ENDED AUGUST 31, 2019

	Measurement Year*	
	2018	2017
District's proportion of the collective net OPEB liability (asset)	0.0194284%	0.0177955%
District's proportionate share of the collective net OPEB liability (asset) \$	9,700,764	\$ 7,738,595
State proportionate share of the collective net OPEB liability (asset) associated with the District	14,443,974	12,618,457
Total	<u>\$ 24,144,738</u>	<u>\$ 20,357,052</u>
District's covered payroll	\$ 16,629,322	\$ 15,755,024
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	58.34%	49.12%
Plan fiduciary net position as a percentage of the total OPEB liability	1.57%	0.91%

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

**As of the measurement date.

Notes to Required Supplementary Information:

Changes in Assumptions: There were changes in assumptions that affected measurement of the total OPEB liability since the prior measurement period.

- Adjustments were made for retirees that were known to have discontinued their healthcare coverage in fiscal year 2018. This change increased the total OPEB liability.
- The healthcare trend rate assumption was updated to reflect the anticipated return of the HIF in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability by \$2.3 billion.

Changes in Benefits: There were changes in benefits that affected measurement of the total OPEB liability since the prior year measurement period.

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed TRS-Care to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during plan years 2018 and through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

ROYAL INDEPENDENT SCHOOL DISTRICT*SCHEDULE OF DISTRICT CONTRIBUTIONS**TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM (TRS-CARE)**FOR THE YEAR ENDED AUGUST 31, 2019*

	Fiscal Year*	
	2019	2018
Statutorily or contractually required District contribution	\$ 135,386	\$ 133,465
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	135,386	133,465
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>
District's covered payroll	\$ 16,319,256	\$ 16,629,322
Contributions as a percentage covered payroll	0.83%	0.80%

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

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Combining Statements as Supplementary Information

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

ROYAL INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2019

Data Control Codes	211 Title I, Part A Improving Basic Programs	224 IDEA-B Formula	225 IDEA-B Preschool	244 Carl D. Perkins Basic Formula Grant	
ASSETS:					
1110	Cash and Cash Equivalents	\$ 40,770	\$ 8,137	\$ --	\$ 1,232
1240	Due from Other Governments	51,462	122,730	7,231	--
1000	Total Assets	<u>\$ 92,232</u>	<u>\$ 130,867</u>	<u>\$ 7,231</u>	<u>\$ 1,232</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ --	\$ 10,255	\$ --	\$ --
2150	Payroll Deductions and Withholdings	35	--	--	--
2170	Due to Other Funds	92,197	112,729	7,231	1,232
2180	Due to Other Governments	--	7,883	--	--
2000	Total Liabilities	<u>92,232</u>	<u>130,867</u>	<u>7,231</u>	<u>1,232</u>
FUND BALANCES:					
Restricted Fund Balances:					
3490	Other Restrictions of Fund Balance	--	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 92,232</u>	<u>\$ 130,867</u>	<u>\$ 7,231</u>	<u>\$ 1,232</u>

255 Title II, Part A Supp. Effective Instruction	263 Title III, Part A - ELA	270 Title IV, B, Sp 2, Rural and Low- Income School	289 Title I, Part A Subpart 1	410 State Textbook
\$ 245	\$ 17,652	\$ --	\$ --	\$ --
23,890	5,455	8,871	--	--
<u>\$ 24,135</u>	<u>\$ 23,107</u>	<u>\$ 8,871</u>	<u>\$ --</u>	<u>\$ --</u>
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	--
24,135	23,107	8,871	--	--
--	--	--	--	--
<u>24,135</u>	<u>23,107</u>	<u>8,871</u>	<u>--</u>	<u>--</u>
--	--	--	--	--
--	--	--	--	--
<u>\$ 24,135</u>	<u>\$ 23,107</u>	<u>\$ 8,871</u>	<u>\$ --</u>	<u>\$ --</u>

