

ANNUAL FINANCIAL REPORT

of the

**MAGNOLIA
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended
August 31, 2018

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Magnolia Independent School District

Name of School District

Montgomery

County

170-906

Co. Dist. Number

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

Signature of Board Secretary

Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):

(attach list as necessary)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Magnolia Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magnolia Independent School District (the "District"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Emphasis of Matter

Change in Accounting Principle

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

Other Matters

Required Supplementary Information

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

Other Information

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

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial

statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, other 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 introductory section and the schedule of required responses to selected school first indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

The logo features the names 'Belt Harris Pechacek' in a large, elegant, cursive script. The letters are interconnected, with 'Belt' and 'Harris' sharing a common 'H' and 'P' and 'Pechacek' starting with a large 'P'. The letters are black and have a classic, professional feel.

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 10, 2019

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***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2018

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of Magnolia Independent School District (the "District") for the year ending August 31, 2018. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2018 was \$5,317,050.
- For the fiscal year ended August 31, 2018, the District's general fund reported a total fund balance of \$30,440,086, which is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$54,932,914.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2018

District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred outflows/inflows 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 improving or deteriorating. Other nonfinancial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance, need to be considered in order to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include the following class of activities:

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

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

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

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

The District has the following kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2018

provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *Proprietary funds* – The District maintains four proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for workers' compensation self-insurance claims and fees, the after school program, the school's natatorium and the MISD health plan. The internal service funds are included within *governmental activities* in the government-wide financial statements.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was a deficit balance of \$5,317,050 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the year. The District reported an increase of \$15,240,527 in net position from the prior year. *Table 1* indicates the overall condition of the District decreased, which was mainly due to decreases in current assets as well as long term liabilities related to the addition of the net OPEB liability. *Table 2* reflects the District reporting an decrease in total revenue of \$241,674, which was mainly the result of negative operating grants and contributions related to the implementation of GASB Standard 75. This decrease was primarily offset by an increase in unrestricted grants and contributions. Additionally, the District reported an decrease in total expenses of \$11,666,145 primarily due state support for GASB 75 implementation.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2018

Description	Governmental Activities		Total Change
	2018	2017	2018-2017
Current assets	\$ 61,307,418	\$ 88,639,333	\$ (27,331,915)
Capital assets	212,978,944	199,969,216	13,009,728
Total Assets	274,286,362	288,608,549	(14,322,187)
Deferred charge on refunding	5,674,930	6,237,003	(562,073)
Deferred outflows - pensions	10,530,463	12,509,139	(1,978,676)
Deferred outflows - OPEB	581,599	-	581,599
Total Deferred Outflows of Resources	16,786,992	18,746,142	(1,959,150)
Current liabilities	4,047,578	9,072,499	(5,024,921)
Long-term liabilities	271,807,455	246,060,533	25,746,922
Total Liabilities	275,855,033	255,133,032	20,722,001
Deferred inflows - pensions	3,524,061	1,468,945	2,055,116
Deferred inflows - OPEB	17,011,310	-	17,011,310
Total Deferred Inflows of Resources	20,535,371	1,468,945	19,066,426
Net Position:			
Net investment in capital assets	22,508,627	22,040,924	467,703
Restricted	12,901,653	12,018,077	883,576
Unrestricted	(40,727,330)	16,693,713	(57,421,043)
Total Net Position	\$ (5,317,050)	\$ 50,752,714	\$ (56,069,764)

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2018

	Governmental Activities		Total Change
	2018	2017	2018-2017
Revenues			
Program revenues:			
Charges for services	\$ 3,234,129	\$ 2,903,078	\$ 331,051
Operating grants and contributions	(8,731,903)	6,749,215	(15,481,118)
General revenues:			
Property taxes	80,095,465	75,556,892	4,538,573
Grants and contributions not restricted	64,966,346	53,537,279	11,429,067
Investment earnings	999,768	483,675	516,093
Miscellaneous local and intermediate revenue	854,068	2,429,408	(1,575,340)
Total Revenue	<u>141,417,873</u>	<u>141,659,547</u>	<u>(241,674)</u>
Expenses			
Instruction	67,624,307	75,543,717	(7,919,410)
Instructional resources and media services	1,188,954	1,185,241	3,713
Curriculum and staff development	1,192,017	921,463	270,554
Instructional leadership	1,465,487	1,247,375	218,112
School leadership	5,294,523	6,143,265	(848,742)
Guidance, counseling, and evaluation services	3,082,080	3,745,693	(663,613)
Social work/health services	1,104,628	1,124,337	(19,709)
Student (pupil) transportation	7,341,390	7,144,502	196,888
Food services	5,933,586	5,800,391	133,195
Co-curricular/extracurricular activities	4,169,688	3,961,654	208,034
General administration	3,318,805	3,642,526	(323,721)
Plant maintenance and operations	13,337,365	14,759,333	(1,421,968)
Security and monitoring	710,856	666,975	43,881
Data processing services	2,982,189	3,198,004	(215,815)
Interest on long-term debt	7,431,471	8,759,015	(1,327,544)
Total Expenses	<u>126,177,346</u>	<u>137,843,491</u>	<u>(11,666,145)</u>
Change in Net Position	<u>15,240,527</u>	<u>3,816,056</u>	<u>11,424,471</u>
Beginning net position	<u>(20,557,577)</u>	<u>46,936,658</u>	<u>(67,494,235)</u>
Ending Net Position	<u>\$ (5,317,050)</u>	<u>\$ 50,752,714</u>	<u>\$ (56,069,764)</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2018

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2018, the District's governmental funds reported a combined fund balance of \$54,932,914. This compares to a combined fund balance of \$77,691,437 at . The fund balances in the general fund and debt service fund increased primarily due to an increase in property tax revenue as a result of higher property valuations compared to prior year. The significant decreases to the capital projects fund fund balance is primarily due to the use of bond funds for capital projects, including the construction and remodel of several locations in the District.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally cover multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2018, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's actual revenues exceeded budgeted revenues by \$1,540,098 primarily due to greater state program revenue than expected, and the budgeted expenditures exceeded actual expenditures by \$1,562,369 due primarily to less instruction-related expenses and student transportation expenses than anticipated.

