

Stafford Municipal School District

Annual Financial Report

For the Fiscal Year Ended August 31, 2018

Stafford Municipal School District
 Annual Financial Report
 For the Fiscal Year Ended August 31, 2018
 Table of Contents

	Page	Exhibit
Certificate of the Board	iii	
 Financial Section		
Independent Auditor’s Report	3	
Management’s Discussion and Analysis	7	
 Basic Financial Statements		
Government-wide Financial Statements		
Statement of Net Position	16	A-1
Statement of Activities	17	B-1
Fund Financial Statements		
Balance Sheet – Governmental Funds	18	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	21	C-1R
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	22	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	25	C-3
Statement of Assets and Liabilities – Fiduciary Fund.....	26	E-1
Notes to the Financial Statements	27	
 Required Supplementary Information		
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	58	G-1
Schedule of the District’s Proportionate Share of the Net Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan Teacher Retirement System of Texas.....	59	G-2
Schedule of the District’s Contributions to the Teacher Retirement System of Texas Pension Plan.....	60	G-3
Schedule of the District’s Proportionate Share of the Net OPEB Liability of a Cost-Sharing Multiple-Employer OPEB Plan Teacher Retirement System of Texas.....	61	G-4
Schedule of the District’s Contributions to the Teacher Retirement System of Texas OPEB Plan.....	62	G-5
Notes to the Required Supplementary Information	63	

Stafford Municipal School District
 Annual Financial Report
 For the Fiscal Year Ended August 31, 2018
 Table of Contents - Continued

	Page	Exhibit
Supplementary Information		
Combining Funds Financial Statements		
Combining Balance Sheet – Nonmajor Governmental Funds – Special Revenue Funds.....	66	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds - Special Revenue Funds.....	70	H-2
Compliance Schedules		
Schedule of Delinquent Taxes Receivable	74	J-1
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – National School Breakfast and Lunch Program.....	76	J-2
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund	77	J-3
 Overall Compliance, Internal Control Section and Federal Awards		
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	81	
Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance in Accordance with the Uniform Guidance	83	
Schedule of Findings and Questioned Costs	85	
Summary Schedule of Prior Audit Findings	86	
Schedule of Expenditures of Federal Awards	87	K-1
Notes to Schedule of Expenditures of Federal Awards	89	
 Other Information		
Schedule of Required Responses to Selected School FIRST Indicators (Unaudited).....	91	L-1

Certificate of the Board

Stafford Municipal School District

Name of School District

Fort Bend

County

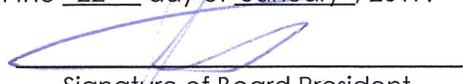
079-910

Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved _____ disapproved for the fiscal year ended August 31, 2018 at a meeting of the Board of Trustees of such school district on the 22nd day of January, 2019.



Signature of Board Secretary *Vice President*



Signature of Board President

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

This Page Intentionally Left Blank

Financial Section

This Page Intentionally Left Blank

Independent Auditor's Report

To the Board of Trustees of
Stafford Municipal School District
Stafford, Texas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

To the Board of Trustees of
Stafford Municipal School District

Emphasis of Matter

As discussed in Note 1.E. to the basic financial statements during the fiscal year ended August 31, 2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Beginning net position has been restated as a result of the implementation of this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information as listed 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stafford Municipal School District's basic financial statements. The Supplementary Information and Schedule of Required Responses to Selected School FIRST Indicators, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

The Schedule of Required Responses to Selected School FIRST Indicators has 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 it.

To the Board of Trustees of
Stafford Municipal School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2019 on our consideration of Stafford Municipal School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Stafford Municipal School District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 22, 2019

This Page Intentionally Left Blank

Management's Discussion and Analysis

As management of the Stafford Municipal School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the District were exceeded by its liabilities and deferred inflows of resources at the close of the most recent fiscal year by (\$8,188,416) (*net position*). Of this amount, (\$7,276,192) (*unrestricted net position*) was in a deficit due to the implementation of GASB 75 discussed in Notes 1.E.
- The District's total net position increased by \$926,551 from current operations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$67,975,596, an increase of \$52,423,277.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$10,427,491, or 34 percent of total general fund expenditures.
- The District's net bonded debt increased by \$50,365,963 (86 percent) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and supplementary and other information in addition to the basic financial statements themselves.

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

The *Statement of Net Position (Exhibit A-1)* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is changing.

The *Statement of Activities (Exhibit B-1)* presents information showing how the District's net position changed during the year. Changes in net position are reported upon occurrence of the underlying event giving rise to the change, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and incurred by unpaid workers' compensation benefits).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include *Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Health Services, Student Transportation, Food Services, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees, Facilities Repair and Maintenance, Payments to Shared Services Arrangements, and Other Intergovernmental Charges.*

The government-wide financial statements can be found as noted in the table of contents of this report.

In fiscal year 2018, the District implemented the Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which superseded GASB Statement No. 45 (Statement No. 75).

Statement No. 75 establishes financial reporting standards and/or accounting standards for state and local government defined benefit other postemployment benefits (OPEB) plans and defined contribution OPEB plans. Statement No. 75 requires that, at transition, a government recognizes a beginning OPEB liability and beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The implementation of this statement has no impact on the District's governmental fund financial statements. However, implementation has resulted in certain changes to the presentation of the District's government-wide financial statements. More information on the implementation of this statement and the District's OPEB plan is available in Note 1.E. and Note 4.D., respectively.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, as do other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District are grouped into the governmental funds category.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

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

The District maintains twenty individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation titled total nonmajor funds.

The District adopts an annual revenue and appropriations budget for its general fund, debt service fund and national school breakfast and lunch program special revenue fund. All other governmental funds adopt project length budgets. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget column. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with its budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students. 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 accounting used for fiduciary funds is the accrual basis of accounting for reporting its assets and liabilities.

The basic fiduciary fund financial statements can be found as noted in the table of contents of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and supplementary and other information, including schedules required by the Texas Education Agency. Such information can be found as noted in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources were exceeded by liabilities and deferred inflows of resources by (\$8,188,416), a decrease of \$19,589,814 over the preceding year.

Stafford Municipal School District's Net Position

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 70,994,552	57	\$ 18,589,773	25	\$ 52,404,779	282
Capital assets, net of depreciation	53,379,374	43	56,826,163	75	(3,446,789)	(6)
Total assets	124,373,926	100	75,415,936	100	48,957,990	
Total deferred outflows of resources	3,586,025	100	4,393,504	100	(807,479)	(18)
Other liabilities	3,723,368	3	2,260,462	3	1,462,906	65
Noncurrent liabilities outstanding	126,247,698	97	65,729,993	97	60,517,705	92
Total liabilities	129,971,066	100	67,990,455	100	61,980,611	
Total deferred inflows of resources	6,177,301	100	417,587	100	5,759,714	1,379
Net position:						
Net investment in capital assets	(2,610,693)	32	(4,628)	-	(2,606,065)	56,311
Restricted	1,698,469	(21)	3,053,264	27	(1,354,795)	(44)
Unrestricted	(7,276,192)	89	8,352,762	73	(15,628,954)	(187)
Total net position	\$ (8,188,416)	100	\$ 11,401,398	100	\$ (19,589,814)	

Net investment in capital assets (\$2,610,693) reflects the District's investment of \$53.4 million in capital assets (e.g., land, construction in progress, buildings and improvements, and vehicles and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted Net Position (\$1,698,469 or (21) percent of net position) is restricted for debt service and grants.

The remaining balance of the deficit *unrestricted net position* (\$7,276,192) (or 89 percent) resulted from the implementation of GASB 75 for other postemployment benefits (retiree health care provided through TRS-CARE).

Governmental Activities. Governmental activities increased the District's net position by \$926,551 from current operations. Key elements of this change are as follows:

Stafford Municipal School District's Changes in Net Position

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenues:						
Program revenues:						
Charges for services	\$ 975,033	3	\$ 941,508	2	\$ 33,525	4
Operating grants and contributions	(901,729)	(3)	4,791,455	13	(5,693,184)	(119)
General revenues:						
Property taxes, levied for general purpose	25,128,117	74	24,052,949	64	1,075,168	4
Property taxes, levied for debt service	4,587,847	13	4,516,135	12	71,712	2
Grants and contributions not restricted to specific programs	3,687,716	11	3,441,371	9	246,345	7
Investment earnings	795,241	2	126,734	-	668,507	527
Gain on sale of capital assets	-	-	57,759	-	(57,759)	(100)
Miscellaneous	98,298	-	151,812	-	(53,514)	(35)
Total revenues	34,370,523	100	38,079,723	100	(3,709,200)	
Expenses:						
Instruction	14,961,900	45	20,159,500	50	(5,197,600)	(26)
Instructional resources and media services	284,951	1	277,875	1	7,076	3
Curriculum and instructional staff development	242,751	1	317,521	1	(74,770)	(24)
Instructional leadership	668,088	2	795,102	2	(127,014)	(16)
School leadership	1,483,446	4	2,368,736	6	(885,290)	(37)
Guidance, counseling and evaluation services	597,596	2	1,186,156	3	(588,560)	(50)
Health services	210,687	1	299,548	1	(88,861)	(30)
Student transportation	819,833	2	937,371	2	(117,538)	(13)
Food services	1,828,456	5	2,462,456	6	(634,000)	(26)
Extracurricular activities	1,137,757	3	1,264,036	3	(126,279)	(10)
General administration	1,924,629	6	2,133,045	5	(208,416)	(10)
Plant maintenance and operations	3,538,584	11	3,948,022	10	(409,438)	(10)
Security and monitoring services	286,050	1	211,769	1	74,281	35
Data processing services	788,380	2	975,832	2	(187,452)	(19)
Community services	35,225	-	41,472	-	(6,247)	(15)
Interest on long-term debt	3,859,686	11	2,249,346	6	1,610,340	72
Issuance cost and fees	541,897	2	208,364	1	333,533	160
Facilities repair and maintenance	12,661	-	-	-	12,661	100
Payments to shared services arrangements	12,300	-	24,703	-	(12,403)	(50)
Payments to juvenile justice alternative ed. programs	-	-	25,000	-	(25,000)	(100)
Other intergovernmental charges	209,095	1	184,421	-	24,674	13
Total expenses	33,443,972	100	40,070,275	100	(6,626,303)	
Change in net position	926,551		(1,990,552)		2,917,103	
Net position - beginning, as originally reported	11,401,398		13,391,950		(1,990,552)	
Prior period adjustment - implement GASB 75 for OPEB (a)	(20,516,365)		-		(20,516,365)	
Net position - beginning, as restated	(9,114,967)		13,391,950		(22,506,917)	
Net position - ending	\$ (8,188,416)		\$ 11,401,398		\$ (19,589,814)	

a) The restatement of the beginning net position is the result of the District implementing GASB Statement No. 75 in fiscal year 2018. The implementation is discussed previously in the MD&A.