ROYAL INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2019

Data Control Codes	429 State Funded Special Revenue	461 Campus Activity
ASSETS:		
1110 <i>Cash and Cash Equivalents</i>	\$ 31,668	\$ 20,829
1240 <i>Due from Other Governments</i>	--	--
1000 Total Assets	<u>\$ 31,668</u>	<u>\$ 20,829</u>
LIABILITIES:		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ --	\$ --
2150 <i>Payroll Deductions and Withholdings</i>	--	--
2170 <i>Due to Other Funds</i>	31,668	--
2180 <i>Due to Other Governments</i>	--	--
2000 Total Liabilities	<u>31,668</u>	<u>--</u>
FUND BALANCES:		
Restricted Fund Balances:		
3490 <i>Other Restrictions of Fund Balance</i>	--	20,829
3000 Total Fund Balances	<u>--</u>	<u>20,829</u>
4000 Total Liabilities and Fund Balances	<u>\$ 31,668</u>	<u>\$ 20,829</u>

480 Education Fund	499 Locally Funded Grants	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 13,958	\$ 2,986	\$ 137,477
--	--	219,639
<u>\$ 13,958</u>	<u>\$ 2,986</u>	<u>\$ 357,116</u>
\$ --	\$ --	\$ 10,255
--	--	35
--	--	301,170
13,958	--	21,841
<u>13,958</u>	<u>--</u>	<u>333,301</u>
--	2,986	23,815
<u>--</u>	<u>2,986</u>	<u>23,815</u>
<u>\$ 13,958</u>	<u>\$ 2,986</u>	<u>\$ 357,116</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	211 Title I, Part A Improving Basic Programs	224 IDEA-B Formula	225 IDEA-B Preschool	244 Carl D. Perkins Basic Formula Grant
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ --	\$ --
5800 <i>State Program Revenues</i>	--	--	--	--
5900 <i>Federal Program Revenues</i>	712,561	434,271	19,233	32,536
5020 Total Revenues	<u>712,561</u>	<u>434,271</u>	<u>19,233</u>	<u>32,536</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	675,273	214,644	6,864	32,536
0012 <i>Instructional Resources and Media Services</i>	--	--	--	--
0013 <i>Curriculum and Staff Development</i>	33,675	1,285	--	--
0021 <i>Instructional Leadership</i>	--	33,261	--	--
0023 <i>School Leadership</i>	--	--	--	--
0031 <i>Guidance, Counseling, and Evaluation Services</i>	--	158,538	12,369	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--	--
0041 <i>General Administration</i>	--	--	--	--
0052 <i>Security and Monitoring Services</i>	--	--	--	--
0061 <i>Community Services</i>	3,613	--	--	--
0093 <i>Payments to Shared Service Arrangements</i>	--	26,543	--	--
6030 Total Expenditures	<u>712,561</u>	<u>434,271</u>	<u>19,233</u>	<u>32,536</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	--	--	--	--
1200 Net Change in Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
0100 <i>Fund Balances - Beginning</i>	--	--	--	--
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

255 Title II, Part A Supp. Effective Instruction	263 Title III, Part A - ELA	270 Title IV, B, Sp 2, Rural and Low- Income School	289 Title I, Part A Subpart 1	410 State Textbook
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	62,220
85,593	115,954	44,163	64,040	--
<u>85,593</u>	<u>115,954</u>	<u>44,163</u>	<u>64,040</u>	<u>62,220</u>
36,321	101,854	44,163	48,661	61,925
--	--	--	--	--
40,904	14,100	--	--	--
--	--	--	--	--
4,500	--	--	--	295
--	--	--	5,688	--
--	--	--	--	--
3,868	--	--	--	--
--	--	--	9,691	--
--	--	--	--	--
--	--	--	--	--
<u>85,593</u>	<u>115,954</u>	<u>44,163</u>	<u>64,040</u>	<u>62,220</u>
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

ROYAL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes	429 State Funded Special Revenue	461 Campus Activity
REVENUES:		
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ 24,448
5800 <i>State Program Revenues</i>	376	--
5900 <i>Federal Program Revenues</i>	--	--
5020 Total Revenues	<u>376</u>	<u>24,448</u>
EXPENDITURES:		
Current:		
0011 <i>Instruction</i>	350	--
0012 <i>Instructional Resources and Media Services</i>	26	--
0013 <i>Curriculum and Staff Development</i>	--	--
0021 <i>Instructional Leadership</i>	--	--
0023 <i>School Leadership</i>	--	--
0031 <i>Guidance, Counseling, and Evaluation Services</i>	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	21,699
0041 <i>General Administration</i>	--	--
0052 <i>Security and Monitoring Services</i>	--	--
0061 <i>Community Services</i>	--	--
0093 <i>Payments to Shared Service Arrangements</i>	--	--
6030 Total Expenditures	<u>376</u>	<u>21,699</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	--	2,749
1200 Net Change in Fund Balances	--	2,749
0100 Fund Balances - Beginning	--	18,080
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ 20,829</u>