CAPITAL ASSETS

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

At August 31, 2018, the District had a total of \$212,978,944 invested in capital assets (net of depreciation) such as land, buildings, and District equipment. This total includes capital assets not being depreciated in the amount of \$8,825,492.

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

LONG-TERM DEBT

At year end, the District had \$180,135,000 in general obligation bonds outstanding versus \$190,725,000 last year.

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2018

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS

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

- The District's student enrollment increased by 181, or 1.5% in the 2017-2018 school year. For budgetary purposes, the anticipated increase for 2018-2019 is conservatively approximated at 100 students. Should enrollment not meet the projected pace, District officials will be prepared to respond.
- 2018-2019 is the second and final year under the current state funding system. The legislature provided no new monies for MISD for this biennium.
- Approximately 20 new employee positions were created based on need for the 2018-2019 school year, several of which are associated with opening up two new campuses.
- In an attempt to remain competitive with surrounding districts in terms of attracting and retaining the best and brightest talent, all employees received a 1.5% raise for 2018-2019. Additionally, the first year teacher pay was increased by \$500 from \$50,500 to \$51,000.
- The District's 2018 certified net taxable value for ad valorem tax purposes is \$6,510,114,041 or \$421,858 per weighted average daily attendance (WADA). This represents an increase in net taxable value of approximately \$491 million or 8.15% versus the previous tax year. The District's Maintenance and Operations rate for 2018-2019 is \$1.04 and Interest and Sinking is \$0.3395 resulting in a total tax rate of \$1.3795 per \$100 valuation, which is the same total tax rate as the previous three tax years (after multiple years of tax rate decreases).
- The District continues to participate in the state's Texas Public School Retired Employees Group Insurance Program ("TRS-Care") program for health insurance coverage for employees. The District contributes \$300 per month for employee health insurance, an increase of \$25 a month versus previous years. In addition to health insurance, the District provides \$10,000 of life insurance coverage to full-time employees at no cost to the employee. Supplemental insurance is offered from variously selected vendors based on cost savings and plan details as chosen after competitive procurement by District administration.
- The District once again received a "Superior Achievement" for an "A" rating, including a score of 96/100, on the Texas Education Agency's (TEA) School FIRST accountability rating system for fiscal year 2017.
- In the summer of 2018, in preparation of the 2018-2019 school year budget and for the third year in a row, the District was labeled as a Chapter 41 ("wealthy") school district by the TEA. While this is something to certainly keep an eye on for the future, at this lower equalized wealth level, the district is not currently subject to recapture (not accessing any pennies of tax effort at the third economic wealth level which would require the District to send tax dollars back to the state).
- The District is governed by a well trained, informed, dedicated, and student-focused Board of Trustees and administrative staff.

District officials were conservative with budgetary estimates as budget philosophies have remained consistent. As stated, projected student enrollment growth was conservatively based on demographic estimates of an increase of 100 students. Officials also remained conservative with large ticket budgetary

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2018

items such as electricity and fuel costs. The District adopted a balanced general fund budget for fiscal year 2019.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Garrett Matej, Director of Finance, at 31141 Nichols Sawmill Road, Magnolia, Texas 77353 or by calling (281) 356-8485.

BASIC FINANCIAL STATEMENTS

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2018

1

Data Control Codes		Governmental Activities
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 54,260,789
1120	Current investments	3,514,079
1220	Property taxes receivable (delinquent)	2,709,828
1230	Allowance for uncollectible taxes	(544,720)
1240	Due from other governments	1,363,967
1410	Prepaid items	3,475
		<u>61,307,418</u>
	Capital assets:	
1510	Land	8,825,492
1520	Buildings, net	199,529,004
1530	Furniture and equipment, net	1,360,036
1540	Vehicles, net	3,264,412
		<u>212,978,944</u>
1000	Total Assets	<u>274,286,362</u>
	<u>Deferred Outflows of Resources</u>	
1700	Deferred charge on refunding	5,674,930
1705	Deferred outflows - pensions	10,530,463
1710	Deferred outflows - OPEB	581,599
		<u>16,786,992</u>
	<u>Liabilities</u>	
2110	Accounts payable	1,587,795
2140	Interest payable	364,998
2200	Accrued expenses	113,804
		<u>4,047,578</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within	
2501	one year	10,590,000
2502	Long-term liabilities due in more	
2502	than one year	197,507,945
2540	Net pension liability	23,041,967
2545	Net OPEB liability	40,667,543
2000	Total Liabilities	<u>275,855,033</u>
	<u>Deferred Inflows of Resources</u>	
2605	Deferred inflows - pensions	3,524,061
2610	Deferred inflows - OPEB	17,011,310
		<u>20,535,371</u>
	<u>Net Position</u>	
3200	Net investment in capital assets	22,508,627
	Restricted for:	
3820	State and federal programs	2,304,013
3850	Debt service	10,140,968
3870	Campus activities	456,672
3900	Unrestricted	(40,727,330)
3000	Total Net Position	<u>\$ (5,317,050)</u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2018

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	
					6 Primary Gov. Governmental Activities
	Primary Government				
	Governmental Activities				
11	Instruction	\$ 67,624,307	\$ -	\$ (7,539,964)	\$ (75,164,270)
12	Instructional resources				
12	and media services	1,188,954	-	(152,483)	(1,341,437)
13	Curriculum/instructional				
13	staff development	1,192,017	-	(264,548)	(1,456,565)
21	Instructional leadership	1,465,487	-	(187,158)	(1,652,645)
23	School leadership	5,294,523	-	(1,519,904)	(6,814,428)
31	Guidance, counseling, and				
31	evaluation services	3,082,080	-	(1,045,348)	(4,127,429)
33	Health services	1,104,628	-	(256,487)	(1,361,114)
34	Student (pupil) transportation	7,341,390	-	(346,446)	(7,687,835)
35	Food services	5,933,586	1,903,316	3,527,713	(502,556)
36	Extracurricular activities	4,169,688	1,330,813	(524,125)	(3,362,999)
41	General administration	3,318,805	-	(470,853)	(3,789,658)
51	Plant maintenance and operations	13,337,365	-	(120,533)	(13,457,897)
52	Security and monitoring services	710,856	-	-	(710,856)
53	Data processing services	2,982,189	-	(176,068)	(3,158,256)
72	Debt service - interest on				
72	long-term debt	7,431,471	-	344,298	(7,087,173)
	Total Governmental Activities	<u>\$ 126,177,346</u>	<u>\$ 3,234,129</u>	<u>\$ (8,731,903)</u>	<u>(131,675,120)</u>
TP	Total Primary Government	<u>\$ 126,177,346</u>	<u>\$ 3,234,129</u>	<u>\$ (8,731,903)</u>	<u>(131,675,120)</u>
General Revenues					
MT	Property taxes, levied for general purposes				60,504,031
DT	Property taxes, levied for debt service				19,591,434
GC	Grants and contributions not restricted				
GC	for specific programs				64,966,346
IE	Investment earnings				999,768
MI	Miscellaneous local and intermediate revenue				854,068
TR				Total General Revenues	<u>146,915,647</u>
CN				Change in Net Position	<u>15,240,527</u>
NB	Beginning net position				<u>(20,557,577)</u>
NE				Ending Net Position	<u>\$ (5,317,050)</u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2018