Revenues are generated primarily from two sources. Property taxes (\$29,715,964) represent 87 percent of total revenues, and grants and contributions (program and general revenues totaling (\$2,785,987) represent 8 percent of total revenues. The remaining 5 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The increase in net position resulted from the increase in revenues, mainly property tax revenues due to an increase in assessed values not supporting the increase in expenses, mainly from instructional related expenditures and increased issuance costs from debt issuance.

The primary functional expenses of the District are instruction (\$14,961,900), which represents 45 percent of total expenses, plant maintenance and operations (\$3,538,584), which represents 11 percent of total expenses, and interest on long-term debt (\$3,859,686), which represents 11 percent of total expenses. The remaining functional categories of expenses are individually less than 10 percent of total expenses.

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$67,975,596, an increase of \$52,423,277.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance was \$10,427,491 and the total fund balance of the general fund was \$12,912,427. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 34 percent of total general fund expenditures, while total fund balance represents 43 percent of that same total. The increase in the general fund was \$755,834 mainly from the increase in tax revenues due to increased property values.

The debt service fund has a total fund balance of \$2,715,513, all of which is restricted for the payment of debt service. The net increase in the debt service fund was \$436,895 and was primarily due to receipt of tax revenues being greater than debt payments.

The capital projects fund has a total fund balance of \$51,563,083, all of which is restricted for capital acquisitions and contractual obligations. The increase from the prior year is the result of the issuance of the building series in 2018.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. There was no significant variation in the original budget to the final amended budget of the general fund.

There were no significant differences between the final amended budget and actual results of the general fund.

Capital Asset and Long-term Liabilities Administration

Capital Assets. The District's investment in capital assets for its governmental type activities as of August 31, 2018, amounts to \$53,379,374 (net of accumulated depreciation). This investment in capital assets includes buildings and improvements, and vehicles and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was \$3,446,789.

Stafford Municipal School District's Capital Assets (net of depreciation)

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Construction in progress	\$ 988,397	2	\$ -	-	\$ 988,397	100
Buildings and improvements	51,625,983	97	55,586,103	98	(3,960,120)	(7)
Vehicles	108,597	-	267,011	-	(158,414)	(59)
Equipment	656,397	1	973,049	2	(316,652)	(33)
Totals	\$ 53,379,374	100	\$ 56,826,163	100	\$ (3,446,789)	

Major capital asset additions during the current fiscal year included the following:

- \$88,825 High school track and field runway
- \$988,397 Construction in Progress –2018 Bond project

Additional information on the District's capital assets can be found in notes to the financial statements as noted in the table of contents of this report.

Long-term Liabilities. At year-end, the District had the following long-term liabilities:

Stafford Municipal School District's Outstanding Long-term Liabilities

	Governmental Activities					
	2018		2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	\$ 108,763,516	86	\$ 58,397,553	68	\$ 50,365,963	86
Workers' compensation	75,280	-	74,274	-	1,006	1
Compensated absences	20,570	-	15,600	-	4,970	32
Net pension liability	5,688,055	5	7,242,566	8	(1,554,511)	(21)
Net OPEB liability	11,700,277	9	20,656,248	24	(8,955,971)	(43)
Totals	\$ 126,247,698	100	\$ 86,386,241	100	\$ 39,861,457	

The District's net bonded debt increased by \$50,365,963 (86 percent) during the current fiscal year. This mainly is due to the issuance on the 2018 building bond series for \$48,210,000, and premium of \$4,337,981.

The District's general obligation debt is backed by the full faith and credit of the District and, when eligible, is further guaranteed by the Texas Permanent School Fund Bond Guarantee Program.

State statutes do not limit the tax rate or amount for the support of school districts' bonded indebtedness. However, approval by the Attorney General of the State of Texas is required prior to the sale of bonds

Additional information on the District's long-term debt, net pension liability, and OPEB liability can be found in the notes to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budget and Rates

- Average daily attendance totals 3,592 compared to 3,623 from the prior year.
- District staff totals 456 employees, which includes 222 teachers and 37 teachers' aides and secretaries.
- The District maintains 5 campuses for instruction.
- The unemployment rate for the County is currently 3.9 percent, which is a decrease from a rate of 4.9 percent a year ago. This compares favorably to the state's average unemployment rate of 4.0 percent, which is an decrease from a rate of 4.5 percent a year ago.
- Property values of the District are projected to increase 2% for the 2018-2019 year.
- A maintenance and operations tax rate of \$1.05330 and a debt service tax rate of \$0.27175, a total of \$1.32505 were adopted for 2018-2019. Preceding year rates were \$1.04005, \$0.19 and \$1.23005, respectively.

All of these factors were considered in preparing the District's budget for the 2018-2019 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Stafford Municipal School District, 1625 Staffordshire, Stafford, Texas 77477.

Basic Financial Statements

Stafford Municipal School District
Statement of Net Position
August 31, 2018

Exhibit A-1

<u>Data Control Codes</u>		<u>1 Primary Governmental Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 69,141,681
1220	Property taxes receivable	1,111,799
1230	Allowance for uncollectable taxes	(11,118)
1240	Due from other governments	728,490
1290	Other receivables	16,229
1410	Prepaid items	7,471
	Capital Assets:	
1,580	Construction in progress	988,397
1520	Buildings and improvements, net	51,625,983
1531	Vehicles, net	108,597
1539	Equipment, net	656,397
1000	Total assets	<u>124,373,926</u>
DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred outflows - pension	2,183,726
1706	Deferred outflows - OPEB	191,933
1710	Deferred charge on refunding	1,210,366
1700	Total deferred outflows of resources	<u>3,586,025</u>
LIABILITIES		
2110	Accounts payable	509,388
2140	Interest payable	1,805,093
2160	Accrued wages payable	1,331,809
2200	Accrued expense	26,931
2300	Unearned revenue	50,147
	Noncurrent liabilities:	
2501	Due within one year	2,070,850
2502	Due in more than one year	106,788,516
2540	Net pension liabilities	5,688,055
2545	Net OPEB liabilities	11,700,277
2000	Total liabilities	<u>129,971,066</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows - pension	1,283,053
2606	Deferred inflows - OPEB	4,894,248
2600	Total deferred inflows of resources	<u>6,177,301</u>
NET POSITION		
3200	Net investment in capital assets	(2,610,693)
3820	Restricted for grants	622,256
3850	Restricted for debt service	1,076,213
3900	Unrestricted	(7,276,192)
3000	TOTAL NET POSITION	<u><u>\$ (8,188,416)</u></u>

The Notes to the Financial Statements are an integral part of this statement.

Stafford Municipal School District
Statement of Activities
For the Fiscal Year Ended August 31, 2018

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	Governmental Activities
	PRIMARY GOVERNMENT:				
	Governmental activities:				
0011	Instruction	\$ 14,961,900	\$ 221,383	\$ (1,587,901)	\$ (16,328,418)
0012	Intruactional resources and media services	284,951	-	(19,554)	(304,505)
0013	Curriculum and instructional staff development	242,751	269	70,725	(171,757)
0021	Instructional leadership	668,088	-	(43,417)	(711,505)
0023	School leadership	1,483,446	2,917	(402,094)	(1,882,623)
0031	Guidance, counseling, and evaluation services	597,596	-	121,261	(476,335)
0033	Health services	210,687	-	(37,542)	(248,229)
0034	Student transportation	819,833	569	(60,206)	(879,470)
0035	Food services	1,828,456	393,348	1,361,802	(73,306)
0036	Extracurricular activities	1,137,757	149,807	(122,654)	(1,110,604)
0041	General administration	1,924,629	1,129	(132,104)	(2,055,604)
0051	Plant maintenance and operations	3,538,584	17,724	(31,636)	(3,552,496)
0052	Security amd monitoring services	286,050	-	-	(286,050)
0053	Data processing services	788,380	-	(62,154)	(850,534)
0061	Community services	35,225	187,887	747	153,409
0072	Interest on long-term debt	3,859,686	-	42,998	(3,816,688)
0073	Issuance cost and fees	541,897	-	-	(541,897)
0081	Facilities repair and maintenance	12,661	-	-	(12,661)
0093	Payments to shared services arrangement	12,300	-	-	(12,300)
0099	Other intergov ernmental charges	209,095	-	-	(209,095)
TG	Total governmental activities	<u>33,443,972</u>	<u>975,033</u>	<u>(901,729)</u>	<u>(33,370,668)</u>
TP	TOTAL PRIMARY GOVERNMENT	<u>\$ 33,443,972</u>	<u>\$ 975,033</u>	<u>\$ (901,729)</u>	<u>(33,370,668)</u>
	General revenues:				
MT	Property taxes, levied for general purposes				25,128,117
DT	Property taxes, levied for debt service				4,587,847
GC	Grants and contributions not restricted to specific programs				3,687,716
IE	Investment earnings				795,241
MI	Miscellaneous				98,298
TR	Total general revenues				<u>34,297,219</u>
CN	Change in net position				926,551
NB	Net position - beginning				11,401,398
PA	Prior period adjustment - implement GASB 75 for OPEB				<u>(20,516,365)</u>
	Net position - beginning, as restated				<u>(9,114,967)</u>
NE	NET POSITION - ENDING				<u>\$ (8,188,416)</u>

The Notes to the Financial Statements are an integral part of this statement.