480 Education Fund	499 Locally Funded Grants	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ 67,309	\$ 6,138	\$ 97,895
--	--	62,596
--	--	1,508,351
<u>67,309</u>	<u>6,138</u>	<u>1,668,842</u>
62,839	1,590	1,287,020
1,170	--	1,196
--	3,064	93,028
--	--	33,261
--	--	4,795
--	--	176,595
3,300	417	25,416
--	--	3,868
--	--	9,691
--	--	3,613
--	--	26,543
<u>67,309</u>	<u>5,071</u>	<u>1,665,026</u>
--	1,067	3,816
<u>--</u>	<u>1,067</u>	<u>3,816</u>
--	1,919	19,999
<u>\$ --</u>	<u>\$ 2,986</u>	<u>\$ 23,815</u>

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Other Supplementary Information

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

ROYAL INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2019*

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2010 and Prior Years	Various	Various	Various
2011	\$ 1.04	\$.5900	\$ 733,799,563
2012	\$ 1.04	\$.5450	\$ 760,439,175
2013	\$ 1.04	\$.5264	\$ 798,783,864
2014	\$ 1.04	\$.5563	\$ 876,060,060
2015	\$ 1.04	\$.5000	\$ 995,418,384
2016	\$ 1.04	\$.4888	\$ 1,037,758,434
2017	\$ 1.04	\$.4888	\$ 1,066,145,568
2018	\$ 1.17	\$.3588	\$ 1,100,969,227
2019 (School Year Under Audit)	\$ 1.17	\$.3588	\$ 1,193,950,092

1000 Totals

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

10 Beginning Balance 9/1/18	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/19
\$ 366,203	\$ --	\$ 12,161	\$ 6,105	\$ (44,393)	\$ 303,544
48,546	--	2,678	1,519	(21)	44,327
58,037	--	2,301	1,206	(11)	54,520
86,804	--	4,110	2,080	(7,606)	73,008
65,611	--	6,151	3,290	(7,144)	49,026
63,277	--	6,959	3,346	(3,510)	49,463
100,458	--	24,568	11,547	(2,004)	62,338
393,485	--	67,449	31,702	(9,196)	285,138
507,841	--	310,458	107,407	49,830	139,805
--	18,253,109	13,656,178	4,166,343	563,663	994,251
<u>\$ 1,690,263</u>	<u>\$ 18,253,109</u>	<u>\$ 14,093,013</u>	<u>\$ 4,334,546</u>	<u>\$ 539,608</u>	<u>\$ 2,055,421</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

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ROYAL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

DEBT SERVICE FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2019

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 4,396,488	\$ 4,396,488	\$ 4,449,770	\$ 53,282
5800	State Program Revenues	46,737	46,737	48,286	1,549
5020	Total Revenues	<u>4,443,225</u>	<u>4,443,225</u>	<u>4,498,056</u>	<u>54,831</u>
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	1,459,557	1,479,738	1,474,557	5,181
0072	Interest on Long-Term Debt	3,059,131	3,038,950	3,038,934	16
0073	Bond Issuance Costs and Fees	10,000	103,831	102,590	1,241
0073	Payment to Bond Escrow Agent	--	3,284,400	3,284,400	--
	Total Debt Service	<u>4,528,688</u>	<u>7,906,919</u>	<u>7,900,481</u>	<u>6,438</u>
6030	Total Expenditures	<u>4,528,688</u>	<u>7,906,919</u>	<u>7,900,481</u>	<u>6,438</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(85,463)</u>	<u>(3,463,694)</u>	<u>(3,402,425)</u>	<u>61,269</u>
Other Financing Sources (Uses):					
7911	Capital-Related Debt Issued (Regular Bonds)	--	3,065,000	3,065,000	--
7916	Premium or Discount on Issuance of Bonds	--	313,231	316,952	3,721
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>3,378,231</u>	<u>3,381,952</u>	<u>3,721</u>
1200	Net Change in Fund Balance	<u>(85,463)</u>	<u>(85,463)</u>	<u>(20,473)</u>	<u>64,990</u>
0100	Fund Balance - Beginning	1,243,075	1,243,075	1,243,075	--
3000	Fund Balance - Ending	<u>\$ 1,157,612</u>	<u>\$ 1,157,612</u>	<u>\$ 1,222,602</u>	<u>\$ 64,990</u>