Data Control Codes		10	50	60	
		General	Debt Service	Construction Projects	Nonmajor Governmental
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ 27,925,659	\$ 9,775,969	\$ 13,413,164	\$ 2,505,377
1120	Current investments	3,514,076	-	3	-
1220	Property taxes - delinquent	2,122,087	587,741	-	-
1230	Allowance for uncollectible taxes	(440,572)	(104,148)	-	-
1240	Due from other governments	869,110	-	-	494,857
1260	Due from other funds	239,549	-	-	-
1410	Prepaid items	-	-	-	3,475
1000	Total Assets	<u>\$ 34,229,909</u>	<u>\$ 10,259,562</u>	<u>\$ 13,413,167</u>	<u>\$ 3,003,709</u>
	<u>Liabilities</u>				
2110	Accounts payable	\$ 127,326	\$ -	\$ 1,460,469	\$ -
2160	Accrued wages payable	1,980,981	-	-	-
2170	Due to other funds	-	-	-	239,549
2000	Total Liabilities	<u>2,108,307</u>	<u>-</u>	<u>1,460,469</u>	<u>239,549</u>
	<u>Deferred Inflows of Resources</u>				
2600	Unavailable revenue - property taxes	<u>1,681,516</u>	<u>483,592</u>	<u>-</u>	<u>-</u>
	<u>Fund Balances</u>				
	Nonspendable:				
3430	Prepaid items	-	-	-	3,475
	Restricted:				
3450	Federal/state funds grant restrictions	-	-	-	2,304,013
3470	Construction	-	-	11,952,698	-
3480	Debt service	-	9,775,970	-	-
3490	Other restrictions of fund balance	-	-	-	456,672
3600	Unassigned	30,440,086	-	-	-
3000	Total Fund Balances	<u>30,440,086</u>	<u>9,775,970</u>	<u>11,952,698</u>	<u>2,764,160</u>
4000	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 34,229,909</u>	<u>\$ 10,259,562</u>	<u>\$ 13,413,167</u>	<u>\$ 3,003,709</u>

See Notes to Financial Statements.

98
Total
Governmental
Funds

\$	53,620,169
	3,514,079
	2,709,828
	(544,720)
	1,363,967
	239,549
	3,475
<u>\$</u>	<u>60,906,347</u>

\$	1,587,795
	1,980,981
	239,549
<u>\$</u>	<u>3,808,325</u>

<u>2,165,108</u>

3,475
2,304,013
11,952,698
9,775,970
456,672
30,440,086
<u>54,932,914</u>
<u>\$ 60,906,347</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R

August 31, 2018

Total fund balances for governmental funds	\$	54,932,914
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets – nondepreciable	8,825,492	
Capital assets – depreciable	204,153,452	
		212,978,944

Other long-term assets (deferred taxes) are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	2,165,108
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Internal service funds are used by management to charge the costs of of certain capital assets to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	526,816
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Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Deferred outflows - pensions	10,530,463	
Deferred inflows - pensions	(3,524,061)	
Deferred outflows - OPEB	581,599	
Deferred inflows - OPEB	(17,011,310)	
Accrued interest	(364,998)	
Deferred charge on refunding	5,674,930	
Noncurrent liabilities due in one year	(10,590,000)	
Noncurrent liabilities due in more than one year	(197,507,945)	
Net pension liability	(23,041,967)	
Net OPEB liability	(40,667,543)	
		(275,920,832)

Net Position of Governmental Activities	\$	(5,317,050)
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See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2
For the Year Ended August 31, 2018

Data Control Codes		General	Debt Service	Capital Projects	Nonmajor Governmental
<u>Revenues</u>					
5700	Local, intermediate, and out-of-state	\$ 61,829,416	\$ 19,922,874	\$ 415,895	\$ 3,234,129
5800	State program revenues	41,722,545	344,298	-	660,541
5900	Federal program revenues	1,755,112	-	-	8,530,639
5020	Total Revenues	105,307,073	20,267,172	415,895	12,425,309
<u>Expenditures</u>					
Current:					
0011	Instruction	62,155,110	-	5,925	5,493,292
0012	Instructional resources and				
0012	media services	968,406	-	26,993	-
0013	Curriculum/instructional				
0013	staff development	920,001	-	-	-
0021	Instructional leadership	1,177,353	-	-	93,337
0023	School leadership	5,899,305	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	3,310,782	-	-	220,986
0033	Health services	1,092,491	-	-	-
0034	Student (pupil) transportation	6,660,198	-	287,949	-
0035	Food services	-	-	-	5,436,065
0036	Extracurricular activities	2,576,661	-	161,315	1,181,713
0041	General administration	3,398,055	-	-	-
0051	Plant maintenance and operations	10,699,383	-	1,709,775	-
0052	Security and monitoring services	666,711	-	-	-
0053	Data processing services	2,680,150	-	379,063	-
Debt service:					
0071	Principal	-	10,590,000	-	-
0072	Interest and fiscal charges	-	8,774,462	-	-
0073	Bond issuance costs	-	2,550	-	-
0081	Capital outlay	-	-	24,455,941	-
6030	Total Expenditures	102,204,606	19,367,012	27,026,961	12,425,393
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	3,102,467	900,160	(26,611,066)	(84)
<u>Other Financing Sources (Uses)</u>					
7915	Transfers in	-	-	2,150,000	-
8911	Transfers (out)	(2,300,000)	-	-	-
7080	Total Other Financing Sources (Uses)	(2,300,000)	-	2,150,000	-
1200	Net Change in Fund Balances	802,467	900,160	(24,461,066)	(84)
0100	Beginning fund balances	29,637,619	8,875,810	36,413,764	2,764,244
3000	Ending Fund Balances	\$ 30,440,086	\$ 9,775,970	\$ 11,952,698	\$ 2,764,160