Stafford Municipal School District
 Balance Sheet - Governmental Funds
 August 31, 2018

Data Control Codes		199	599
		General Fund	Debt Service Fund
ASSETS			
1110	Cash and cash equivalents	\$ 13,795,105	\$ 2,625,772
1220	Property taxes receivable	944,331	167,468
1230	Allowance for uncollectable taxes	(9,443)	(1,675)
1240	Due from other governments	296,869	1,267
1260	Due from other funds	460,418	88,474
1290	Other receivables	4,154	-
1410	Prepaid items	7,471	-
1000	Total assets	15,498,905	2,881,306
1000a	TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 15,498,905	\$ 2,881,306
LIABILITIES			
2110	Accounts payable	\$ 257,037	\$ -
2160	Accrued wages payable	1,279,022	-
2170	Due to other funds	88,600	-
2200	Accrued expenditures	26,931	-
2300	Unearned revenue	-	-
2000	Total liabilities	1,651,590	-
DEFERRED INFLOWS OF RESOURCES			
2600	Unavailable revenue - property taxes	934,888	165,793
	Total deferred inflows of resources	934,888	165,793
FUND BALANCES			
Nonspendable:			
3430	Prepaid items	7,471	-
Restricted for:			
3450	Grants	-	-
3470	Capital acquisitions and contractual obligations	-	-
3480	Debt service	-	2,715,513
Committed to:			
3530	Capital expenditures for equipment	1,750,000	-
3540	Self-insurance	350,000	-
3545	Other	58,230	-
Assigned to:			
3590	Purchases on order	319,235	-
3600	Unassigned	10,427,491	-
3000	Total fund balances	12,912,427	2,715,513
4000	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 15,498,905	\$ 2,881,306

The Notes to the Financial Statements are an integral part of this statement.

699	Total	98
Capital Projects Funds	Nonmajor Funds	Total Governmental Funds
\$ 51,886,160	\$ 834,644	\$ 69,141,681
-	-	1,111,799
-	-	(11,118)
-	430,354	728,490
-	126	549,018
-	12,075	16,229
-	-	7,471
<u>51,886,160</u>	<u>1,277,199</u>	<u>71,543,570</u>
<u>\$ 51,886,160</u>	<u>\$ 1,277,199</u>	<u>\$ 71,543,570</u>
\$ 187,926	\$ 64,425	\$ 509,388
-	52,787	1,331,809
135,151	325,267	549,018
-	-	26,931
-	50,147	50,147
<u>323,077</u>	<u>492,626</u>	<u>2,467,293</u>
-	-	1,100,681
<u>-</u>	<u>-</u>	<u>1,100,681</u>
-	-	7,471
-	622,256	622,256
51,563,083	-	51,563,083
-	-	2,715,513
-	-	1,750,000
-	-	350,000
-	162,317	220,547
-	-	319,235
-	-	10,427,491
<u>51,563,083</u>	<u>784,573</u>	<u>67,975,596</u>
<u>\$ 51,886,160</u>	<u>\$ 1,277,199</u>	<u>\$ 71,543,570</u>

This Page Intentionally Left Blank

Stafford Municipal School District
 Reconciliation of the Governmental Funds Balance
 Sheet to the Statement of Net Position
 August 31, 2018

Exhibit C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1) \$ 67,975,596

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental capital assets costs	\$ 123,635,380	
Accumulated depreciation of governmental capital assets	(70,256,006)	53,379,374

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds. 1,100,681

Long-term liabilities, including bonds payable, compensated absences, workers' compensation and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items, consist of:

Bonds payable, at original par	\$(101,995,000)	
Premium on bonds payable	(6,768,516)	
Deferred charge on refunding	1,210,366	
Accrued interest on the bonds	(1,805,093)	
Compensated absences	(20,570)	
Workers' compensation	(75,280)	
Net pension liability	(5,688,055)	
Net OPEB liability	(11,700,277)	(126,842,425)

Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will now be recognized as an outflow of resources (expense/expenditures) until then. 2,183,726

Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (1,283,053)

Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. 191,933

Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (4,894,248)

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1) \$ (8,188,416)

Stafford Municipal School District
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended August 31, 2018

Data Control Codes		199	599
		General Fund	Debt Service Fund
REVENUES			
5700	Local and intermediate sources	\$ 25,638,136	\$ 4,599,538
5800	State program revenues	5,004,859	42,998
5900	Federal program revenues	339,079	-
5020	Total revenues	30,982,074	4,642,536
EXPENDITURES			
Current:			
0011	Instruction	17,378,745	-
0012	Instructional resources and media services	245,597	-
0013	Curriculum and instructional staff development	143,341	-
0021	Instructional leadership	742,366	-
0023	School leadership	2,070,655	-
0031	Guidance, counseling, and evaluation services	623,068	-
0033	Health services	261,363	-
0034	Student transportation	859,130	-
0035	Food services	59,017	-
0036	Extracurricular activities	1,149,536	-
0041	General administration	2,027,228	-
0051	Plant maintenance and operations	3,291,967	-
0052	Security and monitoring services	252,275	-
0053	Data processing services	828,058	-
0061	Community services	30,219	-
Debt service:			
0071	Principal on long-term debt	-	1,900,000
0072	Interest on long-term debt	-	2,311,725
0073	Issuance costs and fees	-	541,897
Capital outlay:			
0081	Facilities acquisition and construction	42,280	-
Intergovernmental:			
0093	Payments to shared services arrangements	12,300	-
0099	Other intergovernmental charges	209,095	-
6030	Total expenditures	30,226,240	4,753,622
1100	Excess (deficiency) of revenues over (under) expenditures	755,834	(111,086)
OTHER FINANCING SOURCES (USES)			
7911	Issuance of refunding bonds	-	-
7916	Premium on issuance of bonds	-	547,981
7080	Total other financing sources (uses)	-	547,981
1200	Net change in fund balances	755,834	436,895
0100	Fund balances - beginning	12,156,593	2,278,618
3000	FUND BALANCES - ENDING	\$ 12,912,427	\$ 2,715,513

The Notes to the Financial Statements are an integral part of this statement.

699	Total	98
Capital Projects Funds	Nonmajor Funds	Total Governmental Funds
\$ 470,351	\$ 687,047	\$ 31,395,072
-	358,812	5,406,669
-	3,004,329	3,343,408
<hr/>	<hr/>	<hr/>
470,351	4,050,188	40,145,149
-	1,285,827	18,664,572
49,999	-	295,596
-	75,103	218,444
-	61,368	803,734
-	2,707	2,073,362
-	409,603	1,032,671
-	-	261,363
-	528	859,658
-	2,099,164	2,158,181
-	86,262	1,235,798
-	1,048	2,028,276
-	130,932	3,422,899
-	-	252,275
-	-	828,058
-	847	31,066
-	-	1,900,000
-	-	2,311,725
-	-	541,897
1,086,603	-	1,128,883
-	-	12,300
-	-	209,095
<hr/>	<hr/>	<hr/>
1,136,602	4,153,389	40,269,853
(666,251)	(103,201)	(124,704)
48,210,000	-	48,210,000
3,790,000	-	4,337,981
<hr/>	<hr/>	<hr/>
52,000,000	-	52,547,981
51,333,749	(103,201)	52,423,277
229,334	887,774	15,552,319
<hr/>	<hr/>	<hr/>
\$ 51,563,083	\$ 784,573	\$ 67,975,596

This Page Intentionally Left Blank

Stafford Municipal School District
 Reconciliation of the Statement of Revenues,
 Expenditures, and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Fiscal Year Ended August 31, 2018

Exhibit C-3

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2) \$ 52,423,277

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives as depreciation expense.

Capital assets increased	\$ 1,116,222	
Depreciation expense	(4,563,011)	(3,446,789)

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. 221,513

Issuance of bonds provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Par value	\$ (48,210,000)	
(Premium) discount	(4,337,981)	(52,547,981)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 1,900,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The (increase) decrease in such items consist of the following:

Accrued interest on current interest bonds payable (increased) decreased	\$ (1,702,917)	
Amortization of bond premium	282,018	
Amortization of deferred charge on refunding	(127,062)	(1,547,961)

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (4,970)

The (increase) decrease in workers' compensation is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (1,006)

The net change in net pension liability, deferred outflows, and deferred inflows are reported in the statement of activities but does not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ (872,350)	
Deferred inflows (increased) decreased	(865,466)	
Net pension liability (increased) decreased	1,554,511	(183,305)

The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred outflows increased (decreased)	\$ 52,050	
Deferred inflows (increased) decreased	(4,894,248)	
Net OPEB liability (increased) decreased	8,955,971	4,113,773

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1) \$ 926,551

The Notes to the Financial Statements are an integral part of this statement.

Stafford Municipal School District
 Statement of Assets and Liabilities
 Fiduciary Fund
 August 31, 2018

Exhibit E-1

<u>Data Control Codes</u>		<u>Agency Fund</u>
	ASSETS	
1110	Cash and cash equivalents	\$ 61,199
1000	TOTAL ASSETS	<u>\$ 61,199</u>
	LIABILITIES	
	Current liabilities:	
2110	Accounts payable	\$ 86
2190	Due to student groups	<u>61,113</u>
2000	TOTAL LIABILITIES	<u>\$ 61,199</u>

The Notes to the Financial Statements are an integral part of this statement.