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Federal Awards and Other Compliance Section

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

January 3, 2020

To the Board of Trustees of
Royal Independent School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Independent School District (the "District"), as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 3, 2020.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

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

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



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

January 3, 2020

To the Board of Trustees of
Royal Independent School District:

Report on Compliance for Each Major Federal Program

We have audited Royal Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2019. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2019.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019.001. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019.001, that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of finding and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Respectfully submitted,

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

ROYAL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2019

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

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

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 No

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

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

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

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027 and 84.173	Special Education Cluster (IDEA)
84.365	Title III, Part A ELA
10.553 and 10.555	Child Nutrition Cluster

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

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

NONE

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2019

C. Federal Award Findings and Questioned Costs

Significant Deficiency in Internal Controls Over Compliance:

2019.001 ALLOWABLE COSTS-SPECIAL EDUCATION (IDEA) CLUSTER

Federal Agency: U.S. Department of Education

Federal Program: Special Education (IDEA) Cluster

Pass-Through: State Department of Education

CFDA: 84.027 and 84.173

Condition

It was noted during the testing of allowable payroll costs for the IDEA-B Formula federal grant program, included within the Special Education Cluster for fiscal year 2019, that a teacher's aide was incorrectly charged to the program in the amount of \$7,883.

Effect

If left uncorrected, the District would have been noncompliant with the provisions of the grant agreement, placing future funding for this program at risk.

Cause

The District's grant administrator did not initially recognize that one individual was being charged to the program in error.

Criteria

The federal Individuals with Disabilities Education Act (IDEA) defines eligible activities as well as allowable costs for the program.

Context

A test of 23 payroll transactions from a population of 127 was performed. Our sample was a statistically valid sample. The dollar amount of the teachers' aide incorrectly charged was immaterial to the program as well as the District's financial statements. As of August 31, 2019, the District recorded a due to State for the amount initially charged in error and this will be returned in the fiscal year ended August 31, 2020.

Recommendation

The District should consider a second review of all individuals charged to a federal grant program.

Views of responsible officials and planned corrective action-see corrective action plan.



Independent School District

Office of the Superintendent

CORRECTIVE ACTION PLAN

January 6, 2020

Finding: 2019.001 Allowable Costs-Special Education (IDEA) Cluster

Response:

As part of the 2018-19 financial review, it was discovered that an ESL instructional aide (English as a second language) was miscoded in payroll to the IDEA-B federal fund, for SPED (special education). This error occurred during the re-assignments of campus employees within the 2018-19 school year. Due to an oversight, the account code was not changed within the perpetual payroll Excel spreadsheet when a SPED position was changed to ESL.

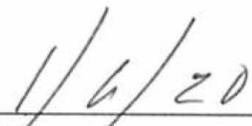
As a result, the following processes were initiated for correction.

1. The District notified the Texas Education Agency of the error and issue a reimbursement in the amount of \$7,883.26 on December 17, 2019. Check #112454, Refund #R.1. Correction of an Administrative Error, for NOGA \$186600012379056600.
2. The human resources director has ensured with the payroll specialist that the account codes within the perpetual payroll Excel spreadsheet are updated at the same time account codes are updated and entered within the payroll software system. The data from the Excel spreadsheet must match the data within the payroll software system.
3. When time and effort sheets and/or 100% certification sheets are being collected by the federal fund directors, the directors will also begin requesting payroll reports from the payroll specialist, which will show who is being coded to all special programs. These reports will serve as a check-off list for the directors while confirming correct payroll account codings. In the event of a discrepancy, a director will immediately notify the payroll specialist and human resource director in writing for correction.