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 85,402,314
42,727,384
10,285,751

138,415,449

67,654,327

995,399

920,001
1,270,690
5,899,305

3,531,768
1,092,491
6,948,147
5,436,065
3,919,689
3,398,055
12,409,158
666,711
3,059,213

10,590,000
8,774,462
2,550
24,455,941

161,023,972

(22,608,523)

2,150,000
(2,300,000)

(150,000)

(22,758,523)

77,691,437

\$ 54,932,914

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - EXHIBIT C-3

For the Year Ended August 31, 2018

Net changes in fund balances - total governmental funds	\$ (22,758,523)
---------------------------------------------------------	-----------------

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation	(5,812,371)
Capital outlay, net of disposal of assets	18,822,099

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	197,012
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal repayments	10,590,000
Accrued interest	16,500
Amortization of loss on bond refunding	(562,073)
Amortization of premiums	1,891,114

Pension activity reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure or revenue in governmental funds.

Change in net pension liability	2,439,507
Change in net OPEB liability	31,128,950
Net change to deferred outflows and inflows related to pensions	(4,033,792)
Net change to deferred outflows and inflows related to OPEB	(16,915,913)

Internal service funds are used by management to charge the costs of certain activities, such as employee healthcare, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

	238,017
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Change in Net Position of Governmental Activities	\$ 15,240,527
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See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUNDS - EXHIBIT D-1

August 31, 2018

<u>Data Control Codes</u>			<u>Internal Service Funds</u>
	Assets:		
1110	Cash and cash equivalents		\$ 640,620
	Total Assets		<u>640,620</u>
	Liabilities:		
	Current liabilities:		
2200	Accrued expenses		113,804
2000	Total Liabilities		<u>113,804</u>
	Net Position:		
3600	Unrestricted		526,816
4000	Total Net Position		<u>\$ 526,816</u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN FUND NET POSITION

INTERNAL SERVICE FUNDS - EXHIBIT D-2

For the Year Ended August 31, 2018

Data Control Codes		Internal Service Funds
	Operating Revenues:	
5700	Local and intermediate sources	\$ 1,668,963
5020	Total Operating Revenues	<u>1,668,963</u>
	Operating Expenses:	
6100	Payroll costs	1,039,986
6200	Professional and contracted services	273,214
6300	Supplies and materials	80,380
6400	Other operating costs	187,366
	Total Operating Expenses	<u>1,580,946</u>
1100	Operating Income	88,017
	Other Financing Sources (Uses):	
7915	Transfers in	200,000
8915	Transfers Out	(50,000)
	Total Other Financing Sources	<u>150,000</u>
1200	Changes in Net Position	238,017
0100	Beginning net position	<u>288,799</u>
3000	Ending Net Position	<u><u>\$ 526,816</u></u>

See Notes to Financial Statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

INTERNAL SERVICE FUNDS - EXHIBIT D-3

For the Year Ended August 31, 2018

	<u>Internal Service Funds</u>
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 1,668,963
Cash receipts (payments) for quasi-external operating transactions with other funds	(346,681)
Cash payments to employees for services	(1,039,986)
Cash payments to other suppliers for goods and services	(289,356)
Net Cash (Used) by Operating Activities	<u>(7,060)</u>
 <u>Cash Flows from Noncapital Financing Activities</u>	
Transfers in from other funds	<u>150,000</u>
Net Cash Provided by Noncapital Financing Activities	<u>150,000</u>
 Net Increase in Cash and Equivalents	142,940
 Beginning cash and cash equivalents	<u>497,680</u>
 Ending Cash and Cash Equivalents	<u><u>\$ 640,620</u></u>
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating income	\$ 238,017
Adjustments to reconcile operating income to net cash provided by operating activities:	
Transfers	(150,000)
Net Cash Provided by Operating Activities	<u><u>\$ (7,060)</u></u>

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT E-1

For the Year Ended August 31, 2018

<u>Data Control Codes</u>			<u>Total Agency Funds</u>
	<u>Assets</u>		
1110	Cash and cash equivalents		\$ 688,243
1000		Total Assets	<u>\$ 688,243</u>
	<u>Liabilities</u>		
	Current liabilities:		
2190	Due to student groups		\$ 688,243
2000		Total Liabilities	<u>\$ 688,243</u>

See Notes to Financial Statements.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, are normally 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 and internal service funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category – governmental, proprietary, and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

The District reports the following governmental funds:

General Fund

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

Debt Service Fund

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

Capital Projects Fund

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

Special Revenue Funds

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

Proprietary Funds

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the District's business-type activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues include charges for services. Operating expenses includes costs of material, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District has the following types of proprietary funds:

Internal Service Funds

These funds are used to account for and report revenue and expenses related to services provided to parties inside the District on a cost reimbursement basis. account for the District's group health insurance benefits and workers' compensation risk management. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the governmental activities column of the governmental-wide financial statements.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

Fiduciary Funds

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

The District has the following type of fiduciary funds:

Agency Funds

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

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 and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

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

E. Measurement Focus and Basis of Accounting

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

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

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

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.

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

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

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents. The District uses a consolidated claim on cash to track each participating fund's claim on cash which is net of each fund's current receivable and payables. The general fund's financial statement includes gross receivables and payable for all funds, and the general fund's claim on cash adjusted accordingly.

2. Investments

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

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

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Fully collateralized repurchase agreements that meet certain criteria
- Government investment pools and commercial paper

3. Inventories and Prepaid Items

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

4. Capital Assets

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

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

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

Asset Description	Estimated Useful Life
Buildings and improvements	10 to 50 years
Vehicles	8 to 20 years
Equipment	5 to 25 years

5. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. Another deferral is recognized for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the District has only one type of item, which arises

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Long-Term Obligations

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

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

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

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

8. 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.

9. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

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

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

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

10. Estimates

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

11. Data Control Codes

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

12. Negative Operating Grants and Contributions – Statement of Activities

Expense activity is required to be recorded by districts who are participants in cost-sharing pensions and other post-employment benefits (OPEB) benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. Teacher Retirement System of Texas (TRS) and Texas Public School Retired Employees Group Insurance Program ("TRS-Care") are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the statement of activities in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

During the year under audit, the NECE expense was negative, due to changes in benefits within TRS-Care. The accrual for the proportionate share of that expense was a negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities.

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

	Operating Grants and Contributions (Excluding On- Behalf Accruals)	Negative On- Behalf Accruals	Operating Grants and Contributions As Reported
0011 Instruction	\$ 5,094,346	\$ (12,634,310)	\$ (7,539,964)
0012 Instructional resources			
0012 and media services	-	(152,483)	(152,483)
0013 Curriculum/instructional			
0013 staff development	-	(264,548)	(264,548)
0021 Instructional leadership	93,337	(280,495)	(187,158)
0023 School leadership	-	(1,519,904)	(1,519,904)
0031 Guidance, counseling, and			
0031 evaluation services	-	(1,045,348)	(1,045,348)
0033 Health services	-	(256,487)	(256,487)
0034 Student (pupil) transportation	-	(346,446)	(346,446)
0035 Food services	3,732,978	(205,265)	3,527,713
0036 Extracurricular activities	-	(524,125)	(524,125)
0041 General administration	-	(470,853)	(470,853)
0051 Plant maintenance and operations	-	(120,533)	(120,533)
0052 Security and monitoring services	-	-	-
0053 Data processing services	-	(176,068)	(176,068)
0072 Debt service - interest on			
0072 long-term debt	344,298	-	344,298
Total	\$ 9,264,959	\$ (17,996,862)	\$ (8,731,903)

13. Pensions

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

14. Other Postemployment Benefits

The fiduciary net position of TRS-Care has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

OPEB, OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

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

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

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service funds are charges to customers for sales and services. Operating expenses for the internal service funds include the cost of sales and services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of August 31, 2018, the District had the following investments:

<u>Investment Type</u>	<u>Weighted Average Maturity (Days)</u>	<u>Fair Value</u>
Lone Star - Investment Pool (First Public LLC)	0.00	81,892
MBIA - Texas CLASS Investment Pool	0.00	3,432,187
		<u>\$ 3,514,079</u>

Custodial credit risk – deposits. In the case of deposits, this is the risk that the District's deposits may not be returned in the event of a bank failure. The District's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of August 31, 2018, fair market values of pledged securities and FDIC coverage exceeded bank balances.

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

Texas CLASS

The Texas Cooperative Liquid Assets Securities System Trust – Texas (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in CLASS (the "Participants"), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at www.texasclass.com.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

B. Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 8,825,492	\$ -	\$ -	\$ 8,825,492
Construction in progress	36,904,651	17,987,517	(54,892,168)	-
Total Capital Assets Not Being Depreciated	<u>45,730,143</u>	<u>17,987,517</u>	<u>(54,892,168)</u>	<u>8,825,492</u>
Other capital assets:				
Buildings and improvements	201,816,258	54,882,670	-	256,698,928
Furniture and equipment	3,901,617	308,653	-	4,210,270
Vehicles	12,372,420	535,427	-	12,907,847
Total Other Capital Assets	<u>218,090,295</u>	<u>55,726,750</u>	<u>-</u>	<u>273,817,045</u>
Less accumulated depreciation for:				
Buildings and improvements	(52,057,520)	(5,112,404)	-	(57,169,924)
Furniture and equipment	(2,623,367)	(226,867)	-	(2,850,234)
Vehicles	(9,170,335)	(473,100)	-	(9,643,435)
Total Accumulated Depreciation	<u>(63,851,222)</u>	<u>(5,812,371)</u>	<u>-</u>	<u>(69,663,593)</u>
Other capital assets, net	<u>154,239,073</u>	<u>49,914,379</u>	<u>-</u>	<u>204,153,452</u>
Governmental Activities Capital Assets, Net	<u>\$ 199,969,216</u>	<u>\$ 67,901,896</u>	<u>\$ (54,892,168)</u>	<u>212,978,944</u>
			Less associated debt	(208,097,945)
			Plus unspent bond proceeds	11,952,698
			Plus deferred charge on refunding	<u>5,674,930</u>
			Net Investment in Capital Assets	<u><u>\$ 22,508,627</u></u>

Depreciation was charged to governmental functions as follows:

11	Instruction	\$ 3,204,317
12	Instructional resources and media services	193,932
13	Curriculum and instructional staff development	6,666
23	School leadership	60,129
31	Guidance, counseling, and evaluation services	39,986
33	Health services	37,478
34	Student (pupil) transportation	493,336
35	Food service	455,905
36	Cocurricular/extracurricular activities	243,173
41	General administration	96,513
51	Plant maintenance and operations	980,936
	Total Depreciation Expense	<u><u>\$ 5,812,371</u></u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

C. Long-Term Debt

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

Governmental Activities:	Beginning Balance	Additions	(Reductions)	Ending Balance	Amounts Due Within One Year	Interest Rates
Bonds payable:						
Series 2009	\$ 5,615,000	\$ -	\$ (1,035,000)	\$ 4,580,000	\$ 1,035,000	3.00-4.25%
Series 2012	8,565,000	-	(545,000)	8,020,000	545,000	2.00-3.50%
Series 2013	54,465,000	-	(1,830,000)	52,635,000	1,830,000	2.00-5.00%
Series 2016	88,640,000	-	(1,790,000)	86,850,000	1,790,000	2.00-5.00%
Series 2017	33,440,000	-	(5,390,000)	28,050,000	5,390,000	3.00-5.00%
	<u>190,725,000</u>	<u>-</u>	<u>(10,590,000)</u>	<u>180,135,000</u>	<u>* 10,590,000</u>	
Other liabilities:						
Unamortized bond premium	29,854,059	-	(1,891,114)	27,962,945	*	-
Net pension liability	25,481,474	-	(2,439,507)	23,041,967	-	-
Net OPEB liability	71,796,493	-	(31,128,950)	40,667,543	-	-
Total Governmental Activities	<u>\$ 246,060,533</u>	<u>\$ -</u>	<u>\$ (12,481,114)</u>	<u>\$ 271,807,455</u>	<u>\$ 10,590,000</u>	
Long-term liabilities due in more than one year				<u>\$ 261,217,455</u>		
*Debt associated with capital assets				<u>\$ 208,097,945</u>		