Stafford Municipal School District

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The Stafford Municipal School District (the District) is governed by a seven-member board of trustees (the Board), which has governance responsibilities over all activities related to public, elementary and secondary education within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters. The District is included in the City of Stafford "reporting entity" as defined by the Government Accounting Standards Board (GASB) in its Statement No. 14, "*The Financial Reporting Entity*," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

Effective September 1, 2003, Texas Education Code 11.303 was put into law, and it provided for the City Council to participate jointly with the Board of Trustees for the following actions:

- Hearings and work sessions on the budget and ad valorem tax rate
- Adopting of annual budget and ad valorem tax rates
- Authorization for bonded debt issuance

The accompanying financial statements present the District.

B. Description of 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 (the District). All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

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.

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.

Stafford Municipal School District

Notes to the Financial Statements

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities, other than those financed by proprietary funds.

Additionally, the District reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources (other than those identified as a major fund) that are restricted or committed to expenditures for specific purposes.

The *agency fund* accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

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 amount payable to the agency fund is included 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 are eliminated in governmental activities.

E. Change in Accounting Principle

In fiscal year 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which supersedes GASB Statement No. 45 (Statement No. 75).

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to the OPEB plan. Note disclosure and required supplementary information requirements about the OPEB plan also are addressed. The implementation of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. Refer to Note 4.D. for more information regarding the District's OPEB plan. The implementation of Statement No. 75 resulted in the retroactive restatement of the District's beginning net position by \$20,516,365. See Note 4.H. for details of the District's prior period adjustment and restatement of beginning net position.

Stafford Municipal School District

Notes to the Financial Statements

F. 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 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 required under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and workers' compensation, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues in 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 this revenue source (within 60 days of year-end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

The fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

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

1. Cash, Cash Equivalents and Investments

The District's cash and cash equivalents are considered to be cash on hand, bank demand deposits, time deposits with original maturities of one year or less from the date of acquisition, and investments pools.

Investments for the District, except for certain investments pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or fair value.

2. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of expendable supplies. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Stafford Municipal School District

Notes to the Financial Statements

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

3. Capital Assets

Capital assets, which include land and improvements, buildings and improvements, vehicles, and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and vehicles and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and improvements	10-30
Vehicles	8-9
Equipment	5-15

4. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position/fund balance that applies to a future period(s) and 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 and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions to the pension and OPEB plans after the measurement date of each plan are recognized in the subsequent fiscal year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

Stafford Municipal School District

Notes to the Financial Statements

5. *Compensated Absences*

On retirement or death of certain employees, the District pays an accrued sick leave and vacation leave in a lump sum payment to such employee on his/her estate. Effective November 19, 2002, and thereafter, an employee who retires in accordance with Teacher Retirement System (TRS) guidelines after 20 or more years of service in the District shall be paid for up to 90 workdays of unused local leave as follows. A professional employee shall be paid at the rate of \$60 per day for each day of unused local leave. A paraprofessional or auxiliary employee shall be paid at the rate of 50% of the daily wage at the time of retirement, not to exceed \$40 per day, for each day of unused local leave.

6. *Net Position Flow Assumption*

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

It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

7. *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.

8. *Fund Balance Policies*

Fund balance of governmental funds is 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).

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 board of trustees (the Board) is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by board action or the resolution remains in place until a similar action is taken (the board action or adoption of another resolution) 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 Board has, by policy, authorized the superintendent or his designee to assign fund balance. The 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 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.

Stafford Municipal School District

Notes to the Financial Statements

9. Pension

The fiduciary net position of the Teacher Retirement System of Texas (TRS) Pension Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net 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 Pension Plan 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.

10. Other Postemployment Benefits

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

H. 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 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

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

I. Use of Estimates

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

J. Data Control Codes

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

Stafford Municipal School District

Notes to the Financial Statements

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Board of Trustees and City Council adopts an appropriated budget for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund on a basis consistent with GAAP. Budgetary information for the general fund appears in the required supplementary information subsection where the District compares the final amended budget to actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data reflected in the financial schedules:

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board and Council is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted and adopted by the Board and Council.

The appropriated budget is prepared by fund, function and campus/department. The District's campus/department heads may make transfers of appropriations within a campus/department. Transfers of appropriations between departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources requires the approval of the Board and Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2018, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following funds:

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund	11	\$ 16,817,267	\$ 17,378,745	\$ (561,478)
General fund	35	-	59,017	(59,017)
General fund	41	1,911,096	2,027,228	(116,132)
Debt service fund	73	10,000	541,897	(531,897)
National school breakfast and lunch program	35	2,096,749	2,099,164	(2,415)

Stafford Municipal School District

Notes to the Financial Statements

C. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balance, as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

As of August 31, 2018, encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in:		
	Restricted Fund Balance	Committed Fund Balance	Assigned Fund Balance
General fund	\$ -	\$ 58,230	\$ 319,235
Capital projects funds	2,387,839	-	-
Nonmajor governmental funds	18,316	14,057	-
Total encumbrances	\$ 2,406,155	\$ 72,287	\$ 319,235

Note 3. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law, and these securities are held for safekeeping and trust with the District's and the depository bank's agent bank. The pledged securities shall be 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.

Investments

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a broker or depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers' acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper is an authorized investment if it has a stated maturity of 270 days or fewer from the date of its issuance and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 9) Securities lending program as permitted by Government Code 2256.0115; 10) Fully collateralized repurchase agreements permitted by Government Code 2256.011.

Stafford Municipal School District

Notes to the Financial Statements

As of August 31, 2018, the District had the following cash and cash equivalents, weighted average maturity and credit risk of such items as follows:

Governmental Fund Investment Type	August 31, 2018	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
Investments measured at amortized cost:				
Investment pools:				
TexPool Local Government Investment Pool	\$ 11,786,907	18%	28	AAAm
Lone Star Government Overnight Fund	1,471	0%	20	AAAm
Investments measured at fair value:				
Investment pools:				
TexSTAR	2,538,081	3%	24	AAAm
LOGIC	52,667,460	79%	34	AAAm
Total	<u>66,993,919</u>	<u>100%</u>		
Portfolio weighted average maturity			33	
Cash and checking accounts	<u>2,147,762</u>	N/A	N/A	
Total cash and cash equivalents	<u>\$ 69,141,681</u>			
Fiduciary Fund Investment Type				
Investments measured at amortized cost:				
Investment pools:				
TexPool Local Government Investment Pool	\$ 27,036	100%	28	AAAm
Total	<u>27,036</u>	<u>100%</u>		
Portfolio weighted average maturity			28	
Cash and checking accounts	<u>34,163</u>	N/A	N/A	
Total cash and cash equivalents	<u>\$ 61,199</u>			

Investment pools are measured at amortized cost or net asset value, i.e. fair value. Such investments are not required to be reported in the fair value hierarchy.

The TexPool and Lone Star Government Overnight investment pools are external investment pools measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pools transact at a net asset value of \$1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with on issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. TexPool and Lone Star Overnight have a redemption notice period of one day and no maximum transactions amounts. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

Stafford Municipal School District

Notes to the Financial Statements

The TexSTAR and LOGIC investment pools are external investment pools measured at their net asset value. TexSTAR and LOGIC'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 the investment pool. TexSTAR and LOGIC have a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

Credit Risk

For fiscal year 2018, the District invested in TexPool, Lone Star, TexSTAR, and LOGIC. TexPool is duly chartered and administered by the State Comptroller's Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC, formerly the Texas Association of School Boards Financial Services. TexSTAR and LOGIC are administered by First Southwest, Asset Management, Inc. and JP Morgan Chase. The credit rating for investments is noted in the preceding table.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis and specific identification. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of any internally created pool to no more than 180 days, and any individual investment not to exceed one year, unless specifically authorized by the Board of Trustees.

Concentration of Credit Risk

The District's investment policy does not limit an investment in any one issuer. The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2018, District's deposits were not exposed to custodial credit risk because such balances were insured and collateralized with securities held by the District's agent and in the District's name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, 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. District policy requires investments to be in the District's name or held by the District's agent in the District's name. The District is not exposed to custodial risk due to the investments are insured or registered, or securities held by the District or its agent in the District's name.

Stafford Municipal School District

Notes to the Financial Statements

B. Receivables

Tax revenues of the general and debt service funds are reported net of estimated uncollectible amounts. Total change in uncollectible amounts related to revenues of the current period increased (decreased) revenues as follows:

Change in uncollectibles related to general fund property taxes	\$ (1,943)
Change in uncollectibles related to debt service property taxes	<u>(375)</u>
Total change in uncollectibles of the current fiscal year	<u><u>\$ (2,318)</u></u>

Approximately 86% of the outstanding balance of property taxes is not anticipated to be collected within the next year.

C. Interfund Receivables, Payables, and Transfers

Receivables/Payables

The composition of interfund balances as of August 31, 2018 is as follow:

Fund	Interfund Receivables	Interfund Payables
Governmental funds:		
General fund	\$ 460,418	\$ 88,600
Debt service fund	88,474	-
Capital projects fund	-	135,151
Other governmental funds - nonmajor	<u>126</u>	<u>325,267</u>
Totals	<u><u>\$ 549,018</u></u>	<u><u>\$ 549,018</u></u>

Interfund balances consist of short-term lending/borrowing arrangements that generally result from payroll and other regularly occurring charges that are paid by one fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

Stafford Municipal School District
Notes to the Financial Statements

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 988,397	\$ -	\$ 988,397
Total capital assets, not being depreciated	-	988,397	-	988,397
Capital assets, being depreciated:				
Buildings and improvements	113,811,119	127,825	-	113,938,944
Vehicles	3,686,038	-	-	3,686,038
Equipment	5,022,001	-	-	5,022,001
Total capital assets, being depreciated	122,519,158	127,825	-	122,646,983
Less accumulated depreciation for:				
Buildings and improvements	(58,225,016)	(4,087,945)	-	(62,312,961)
Vehicles	(3,419,027)	(158,414)	-	(3,577,441)
Equipment	(4,048,952)	(316,652)	-	(4,365,604)
Total accumulated depreciation	(65,692,995)	(4,563,011)	-	(70,256,006)
Total capital assets being depreciated, net	56,826,163	(4,435,186)	-	52,390,977
Governmental activities capital assets, net	\$ 56,826,163	\$ (3,446,789)	\$ -	\$ 53,379,374

Depreciation was charged to functions as follows:

Governmental Activities:	
11 Instruction	\$ 2,487,653
12 Instructional resources and media services	39,575
13 Curriculum and instructional staff development	29,246
21 Instructional leadership	107,606
23 School leadership	277,586
31 Guidance, counseling, and evaluation services	138,256
33 Health services	34,992
34 Student transportation	115,093
35 Food services	288,942
36 Extracurricular activities	165,451
41 General administration	271,550
51 Plant maintenance and operations	458,265
52 Security and monitoring services	33,775
53 Data processing	110,862
61 Community services	4,159
Total depreciation expense-governmental activities	\$ 4,563,011

Stafford Municipal School District
Notes to the Financial Statements

E. Long-term Obligations

The District's long-term liabilities consist of bond indebtedness, workers' compensation claims, compensated absences and net pension and OPEB liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. Other long-term liabilities are generally liquidated with resources of the general fund.