Implementation Date: Immediate



Superintendent's Approval



Date

P.O. Box 489 • Pattison, TX 77466 • Phone: 281-934-1826 • Fax: 281-934-3154 • www.royal-isd.net
3714 FM 359, Pattison, TX

Statement of Non-Discrimination

Royal ISD does not discriminate on the basis of age, race, religion, color, national origin, sex or disability in providing education services, activities, and programs, including vocational programs, in accordance with Title VI of the Civil Rights Act of 1964, as amended; Title IX of the Educational Amendments of 1972; Section 504 of the Rehabilitation Act of 1973, as amended.

Royal ISD no discrimina a base de la edad, la carrera, la religión, el color, el origen nacional, el sexo ni la incapacidad a proporcionar los servicios de educación, las actividades, y los programas, inclusive programas vocacionales, de acuerdo con el Artículo VI y el Artículo VII de la Ley de los Derechos Civiles de 1964, el Título IX de las Enmiendas Educativas de 1972; y la Sección 504 del Acto de Rehabilitación de 1973, cuando enmendado.

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
CHILD NUTRITION CLUSTER:			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
<i>School Breakfast Program</i>	10.553	806780706	\$ 398,717
<i>National School Lunch Program</i>	10.555	806780706	765,602
Total Passed Through State Department of Education			<u>1,164,320</u>
Total U. S. Department of Agriculture			<u>1,164,320</u>
Total Child Nutrition Cluster			<u>1,164,320</u>
FOOD DISTRIBUTION CLUSTER:			
<u>U. S. Department of Agriculture</u>			
Passed Through State Department of Education:			
<i>Commodity Supplemental Food Program (Non-cash)</i>	10.565	806780706	64,036
Total Passed Through State Department of Education			<u>64,036</u>
Total U. S. Department of Agriculture			<u>64,036</u>
Total Food Distribution Cluster			<u>64,036</u>
MEDICAID CLUSTER:			
<u>U. S. Department of Health and Human Services</u>			
Passed Through State Department of Education:			
<i>Medicaid Administrative Claiming Program</i>	93.778	237-905	3,800
Total Passed Through State Department of Education			<u>3,800</u>
Total U. S. Department of Health and Human Services			<u>3,800</u>
Total Medicaid Cluster			<u>3,800</u>
SPECIAL EDUCATION (IDEA) CLUSTER:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>IDEA-B Formula</i>	84.027	196600012379056600	322,881
<i>IDEA-B Formula</i>	84.027	186600012379056600	111,390
Total CFDA Number 84.027			<u>434,271</u>
<i>IDEA-B Preschool</i>	84.173	186610012379056610	12,996
<i>IDEA-B Preschool</i>	84.173	196610012379056610	6,237
Total CFDA Number 84.173			<u>19,233</u>
Total Passed Through State Department of Education			<u>453,504</u>
Total U. S. Department of Education			<u>453,504</u>
Total Special Education (IDEA) Cluster			<u>453,504</u>
OTHER PROGRAMS:			
<u>U. S. Department of Education</u>			
Passed Through State Department of Education:			
<i>Title I Part A - Improving Basic Programs</i>	84.010	19610101237905	712,561
<i>Carl D. Perkins Basic Grant</i>	84.048	19420006237905	32,536
<i>Title V, Part B, Subpart 2 - Rural and Low Income School</i>	84.358	19696001237905	44,163

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2019

EXHIBIT K-1
Page 2 of 2

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Federal Expenditures
<i>Title III Part A - ELA</i>	84.365	19671001237905	\$ 115,954
<i>Title II Part A - Supporting Effective Instruction</i>	84.367	19694501237905	85,593
<i>Summer School LEP</i>	84.369	69551802	12,516
<i>Title IV, Part A, Subpart 1</i>	84.424	19680101237905	51,524
Total Passed Through State Department of Education			<u>1,054,847</u>
Total U. S. Department of Education			<u>1,054,847</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,740,506</u></u>
			Federal Revenue per SEFA \$ 2,740,506
			General Fund SHARS Revenue 902,935
			<u><u>\$ 3,643,441</u></u>

The accompanying notes are an integral part of this schedule.

ROYAL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2019

Basis of Presentation

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

Summary of Significant Accounting Policies

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

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

ROYAL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2019

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the 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 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?	\$ 393,460
SF11	Net pension asset (object 1920) at fiscal year end	\$ --
SF12	Net pension liability (object 2540) at fiscal year end	\$ 8,087,433

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