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

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

Year Ended Aug 31	Principal	Interest	Total Requirements
2019	\$ 10,935,000	\$ 8,394,975	\$ 19,329,975
2020	10,355,000	7,983,875	18,338,875
2021	10,460,000	7,512,925	17,972,925
2022	10,995,000	7,013,275	18,008,275
2023	9,070,000	6,486,263	15,556,263
2024-2028	58,735,000	25,017,013	83,752,013
2029-2033	25,700,000	14,200,000	39,900,000
2034-2038	25,630,000	8,526,000	34,156,000
2039-2041	18,255,000	1,855,250	20,110,250
	<u>\$ 180,135,000</u>	<u>\$ 86,989,576</u>	<u>\$ 267,124,576</u>

D. Commitments Under Noncapitalized Leases

During the year, the District expended a total of \$23,011 for operating (noncapitalized) leases and, in accordance with standard nonappropriation clauses in the various lease agreements, the District has no future obligation in relation to these leases.

E. Interfund Transactions

The following is a summary of the District's interfund transactions for the year:

	Due From Other Funds	Due To Other Funds
General fund		
Special revenue funds	\$ 239,549	\$ -
Total General Fund	<u>239,549</u>	<u>-</u>
Special revenue funds		
General fund	-	239,549
Total Special Revenue Funds	<u>-</u>	<u>239,549</u>
Total	<u>\$ 239,549</u>	<u>\$ 239,549</u>

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund		
Capital projects fund	\$ -	\$ 2,150,000
Internal service fund	-	150,000
Total General Fund	<u>-</u>	<u>2,300,000</u>
Capital projects fund		
General fund	2,150,000	-
Total Capital Projects Fund	<u>2,150,000</u>	<u>-</u>
Internal service fund		
General fund	150,000	-
Total Internal Service Fund	<u>150,000</u>	<u>-</u>
Total	<u>\$ 2,300,000</u>	<u>\$ 2,300,000</u>

Transfers from the general fund to the capital projects fund are used to help pay for capital improvements that are spent out of the capital projects fund. Transfers from the general fund to the internal service fund are used to help pay for future insurance claims for worker's compensation.

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Defined Benefit Pension Plan

Teacher Retirement System

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is 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 five 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 five years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic postemployment benefit changes, including automatic cost-of-living adjustments (COLAs). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in Plan Description above.

Contributions

Contribution requirements are established or amended pursuant to Article 16, Section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than six percent of the member's annual compensation and a state contribution rate of not

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

less than six percent and not more than ten percent of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

<u>Contribution Rates</u>	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
NECE (State)	6.8%	6.8%
Employers	6.8%	6.8%
2017 Employer Contributions	\$2,361,815	
2017 Member Contributions	\$2,336,694	
2017 NECE On-behalf Contributions	\$3,762,037	

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from noneducational, 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 percent of the state contribution rate for certain instructional or administrative employees and 100 percent of the state contribution rate for all other employees.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

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

- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5 percent of the state contribution rate for certain instructional or administrative employees and 100 percent 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	8.0%
Long-term expected investment rate of return	8.0%
Inflation	2.5%
Salary increases including inflation	3.5% to 9.5%
Payroll growth rate	2.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

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

Discount Rate

The discount rate used to measure the total pension liability was eight percent. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the NECE are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is eight percent. 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.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2017 are summarized below:

Teacher Retirement System of Texas Asset Allocation and Long-Term Expected Real Rate of Return As of August 31, 2017			
	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Long-Term Expected Portfolio Real Rate of Return
Global			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bond	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and National Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	0%		2.2%
Alpha	0%		1.0%
Total	<u>100%</u>		<u>8.7%</u>

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was one percent less than and one percent greater than the discount rate that was used (8.0%) in measuring the net pension liability.

	1% Decrease in Discount Rate (7%)	Current Discount Rate (8%)	1% Increase in Discount Rate (9%)
District's proportionate share of the net pension liability	<u>\$ 38,844,203</u>	<u>\$ 23,041,967</u>	<u>\$ 9,884,040</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

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

At August 31, 2017, the District reported a liability of \$23,041,967 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District was as follows:

District's proportionate share of the collective net pension liability	\$ 23,041,967
State's proportionate share that is associated with the District	<u>36,779,755</u>
Total	<u>\$ 59,821,722</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 employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2017.

At August 31, 2017, the District's proportion of the collective net pension liability was 0.072063 percent, which was an increase of 0.0046015 percent from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation – There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2017, the District recognized pension expense of \$2,805,413 and revenue of \$2,805,413 for support provided by the State.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 337,114	\$ 1,242,623
Changes in actuarial assumptions	1,049,598	600,870
Difference between projected and actual investment earnings	-	1,679,248
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	6,865,499	1,320
Contributions paid to TRS subsequent to the measurement date	2,278,252	-
Total	\$ 10,530,463	\$ 3,524,061

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

Year Ended August 31:	Pension Expense
2019	\$ 821,945
2020	2,292,773
2021	708,932
2022	260,663
2023	486,448
Thereafter	157,389
Total	\$ 4,728,150

D. Defined Other Postemployment Benefit Plans

Plan Description

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

OPEB Plan Fiduciary Net Position

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

Components of the net OPEB liability of TRS-Care as of August 31, 2017 are as follows:

Total OPEB liability	\$ 43,885,784,621
Less: plan fiduciary net position	<u>399,535,986</u>
Net OPEB Liability	<u>\$ 43,486,248,635</u>
Net position as a percentage of total OPEB liability	0.92%

Benefits Provided

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

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits, TRS-Care 2 and TRS-Care 3 (the "Optional Health Insurance"). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least ten years of service credit in 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 and B coverage, with 20 to 29 years of service, for the Basic Plan and the two Optional Health Insurance plans:

TRS-Care Plan Premium Rates			
Effective September 1, 2016 - December 31, 2017			
	TRS-Care 1	TRS-Care 2	TRS-Care 3
	Basic Plan	Optional Plan	Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and spouse	\$ 20	\$ 175	\$ 255
Retiree and children	\$ 41	\$ 132	\$ 182
Retiree and family	\$ 61	\$ 237	\$ 337
Surviving children only	\$ 28	\$ 62	\$ 82

**or surviving spouse*

Contributions

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

Texas Insurance Code, section 1575.202 establishes the State's contribution rate, which is 1.00 percent of the employee's salary. Section 1575.203 establishes the active employee's rate, which is 0.65 percent of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to TRS-Care by type of contributor:

	Contribution Rates	
	Fiscal Year	
	2017	2018
Active employee	0.65%	0.65%
NECE	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private funding remitted by employers	1.00%	1.25%
Current fiscal year District contributions	\$	486,202
Current fiscal year member contributions	\$	199,419
2017 measurement year NECE contributions	\$	723,418

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

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

Actuarial Assumptions

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

- The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the TRS 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.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

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

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

Additional actuarial methods and assumptions are as follows:

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

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

** Includes inflation at 2.50%

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

Discount Rate

A single discount rate of 3.42 percent was used to measure the total OPEB liability. There was a change of 0.44 percent in the discount rate since the previous year. Because TRS-Care is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the BECE are made at the statutorily required rates. Based on those assumptions, TRS-Care's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

Sensitivity of the Net OPEB Liability

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

	1% Decrease in Discount Rate (2.42%)	Current Single Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate share of net OPEB liability	\$ 47,997,797	\$ 40,667,543	\$ 34,775,672

Healthcare Cost Trend Rates Sensitivity Analysis – The following presents the net OPEB liability of TRS-Care 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 one percent less than or one percent higher than the assumed healthcare cost trend rate:

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
District's proportionate share of net OPEB liability	\$ 33,859,792	\$ 40,667,543	\$ 49,600,170

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

At August 31, 2018, the District reported a liability of \$40,667,543 for its proportionate share of TRS-Care's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 40,667,543
State's proportionate share that is associated with the District	60,509,092
Total	\$ 101,176,635

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

At the August 31, 2017 measurement date, the District's proportion of the collective net OPEB liability was 0.093518168 percent, which was the same proportion measured as of August 31, 2016.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

Changes Since the Prior Actuarial Valuation

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

- 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.
- 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.
- The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered total OPEB liability.

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

- 2018 thresholds of \$850/\$2,292 were indexed annual by 2.50%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions, changes in economic or demographic assumptions, increases or decreases expected as part of the natural operation of the methodology used for these measurements, and changes in plan provision or applicable law.

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

For the year ended August 31, 2018, the District recognized OPEB expense of \$20,247,951 and revenue of \$20,247,951 for support provided by the State.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 848,966
Changes in actuarial assumptions	-	16,162,344
Differences between projected and actual investment earnings	6,178	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	187	-
Contributions paid to TRS subsequent to the measurement date	575,234	-
Total	<u>\$ 581,599</u>	<u>\$ 17,011,310</u>

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

Year Ended August 31,	Expense Amount
2019	\$ 2,243,822
2020	2,243,822
2021	2,243,822
2022	2,243,822
2023	2,245,366
Thereafter	5,784,291
	<u>\$ 17,004,945</u>

E. Employee Health Care Coverage

During the year ended August 31, 2018, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$275 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2018 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation Insurance

During the year ended August 31, 2018, employees of the District were covered by a workers' compensation plan (the "Plan"). The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreements.

The contract between the District and the third-party administrator, Creative Risk Funding (CRF), acting on behalf of the self-funded pool, is renewable on September 1 and terms, as well as costs of coverage, are included in the contractual provisions.

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

In accordance with State statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Safety National Casualty Corporation, a commercial insurer licensed or eligible to do business in the State of Texas in accordance with the Texas Insurance Code. The specific retention is \$350,000 and the aggregate limit is \$1,000,000. The aggregate stop-loss coverage is \$8,455,917. According to CRF, the unfunded claim benefit obligation included \$113,804 in claims that were unpaid and \$334,485 in estimated claims incurred, but not reported. Other school districts contributed to the self-funded pool which was operated under the contractual provisions of Article 4413(32c), Interlocal Cooperation Act.

The claim liability is based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims which have been incurred but not reported based on historical experience.

Changes in the claims liability for workers' compensation benefits for the current and prior fiscal year are summarized below:

	Fiscal Year	
	2018	2017
Claims liability at beginning of year	\$ 208,881	279,979
Current year claims and estimated changes	2,552,919	2,468,538
Claims payments	(2,647,996)	(2,539,636)
Claims liability at year end	<u>\$ 113,804</u>	<u>\$ 208,881</u>

G. Unemployment Compensation

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

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool.

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2018

H. Shared Services Arrangements

Conroe Regional Day School for the Deaf

The District participates in a shared services arrangement (SSA) for the disability condition of auditory impairment under authority of Section 29.007 of the Texas Education Code and Section 791.001 et seq., of the Texas Government Code as Conroe Regional Day School Program for the Deaf. The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, Conroe Regional Day School for the Deaf, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA and is reporting \$68,249 as expenditures incurred on behalf of the District.