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended August 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 55,685,000	\$ 48,210,000	\$ (1,900,000)	\$ 101,995,000	\$ 1,975,000
Premiums/discounts (CIB's)	2,712,553	4,337,981	(282,018)	6,768,516	-
Total bonds payable, net	58,397,553	52,547,981	(2,182,018)	108,763,516	1,975,000
Workers' compensation	74,274	116,094	(115,088)	75,280	75,280
Compensated absences	15,600	7,130	(2,160)	20,570	20,570
Net pension liability	7,242,566	547,168	(2,101,679)	5,688,055	-
Net OPEB liability*	20,656,248	1,979	(8,957,950)	11,700,277	-
Governmental activities long-term liabilities	\$ 86,386,241	\$ 53,220,352	\$ (13,358,895)	\$ 126,247,698	\$ 2,070,850

* Per GASB Statement No. 75, beginning balance for net OPEB liability includes the restatement of the net OPEB liability at September 1, 2017.

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities (BLDG) and to refund general obligation bonds (REF).

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 3-30 year current interest (CIB) or capital appreciation bonds (CAB) with various amounts of principal maturing each year. Rates may be fixed or variable.

The following is a summary of changes in the general obligation bonds for the fiscal year:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2011 BLDG	2.0% - 5.0%	49,900,000	8/15/2041	\$ 40,835,000	\$ -	\$ (950,000)	\$ 39,885,000
2014 REF	2.0% - 4.0%	7,015,000	8/15/2026	6,595,000	-	(640,000)	5,955,000
2016A REF A	2.0% - 3.0%	3,050,000	8/15/2025	2,735,000	-	(310,000)	2,425,000
2016B REF B	2.0% - 4.0%	5,540,000	8/15/2029	5,520,000	-	-	5,520,000
2018 BLDG	3.0% - 5.0%	48,210,000	8/15/2048	-	48,210,000	-	48,210,000
Totals				\$ 55,685,000	\$ 48,210,000	\$ (1,900,000)	\$ 101,995,000

Stafford Municipal School District
Notes to the Financial Statements

Debt service requirements on general obligation bonds debt at August 31, 2018, are as follows:

Year Ending August 31,	Governmental Activities - Bonds		
	Principal	Interest	Total
2019	\$ 1,975,000	\$ 5,135,110	\$ 7,110,110
2020	2,895,000	4,266,575	7,161,575
2021	2,440,000	4,153,925	6,593,925
2022	2,745,000	4,062,475	6,807,475
2023	2,775,000	3,960,975	6,735,975
2024	2,885,000	3,854,125	6,739,125
2025	3,000,000	3,742,775	6,742,775
2026	3,110,000	3,629,375	6,739,375
2027	2,895,000	3,498,875	6,393,875
2028	3,000,000	3,394,875	6,394,875
2029	3,130,000	3,262,725	6,392,725
2030	3,270,000	3,124,775	6,394,775
2031	3,410,000	2,981,175	6,391,175
2032	3,555,000	2,839,600	6,394,600
2033	3,700,000	2,692,013	6,392,013
2034	3,855,000	2,535,575	6,390,575
2035	4,020,000	2,372,563	6,392,563
2036	4,190,000	2,202,575	6,392,575
2037	4,385,000	2,009,075	6,394,075
2038	3,695,000	1,803,175	5,498,175
2039	3,865,000	1,632,375	5,497,375
2040	4,045,000	1,453,700	5,498,700
2041	4,230,000	1,266,675	5,496,675
2042	3,615,000	1,071,100	4,686,100
2043	3,795,000	890,350	4,685,350
2044	3,985,000	700,600	4,685,600
2045	4,145,000	541,200	4,686,200
2046	4,310,000	375,400	4,685,400
2047	4,485,000	203,000	4,688,000
2048	590,000	23,600	613,600
Totals	\$ 101,995,000	\$ 73,680,336	\$ 175,675,336

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements. At August 31, 2018, the District had \$5,590,000 outstanding bonds that are considered defeased, which may be called on August 15, 2021.

As of August 31, 2018, the District has \$10,000,000 in authorized but unissued unlimited tax bonds.

Stafford Municipal School District

Notes to the Financial Statements

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

General fund - contracted tutor services	\$ 58,230
Other governmental fund - campus activity	162,317
	<hr/>
Total other committed fund balance	\$ 220,547
	<hr/> <hr/>

G. Revenues from Local and Intermediate Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Funds	Totals
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Property taxes	\$ 24,938,766	\$ 4,555,685	\$ -	\$ -	\$ 29,494,451
Charges for services	335,511	-	-	639,522	975,033
Investment earnings	275,561	43,853	470,351	5,476	795,241
Other	88,298	-	-	42,049	130,347
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Totals	\$ 25,638,136	\$ 4,599,538	\$ 470,351	\$ 687,047	\$ 31,395,072
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note 4. Other Information

A. Risk Management

Property/Liability

The District participates in the Property Casualty Alliance of Texas (the Fund). The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for property and liability coverage and develop a comprehensive loss control program. The District pays a required contribution to the Fund for its property and liabilities coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member contributions. In the event that the Fund was to discontinue operations, the member political subdivisions would be responsible for any eligible claims not funded by the Fund. In addition, there were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Health Care Coverage

During the year ended August 31, 2018, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). 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 TRS. The legislature created the Plan for public school employee group health coverage in 2002-03, requiring all Districts with fewer than 500 employees to participate in the Plan.

Stafford Municipal School District

Notes to the Financial Statements

Worker's Compensation

The District established a limited risk management program for workers' compensation by participating as a self-funded member of the Texas Public Schools Workers' Compensation Project (Pool). The Pool was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. As a self-funded member of the Pool, the District is solely responsible for all claims costs, both reported and unreported. A third party administrator provides administrative services to its self-funded members including claims administration and customer service.

Premiums are paid into the general fund by the other funds and are available to pay claims, claim reserves, and administrative costs of the program.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. The Texas Public Schools Workers' Compensation Project limits the Pool's liability to \$350,000 per occurrence with a maximum aggregate exposure of \$5,000,000. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverages for each of the past two fiscal years. Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended 8/31/2018	Year Ended 8/31/2017
Unpaid claims, beginning of fiscal year	\$ 74,274	\$ 73,261
Incurred claims (including IBNRs and changes in provisions)	116,094	140,592
Claim payments	(115,088)	(139,579)
Unpaid claims, end of fiscal year	\$ 75,280	\$ 74,274

B. Litigation and Contingencies

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2018, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

Stafford Municipal School District

Notes to the Financial Statements

C. Defined Benefit Pension Plan

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 the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

Stafford Municipal School District

Notes to the Financial Statements

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for Plan fiscal years 2016 and 2017 and the 85th Texas Legislature, GAA established the employer contribution rates for Plan fiscal years 2018 and 2019. Rates for such Plan fiscal years are as follows:

	2018	2017	2016
Member	7.7%	7.7%	7.2%
Non-employer contributing entity (state)	6.8%	6.8%	6.8%
Employers/district	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2018 are as follows:

District contributions	\$ 621,642
Member contributions	1,689,301
NECE on-behalf contributions (state)	1,182,881

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

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

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

Stafford Municipal School District

Notes to the Financial Statements

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

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

Actuarial Assumptions

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

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected rate	8.00%
Municipal bond rate	N/A*
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Ad hoc post-employment benefit changes	None

*If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e. the rate closest to but not later than the Measurement Date). The 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."

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

Stafford Municipal School District

Notes to the Financial Statements

Discount Rate

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

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global equity:			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value:			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	(0.2%)	0.0%
Real Return:			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity:			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation			2.2%
Alpha			1.0%
Totals	100.0%		8.7%

*The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

Stafford Municipal School District

Notes to the Financial Statements

Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 8.0%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1% lower (7%) or 1% higher (9%) than the current rate:

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 9,588,938	\$ 5,688,055	\$ 2,439,938

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

At August 31, 2018, the District reported a liability of \$5,688,055 for its proportionate share of the TRS's net pension liability. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District are as follows:

District's proportionate share of the net pension liability	\$ 5,688,055
State's proportionate share of the net pension liability associated with the District	<u>10,491,633</u>
Total	<u><u>\$ 16,179,688</u></u>

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

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.0177893% which was a decrease of 0.0013768% from its proportion measured as of August 31, 2016.

Changes since the Prior Actuarial Valuation

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

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

For the fiscal year ended August 31, 2018, the District recognized pension expense of \$1,605,207 and revenue of \$800,260 for support provided by the State.

Stafford Municipal School District

Notes to the Financial Statements

At August 31, 2018, the District reported deferred outflows of resources for contribution made after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 83,219	\$ 306,749
Changes of assumptions	259,100	148,329
Net difference between projected and actual earnings on pension plan investments	-	414,533
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	1,219,765	413,442
District contribution after measurement date	621,642	-
Totals	\$ 2,183,726	\$ 1,283,053

\$621,642 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2019. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending August 31,	
2018	\$ 47,866
2019	410,950
2020	19,971
2021	(92,953)
2022	(47,646)
Thereafter	(59,157)
Total	\$ 279,031

D. Defined Other Postemployment Benefit Plan

Plan Description

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

OPEB Plan Fiduciary Net Position

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

Stafford Municipal School District

Notes to the Financial Statements

Benefits Provided

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic postemployment benefit changes; including automatic 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 the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

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

	TRS-Care 1 Basic Plan	TRS-Care 2 Optional Plan	TRS-Care 3 Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and spouse	20	175	255
Retiree* and children	41	132	182
Retiree and family	61	237	337
Surviving children only	28	62	82

* or surviving spouse

Contributions

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

Stafford Municipal School District

Notes to the Financial Statements

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

	2018	2017
Active employee	0.65%	0.65%
Non-employer contribution entity (state)	1.25%	1.00%
Employers/District	0.75%	0.55%
Federal/private funding remitted by employers	1.25%	1.00%

The contribution amounts for the District's fiscal year 2018 are as follows:

District contributions	\$ 190,103
Member contributions	142,603
NECE on-behalf contributions (state)	316,415

In addition, the State of Texas contributed \$62,968, \$60,239 and \$79,465 in 2018, 2017, and 2016, respectively, for on-behalf payments for Medicare Part D.

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$212 million in fiscal year 2018.

Stafford Municipal School District

Notes to the Financial Statements

Actuarial Assumptions

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

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

The following additional actuarial methods and assumptions were employed in the August 31, 2017 actuarial valuation of the total OPEB liability:

Valuation date	August 31, 2017
Actuarial cost method	Individual entry age normal
Inflation	2.50%
Discount rate*	3.42%*
Aging factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll growth rate	2.50%
Projected salary increases**	3.50% to 9.50%**
Healthcare trend rates***	4.50% to 12.00%***
Election rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

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

**Includes inflation at 2.50%

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

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

Stafford Municipal School District

Notes to the Financial Statements

Sensitivity of the Net OPEB Liability

Discount Rate

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.42%) in measuring the net OPEB liability.

Sensitivity of the Net OPEB Liability
to the Single Discount Rate Assumptions

1% Decrease (2.42%)	Current Single Discount Rate (3.42%)	1% Increase (4.42%)
\$ 13,809,231	\$ 11,700,277	\$ 10,005,153

Healthcare Cost Trend Rates

The following presents the net OPEB liability using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher than the assumed health-care cost trend rate:

Sensitivity of the Net OPEB Liability to
the Healthcare Cost Trend Rate Assumptions

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 9,741,649	\$ 11,700,277	\$ 14,270,243

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At August 31, 2018, the District reported a liability of \$11,700,277 for its proportionate share of the TRS's net OPEB liability. 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 net OPEB liability	\$ 11,700,277
State's proportionate share of the net OPEB liability associated with the District	15,829,896
Total	\$ 27,530,173

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

At August 31, 2017 the employer's proportion of the collective net OPEB liability was 0.0269057% which was the same proportion measured as of August 31, 2016.

Stafford Municipal School District

Notes to the Financial Statements

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

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

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

GASB Statement No. 75 requires the District to record OPEB expense for the amount of the State's proportionate share of collective OPEB expense that is associated with the District, and record revenue in the same amount for the support provided by the State. For the measurement period ended August 31, 2017, the State's proportionate share of collected OPEB expense was a negative expense of \$8,504,163,580 and the portion of that amount that is associated with the District is a negative expense of \$5,297,104. This amount is recorded as a negative revenue and negative expense for the year ended August 31, 2018.

For the year ended August 31, 2018, the District recognized total negative OPEB expense of \$9,220,774, which includes both the District's proportionate share of collective OPEB expense and the portion of the State's proportionate share of collective OPEB expense that is associated with the District, as described above.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ -	\$ 244,252
Changes of assumptions	-	4,649,996
Net difference between projected and actual earnings on pension plan investments	1,777	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	53	-
District contributions after measurement date	190,103	-
	<u> </u>	<u> </u>
Totals	<u>\$ 191,933</u>	<u>\$ 4,894,248</u>

Stafford Municipal School District
Notes to the Financial Statements

I. Subsequent Event

The District purchased land on September 6, 2018 subsequent to the District's year end with a purchase price of \$1,258,221.

This Page Intentionally Left Blank

Required Supplementary Information

Stafford Municipal School District
 Schedule of Revenues, Expenditures, and Changes in
 Fund Balance – Budget and Actual
 General Fund
 For the Fiscal Year Ended August 31, 2018

Exhibit G-1

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 25,204,380	\$ 25,204,380	\$ 25,638,136	\$ 433,756
5800	State program revenues	4,358,227	4,358,227	5,004,859	646,632
5900	Federal program revenues	590,000	590,000	339,079	(250,921)
5020	Total revenues	30,152,607	30,152,607	30,982,074	829,467
EXPENDITURES					
Current:					
0011	Instruction	16,426,267	16,817,267	17,378,745	(561,478)
0012	Instructional resources and media services	264,363	264,363	245,597	18,766
0013	Curriculum and instructional staff development	312,820	312,820	143,341	169,479
0021	Instructional leadership	704,148	744,148	742,366	1,782
0023	School leadership	2,260,156	2,282,156	2,070,655	211,501
0031	Guidance, counseling, and evaluation services	754,651	794,651	623,068	171,583
0033	Health services	315,300	315,300	261,363	53,937
0034	Student transportation	908,533	908,533	859,130	49,403
0035	Food services	-	-	59,017	(59,017)
0036	Extracurricular activities	1,243,300	1,243,300	1,149,536	93,764
0041	General administration	1,861,096	1,911,096	2,027,228	(116,132)
0051	Plant maintenance and operations	3,466,438	3,501,438	3,291,967	209,471
0052	Security and monitoring services	214,050	489,050	252,275	236,775
0053	Data processing services	1,006,310	1,006,310	828,058	178,252
Community service:					
0061	Community services	46,175	46,175	30,219	15,956
Capital outlay:					
0081	Facilities acquisition and construction	100,000	100,000	42,280	57,720
Intergovernmental:					
0093	Payments to shared services arrangements	34,000	34,000	12,300	21,700
0095	Payments to juvenile justice alternative education programs	25,000	25,000	-	25,000
0099	Other intergovernmental charges	210,000	225,000	209,095	15,905
6030	Total expenditures	30,152,607	31,020,607	30,226,240	794,367
1200	Net change in fund balance	-	(868,000)	755,834	1,623,834
0100	Fund balance - beginning	12,156,593	12,156,593	12,156,593	-
3000	FUND BALANCE - ENDING	<u>\$ 12,156,593</u>	<u>\$ 11,288,593</u>	<u>\$ 12,912,427</u>	<u>\$ 1,623,834</u>

The Notes to the Required Supplementary Information are an integral part of this schedule.

Stafford Municipal School District

Exhibit G-2

Schedule of the District's Proportionate Share of the Net Pension Liability of a Cost-Sharing Multiple-Employer Pension Plan Teacher Retirement System of Texas For the Last Four Fiscal Years*

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0177893%	0.0191661%	0.0194790%	0.0123698%
District's proportionate share of the net pension liability	\$ 5,688,055	\$ 7,242,566	\$ 6,885,567	\$ 3,304,145
State's proportionate share of the net pension liability associated with the District	<u>10,491,633</u>	<u>12,847,271</u>	<u>12,143,198</u>	<u>10,416,152</u>
TOTALS	<u>\$ 16,179,688</u>	<u>\$ 20,089,837</u>	<u>\$ 19,028,765</u>	<u>\$ 13,720,297</u>
District's covered payroll	\$ 20,124,614	\$ 20,408,255	\$ 19,433,586	\$ 18,730,371
District's proportionate share of the net pension liability as a percentage of its covered payroll	28.26%	35.49%	35.43%	17.64%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year. Ten years of data is not available.

Stafford Municipal School District
 Schedule of the District's Contributions to the
 Teacher Retirement System of Texas Pension Plan
 For the Last Four Fiscal Years*

Exhibit G-3

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
TRS				
Contractually required contributions	\$ 621,642	\$ 583,029	\$ 608,576	\$ 575,781
Contributions in relation to the contractually required contributions	(621,642)	(583,029)	(608,576)	(575,781)
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 21,938,980	\$ 20,124,614	\$ 20,408,255	\$ 19,433,586
Contributions as a percentage of covered payroll	2.83%	2.90%	2.98%	2.96%

*The amounts presented for the fiscal years were determined as of the District's fiscal year end August 31.
 Ten years of data is not available.

Stafford Municipal School District**Exhibit G-4**

Schedule of the District's Proportionate Share of the Net OPEB Liability of a Cost-Sharing Multiple-Employer OPEB Plan Teacher Retirement System of Texas Last Fiscal Year*

	<u>2018</u>
District's proportion of the net OPEB liability	0.0269057%
District's proportionate share of the net OPEB liability	\$ 11,700,277
State's proportionate share of the net pension liability associated with the District	<u>15,829,896</u>
TOTALS	<u>\$ 27,530,173</u>
District's covered payroll	\$ 20,124,614
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	58.14%
Plan fiduciary net position as a percentage of The total OPEB liability	0.91%

* The amounts presented for the fiscal year were determined as of the Plan's fiscal year end, August 31 of the prior year. Ten years of data is not available.

Stafford Municipal School District
 Schedule of the District's Contributions to the
 Teacher Retirement System of Texas OPEB Plan
 Last Fiscal Year*

Exhibit G-5

	<u>2018</u>
TRS	
Contractually required contributions	\$ 190,103
Contributions in relation to the contractually required contributions	<u>(190,103)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>
District's covered payroll	\$ 21,938,980
Contributions as a percentage of covered payroll	0.87%

*The amounts presented for the fiscal year were determined as of the District's fiscal year end August 31.
 Ten years of data is not available.

Stafford Municipal School District
Notes to the Required Supplementary Information

Note 1. Budget

A. Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year end.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended August 31, 2018, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following funds:

Fund	Function	Final Budget	Actual	Variance
General fund	11	\$ 16,817,267	\$ 17,378,745	\$ (561,478)
General fund	35	-	59,017	(59,017)
General fund	41	1,911,096	2,027,228	(116,132)
Debt service fund	73	10,000	541,897	(531,897)
National school breakfast and lunch program	35	2,096,749	2,099,164	(2,415)

This Page Intentionally Left Blank

Supplementary Information

Stafford Municipal School District
 Combining Balance Sheet
 Nonmajor Governmental Funds
 Special Revenue Funds
 August 31, 2018

	211	224	225
Data Control Codes	ESSA Title I Part A Improving Basic Programs	IDEA-B Formula	IDEA-B Preschool
ASSETS			
1110	\$ -	\$ -	\$ -
1240	101,307	97,451	-
1260	-	-	-
1290	-	-	-
1000	TOTAL ASSETS	TOTAL ASSETS	TOTAL ASSETS
	<u>\$ 101,307</u>	<u>\$ 97,451</u>	<u>\$ -</u>
LIABILITIES			
2110	\$ 5,376	\$ 806	\$ -
2160	-	-	-
2170	95,931	96,645	-
2300	-	-	-
2000	Total liabilities	Total liabilities	Total liabilities
	<u>101,307</u>	<u>97,451</u>	<u>-</u>
FUND BALANCES			
3450	-	-	-
3545	-	-	-
3000	Total fund balances	Total fund balances	Total fund balances
	<u>-</u>	<u>-</u>	<u>-</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	TOTAL LIABILITIES AND FUND BALANCES	TOTAL LIABILITIES AND FUND BALANCES
	<u>\$ 101,307</u>	<u>\$ 97,451</u>	<u>\$ -</u>

240	244	255	263	265	289
National School Breakfast and Lunch Program	Career and Technical Basic Grant	ESSA Title II Part A Training and Recruiting	ESSA Title III Part A English Language Acquisition and Enhancement	Title IV Part B 21st Century Community Learning Centers	Summer School LEP
\$ 540,414	\$ -	\$ -	\$ -	\$ -	\$ -
111,938	2,382	21,318	23,971	71,987	-
-	-	-	-	-	-
12,075	-	-	-	-	-
<u>\$ 664,427</u>	<u>\$ 2,382</u>	<u>\$ 21,318</u>	<u>\$ 23,971</u>	<u>\$ 71,987</u>	<u>\$ -</u>
\$ 45,138	\$ -	\$ -	\$ -	\$ -	\$ -
52,787	-	-	-	-	-
13,033	2,382	21,318	23,971	71,987	-
-	-	-	-	-	-
110,958	2,382	21,318	23,971	71,987	-
553,469	-	-	-	-	-
-	-	-	-	-	-
553,469	-	-	-	-	-
<u>\$ 664,427</u>	<u>\$ 2,382</u>	<u>\$ 21,318</u>	<u>\$ 23,971</u>	<u>\$ 71,987</u>	<u>\$ -</u>

Stafford Municipal School District
 Combining Balance Sheet
 Nonmajor Governmental Funds
 Special Revenue Funds - Continued
 August 31, 2018

		397	410	429
Data Control Codes		Advanced Placement Incentives	Instructional Materials Fund	Miscellaneous State Grants
ASSETS				
1110	Cash and cash equivalents	\$ 9,590	\$ 42,926	\$ 1,051
1240	Due from other governments	-	-	-
1260	Due from other funds	-	-	-
1290	Other receivables	-	-	-
1000	TOTAL ASSETS	<u>\$ 9,590</u>	<u>\$ 42,926</u>	<u>\$ 1,051</u>
LIABILITIES				
2110	Accounts payable	\$ -	\$ -	\$ -
2160	Accrued wages payable	-	-	-
2170	Due to other funds	-	-	-
2300	Unearned revenue	6,170	42,926	1,051
2000	Total liabilities	6,170	42,926	1,051
FUND BALANCES				
3450	Restricted - Grants	3,420	-	-
3545	Committed - Other	-	-	-
3000	Total fund balances	3,420	-	-
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 9,590</u>	<u>\$ 42,926</u>	<u>\$ 1,051</u>

461	496	497	498	499	
Campus Activity Funds	Donation H. Dave	George Foundation Robotics	Tech Library Fund	Student Motivation	Total Nonmajor Funds (See Exhibit C-1)
\$ 162,191	\$ 1	\$ 36,724	\$ 7,187	\$ 34,560	\$ 834,644
-	-	-	-	-	430,354
126	-	-	-	-	126
-	-	-	-	-	12,075
<u>\$ 162,317</u>	<u>\$ 1</u>	<u>\$ 36,724</u>	<u>\$ 7,187</u>	<u>\$ 34,560</u>	<u>\$ 1,277,199</u>
\$ -	\$ -	\$ 13,105	\$ -	\$ -	\$ 64,425
-	-	-	-	-	52,787
-	-	-	-	-	325,267
-	-	-	-	-	50,147
-	-	13,105	-	-	492,626
-	1	23,619	7,187	34,560	622,256
162,317	-	-	-	-	162,317
<u>162,317</u>	<u>1</u>	<u>23,619</u>	<u>7,187</u>	<u>34,560</u>	<u>784,573</u>
<u>\$ 162,317</u>	<u>\$ 1</u>	<u>\$ 36,724</u>	<u>\$ 7,187</u>	<u>\$ 34,560</u>	<u>\$ 1,277,199</u>

Stafford Municipal School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Special Revenue Funds
For the Fiscal Year Ended August 31, 2018

		211	224	225
Data Control Codes		ESSA Title I Part A Improving Basic Programs	IDEA-B Formula	IDEA-B Preschool
REVENUES				
5700	Local and intermediate sources	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-
5900	Federal program revenues	355,802	574,351	4,527
5020	Total revenues	355,802	574,351	4,527
EXPENDITURES				
Current:				
0011	Instruction	306,510	160,389	4,527
0013	Curriculum and instructional staff development	49,041	3,359	-
0021	Instructional leadership	-	1,000	-
0023	School leadership	-	-	-
0031	Guidance, counseling, and evaluation services	-	409,603	-
0034	Student transportation	-	-	-
0035	Food services	-	-	-
0036	Extracurricular activities	-	-	-
0041	General administration	-	-	-
0051	Plant maintenance and operations	-	-	-
0061	Community services	251	-	-
6030	Total expenditures	355,802	574,351	4,527
1200	Net change in fund balances	-	-	-
0100	Fund balances - beginning	-	-	-
3000	FUND BALANCES - ENDING	\$ -	\$ -	\$ -

240	244	255	263	265	289
National School Breakfast and Lunch Program	Career and Technical Basic Grant	ESSA Title II Part A Training and Recruiting	ESSA Title III Part A English Language Acquisition and Enhancement	Title IV Part B 21st Century Community Learning Centers	Summer School LEP
\$ 398,824	\$ -	\$ -	\$ -	\$ -	\$ -
10,456	-	-	-	-	-
1,751,730	22,811	63,440	62,649	159,610	9,409
2,161,010	22,811	63,440	62,649	159,610	9,409
-	22,350	-	49,630	156,973	9,409
-	-	4,147	12,405	2,141	-
-	461	59,293	614	-	-
-	-	-	-	-	-
-	-	-	-	-	-
2,099,164	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
130,000	-	-	-	-	-
-	-	-	-	496	-
2,229,164	22,811	63,440	62,649	159,610	9,409
(68,154)	-	-	-	-	-
621,623	-	-	-	-	-
<u>\$ 553,469</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Stafford Municipal School District
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Nonmajor Governmental Funds
Special Revenue Funds - Continued
For the Fiscal Year Ended August 31, 2018

		397	410	429
Data Control Codes		Advanced Placement Incentives	Instructional Materials Fund	Miscellaneous State Grants
REVENUES				
5700	Local and intermediate sources	\$ -	\$ -	\$ -
5800	State program revenues	3,420	327,140	17,796
5900	Federal program revenues	-	-	-
5020	Total revenues	3,420	327,140	17,796
EXPENDITURES				
Current:				
0011	Instruction	-	327,140	17,366
0013	Curriculum and instructional staff development	-	-	430
0021	Instructional leadership	-	-	-
0023	School leadership	-	-	-
0031	Guidance, counseling, and evaluation services	-	-	-
0034	Student transportation	-	-	-
0035	Food services	-	-	-
0036	Extracurricular activities	-	-	-
0041	General administration	-	-	-
0051	Plant maintenance and operations	-	-	-
0061	Community services	-	-	-
6030	Total expenditures	-	327,140	17,796
1200	Net change in fund balances	3,420	-	-
0100	Fund balances - beginning	-	-	-
3000	FUND BALANCES - ENDING	\$ 3,420	\$ -	\$ -

461	496	497	498	499	
Campus Activity Funds	Donation H. Dave	George Foundation Robotics	Tech Library Fund	Student Motivation	Total Nonmajor Funds (See Exhibit C-2)
\$ 246,174	\$ -	\$ 8,000	\$ 10,000	\$ 24,049	\$ 687,047
-	-	-	-	-	358,812
-	-	-	-	-	3,004,329
246,174	-	8,000	10,000	24,049	4,050,188
136,613	-	58,495	16,950	19,475	1,285,827
250	-	2,534	-	796	75,103
-	-	-	-	-	61,368
2,707	-	-	-	-	2,707
-	-	-	-	-	409,603
528	-	-	-	-	528
-	-	-	-	-	2,099,164
86,262	-	-	-	-	86,262
1,048	-	-	-	-	1,048
932	-	-	-	-	130,932
100	-	-	-	-	847
228,440	-	61,029	16,950	20,271	4,153,389
17,734	-	(53,029)	(6,950)	3,778	(103,201)
144,583	1	76,648	14,137	30,782	887,774
<u>\$ 162,317</u>	<u>\$ 1</u>	<u>\$ 23,619</u>	<u>\$ 7,187</u>	<u>\$ 34,560</u>	<u>\$ 784,573</u>

Stafford Municipal School District
 Schedule of Delinquent Taxes Receivable
 For the Fiscal Year Ended August 31, 2018

Year Ended August 31,	Tax Rates		Net Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
2009 and Prior Years	\$ Various	\$ Various	\$ Various
2010	1.04010	.19000	2,075,985,580
2011	1.04010	.07000	1,957,890,535
2012	1.04010	.17995	1,956,978,859
2013	1.04010	.20995	1,921,839,446
2014	1.04005	.20995	2,002,970,000
2015	1.04005	.20000	2,027,751,704
2016	1.04005	.190000	2,183,465,388
2017	1.04005	.190000	2,229,686,598
2018	1.04005	.190000	2,411,451,567

1000 TOTALS

9000 - Portion of row 1000 for taxes paid into tax increment zone under chapter 311, tax code

Exhibit J-1

10 Beginning Balance 9/1/17	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/18
\$ 220,896	\$ -	\$ 56	\$ 11	\$ (142,385)	\$ 78,444
48,736	-	-	-	(32)	48,704
72,058	-	878	59	-	71,121
66,943	-	1,139	197	(1)	65,606
40,174	-	4,569	922	37,628	72,311
40,391	-	2,408	486	32,143	69,640
54,654	-	7,509	1,444	29,123	74,824
84,516	-	(5,994)	(1,095)	8,801	100,406
259,600	-	52,530	9,596	(12,673)	184,801
-	29,662,060	24,718,952	4,515,745	(81,421)	345,942
<u>\$ 887,968</u>	<u>\$ 29,662,060</u>	<u>\$ 24,782,047</u>	<u>\$ 4,527,365</u>	<u>\$ (128,817)</u>	<u>\$ 1,111,799</u>
		\$ -	\$ -		

Stafford Municipal School District
 Schedule of Revenues, Expenditures, and Changes
 in Fund Balance – Budget and Actual
 National School Breakfast and Lunch Program
 For the Fiscal Year Ended August 31, 2018

Exhibit J-2

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 512,500	\$ 512,500	\$ 398,824	\$ (113,676)
5800	State program revenues	12,000	12,000	10,456	(1,544)
5900	Federal program revenues	1,702,249	1,702,249	1,751,730	49,481
5020	Total revenues	2,226,749	2,226,749	2,161,010	(65,739)
EXPENDITURES					
Current:					
0035	Food services	2,096,749	2,096,749	2,099,164	(2,415)
0051	Plant maintenance and operations	130,000	130,000	130,000	-
6030	Total expenditures	2,226,749	2,226,749	2,229,164	(2,415)
1200	Net change in fund balance	-	-	(68,154)	(68,154)
0100	Fund balance - beginning	621,623	621,623	621,623	-
3000	FUND BALANCE - ENDING	<u>\$ 621,623</u>	<u>\$ 621,623</u>	<u>\$ 553,469</u>	<u>\$ (68,154)</u>

Stafford Municipal School District
Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
Debt Service Fund
For the Fiscal Year Ended August 31, 2018

Exhibit J-3

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 4,543,760	\$ 4,543,760	\$ 4,599,538	\$ 55,778
5800	State program revenues	-	-	42,998	42,998
5020	Total revenues	4,543,760	4,543,760	4,642,536	98,776
EXPENDITURES					
Debt service:					
0071	Principal on long-term debt	1,900,000	1,900,000	1,900,000	-
0072	Interest on long-term debt	2,311,726	2,311,726	2,311,725	1
0073	Issuance costs and fees	10,000	10,000	541,897	(531,897)
6030	Total expenditures	4,221,726	4,221,726	4,753,622	(531,896)
1100	Excess (deficiency) of revenues over (under) expenditures	322,034	322,034	(111,086)	(433,120)
OTHER FINANCING SOURCES (USES)					
7916	Premium on issuance of bonds	-	-	547,981	547,981
7080	Total other financing sources and (uses)	-	-	547,981	547,981
1200	Net change in fund balances	322,034	322,034	436,895	114,861
0100	Fund balance - beginning	2,278,618	2,278,618	2,278,618	-
3000	FUND BALANCE - ENDING	\$ 2,600,652	\$ 2,600,652	\$ 2,715,513	\$ 114,861

This Page Intentionally Left Blank

Overall Compliance, Internal Control Section and Federal Awards

This Page Intentionally Left Blank

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
Stafford Municipal School District
Stafford, Texas

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Stafford Municipal School District (the District) as of and for the fiscal year ended August 31, 2018 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 22, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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*.

To the Board of Trustees of
Stafford Municipal School District

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 22, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with the Uniform Guidance

To the Board of Trustees of
Stafford Municipal School District
Stafford, Texas

Report on Compliance for Each Major Federal Program

We have audited Stafford Municipal 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 fiscal year ended August 31, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

To the Board of Trustees of
Stafford Municipal School District

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 combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
January 22, 2019

Stafford Municipal School District
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended August 31, 2018

Section 1. Summary of Auditor's Results

Financial Statements

- 1. Type of auditor's report issued Unmodified
- 2. Internal control over financial reporting:
 - a. Material weakness(es) identified? No
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
- 3. Noncompliance material to financial statements noted? No

Federal Awards

- 4. Internal control over major programs:
 - a. Material weakness(es) identified? No
 - b. Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported
- 5. Type of auditor's report issued on compliance with major programs Unmodified
- 6. Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance? No
- 7. Identification of major programs 84.027A and 84.173A
Special Education Cluster (IDEA)
10.553 and 10.555
Child Nutrition Cluster
- 8. Dollar threshold used to distinguish between Type A and Type B federal programs \$750,000
- 9. Auditee qualified as a low-risk auditee? No

Section 2. Financial Statement Findings

None reported

Section 3. Federal Award Findings and Questioned Costs

None reported

Stafford Municipal School District
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended August 31, 2018

Prior Year Findings

2017-001 Material Weakness in Internal Controls over Financial Reporting – Cash Disbursements

Condition:

The District did not properly approve multiple items to be purchased and/or paid from local funds prior to the receipt of the goods or service.

Status:

Corrected

2017-002 Material Weakness in Internal Controls over Financial Reporting – Payroll Authorizations

Condition:

The District did not properly approve the payroll of the District personnel as well as the allocation of the payroll expenditure.

Status:

Corrected

2017-003 SPECIAL EDUCATION CLUSTER (IDEA)

CFDA No. 84.027A and No. 84.173A; Grant No. 176600010799106600 and 176610010799106610

Passed Through State Department of Education

Material Weakness in Internal Controls and Noncompliance over Allowable Costs Compliance Requirement

Condition:

The District grant manager did not provide evidence of approval of the employees paid from the IDEA grant funds, nor did the grant manager ensure the District's compliance with time and effort through semi-annual certifications. However, the District's Chief Financial Officer's approved all payroll transactions prior to payment.

Status:

Corrected

Stafford Municipal School District
Schedule Expenditures of Federal Awards
For the Fiscal Year Ended August 31, 2018

Exhibit K-1

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA Title I, Part A - Improving Basic Programs	84.010A	18610101079910	\$ 355,802
Special Education Cluster (IDEA):			
IDEA-B Formula	84.027A	186600010799106000	574,351
IDEA-B Preschool	84.173A	186610010799106000	<u>4,527</u>
Total Special Education Cluster (IDEA)			578,878
Career and Technology - Basic Grant	84.048A	18420006079910	22,811
Title III, Part A - English Language Acquisition and Language Enhancement	84.365A	18671001079910	62,649
ESEA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	18694501079910	64,348
Summer School LEP	84.369A	69551702	9,409
Passed Through Harris County Department of Education:			
Title IV Part B 21st Century Community Learning Centers	84.287C	176950197110013	<u>159,610</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			1,253,507
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed Through Texas Department of Health and Human Services			
Medicaid Cluster:			
Medical Assistance Program	93.778	529	<u>3,884</u>
Total Medicaid Cluster			<u>3,884</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			3,884
U.S. DEPARTMENT OF AGRICULTURE:			
Child Nutrition Cluster:			
Passed Through State Department of Agriculture - Non Cash Assistance:			
National School Lunch Program	10.555	00388	136,431
Passed Through State Department of Education - Cash Assistance:			
National School Breakfast Program	10.553	71401801	410,422
National School Lunch Program	10.555	71301801	<u>1,204,877</u>
Total Child Nutrition Cluster			<u>1,751,730</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>1,751,730</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 3,009,121</u>

The Notes to Schedule of Expenditures of Federal Awards are an integral part of this schedule.

This Page Intentionally Left Blank

Stafford Municipal School District

Notes to the Schedule of Expenditures of Federal Awards

For the Fiscal Year Ended August 31, 2018

Basic of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Stafford Municipal School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Single Audit Act Amendments of 1996 and 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 presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. National School Lunch Program non-cash commodities are recorded at their estimated market value at the time of donation. The District elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance. Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	\$	3,009,121
General Fund - federal revenue		
School health and related services		241,236
Reserve officers' training corps		75,592
E-Rate		17,459
		<hr/>
Total federal revenues per Exhibit C-2	\$	<u><u>3,343,408</u></u>

This Page Intentionally Left Blank

Stafford Municipal School District
 Schedule of Required Responses to Selected School
 FIRST Indicators (Unaudited)
 For the Fiscal Year Ended August 31, 2018

Exhibit L-1

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 on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	\$ -
SF11	Net pension assets (1920) at fiscal year-end.	\$ -
SF12	Net pension liabilities (2540) at fiscal year-end.	\$ 5,688,055