I. Restatement of Net Position

Due to the implementation of GASB Standard 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the District restated its beginning government wide net position as follows:

	Governmental Activities
Beginning net position - as reported	\$ 50,752,714
Restatement - Net OPEB liability	(71,796,493)
Restatement - Deferred outflows - OPEB	486,202
Beginning net position - restated	<u>\$ (20,557,577)</u>

REQUIRED SUPPLEMENTARY INFORMATION

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND - EXHIBIT G-1

For the Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate sources	\$ 61,345,490	\$ 61,345,490	\$ 61,829,416	\$ 483,926
5800	State program revenues	39,971,485	40,771,485	41,722,545	951,060
5900	Federal program revenues	1,650,000	1,650,000	1,755,112	105,112
5020	Total Revenues	<u>102,966,975</u>	<u>103,766,975</u>	<u>105,307,073</u>	<u>1,540,098</u>
	Expenditures				
	Current:				
0011	Instruction	63,310,612	63,310,612	62,155,110	1,155,502
0012	Instructional resources and media services	989,326	989,326	968,406	20,920
0013	Curriculum and instructional staff development	940,350	970,350	920,001	50,349
0021	Instructional leadership	1,097,441	1,217,441	1,177,353	40,088
0023	School leadership	5,910,916	5,910,916	5,899,305	11,611
0031	Guidance, counseling, and evaluation services	3,180,353	3,315,353	3,310,782	4,571
0033	Health services	1,064,793	1,109,793	1,092,491	17,302
0034	Student (pupil) transportation	6,586,567	6,826,567	6,660,198	166,369
0036	Extracurricular activities	2,461,667	2,576,667	2,576,661	6
0041	General administration	3,468,350	3,468,350	3,398,055	70,295
0051	Plant maintenance and operations	10,710,938	10,710,938	10,699,383	11,555
0052	Security and monitoring services	674,500	674,500	666,711	7,789
0053	Data processing services	2,571,162	2,686,162	2,680,150	6,012
6030	Total Expenditures	<u>102,966,975</u>	<u>103,766,975</u>	<u>102,204,606</u>	<u>1,562,369</u>
1100	Excess of Revenues				
1100	Over Expenditures	-	-	3,102,467	3,102,467
	Other Financing Sources (Uses)				
8911	Transfers (out)	-	(2,300,000)	(2,300,000)	-
7080	Total Other Financing (Uses)	<u>-</u>	<u>(2,300,000)</u>	<u>(2,300,000)</u>	<u>-</u>
1200	Net Change in Fund Balance	-	(2,300,000)	802,467	3,102,467
0100	Beginning fund balance	-	-	29,637,619	(29,637,619)
3000	Ending Fund Balance	<u>\$ -</u>	<u>\$ (2,300,000)</u>	<u>\$ 30,440,086</u>	<u>\$ (26,535,152)</u>

Notes to Required Supplementary Information:

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE

OF THE NET PENSION LIABILITY

TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) EXHIBIT G-2

For the Year Ended August 31, 2018

	Measurement Year*			
	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0720633%	0.0674318%	0.0644642%	0.0381396%
District's proportionate share of the net pension liability (asset)	\$ 23,041,967	\$ 25,481,474	\$ 22,787,237	\$ 10,187,615
State's proportionate share of the net pension liability (asset) associated with the District	36,779,755	44,165,685	41,556,031	35,623,679
Total	<u>\$ 59,821,722</u>	<u>\$ 69,647,159</u>	<u>\$ 64,343,268</u>	<u>\$ 45,811,294</u>
District's covered employee payroll**	\$ 75,894,006	\$ 71,854,210	\$ 66,661,323	\$ 62,929,170
liability (asset) as a percentage of its covered employee payroll	30.36%	35.46%	34.18%	16.19%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

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

Notes to Required Supplementary Information:

Changes in Assumptions: There were no changes assumption that affected measurement or the total pension liability during the measurement period.

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

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF CONTRIBUTIONS

TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) EXHIBIT G-3

For the Year Ended August 31, 2018

	Fiscal Year*			
	2018	2017	2016	2015
Contractually required contribution	\$ 2,278,252	\$ 2,345,519	\$ 2,142,479	\$ 1,095,709
Contributions in relations to the contractually required contribution	2,278,252	2,345,519	2,142,479	1,095,709
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 75,558,224	\$ 75,894,006	\$ 71,854,210	\$ 66,661,323
Contributions as a percentage of covered employee payroll	3.02%	3.09%	2.98%	1.64%

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

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
TEXAS PUBLIC SCHOOL RETIRE EMPLOYEES GROUP INSURANCE PROGRAM
("TRS-CARE") EXHIBIT G-4
For the Year Ended August 31, 2018

	Measurement Year* <u>2017</u>
District's proportion of the collective net OPEB liability (asset)	0.0935182%
District's proportionate share of the collective net OPEB liability (asset)	\$ 40,667,543
State's proportionate share of the collective net OPEB liability (asset) associated with the District	60,509,092
Total	<u>\$ 101,176,635</u>
District's covered employee payroll**	\$ 75,894,006
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	53.58%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

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

Notes to Required Supplementary Information:

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

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

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF CONTRIBUTIONS
TEXAS PUBLIC SCHOOL RETIRE EMPLOYEES GROUP INSURANCE PROGRAM
("TRS-CARE") EXHIBIT G-5
For the Year Ended August 31, 2018

	<u>Fiscal Year*</u>
	<u>2018</u>
Statutorily required contributions	\$ 575,237
Contributions in relations to the statutorily required contributions	575,237
Contribution deficiency (excess)	<u>\$ -</u>
District's covered employee payroll	\$ 75,558,224
Contributions as a percentage of covered employee payroll	0.76%

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

***OTHER SUPPLEMENTARY
INFORMATION***

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-1

For the Year Ended August 31, 2018

		211	224	225	226
Data					
Control					
Codes					
		ESEA Title 1	IDEA B	IDEA B	IDEA B
		Part A	Formula	Preschool	Discretionary
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from other governments	-	-	-	-
1410	Prepaid items	-	-	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	<u>Liabilities</u>				
2170	Due to other funds	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>Fund Balances</u>				
	Nonspendable:				
3430	Prepaid items	-	-	-	-
	Restricted:				
3450	Federal/state funds grant restrictions	-	-	-	-
3490	Other restrictions of fund balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National School Breakfast and Lunch Program	244 Career and Technical Basic Grant	255 ESEA Title II Part A	263 Title III Part A English Language	289 Summer School LEP	385 State Supplemental Visually Impaired
\$ 1,226,097	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
3,475	-	-	-	-	-
<u>\$ 1,229,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-	-	-	-
-	-	-	-	-	-
3,475	-	-	-	-	-
1,226,097	-	-	-	-	-
-	-	-	-	-	-
<u>1,229,572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1,229,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-1

For the Year Ended August 31, 2018

		397	404	410	414
Data Control Codes		Advanced Placement Incentives	Student Success Initiative	State Textbook	Texas Reading Incentive
<u>Assets</u>					
1110	Cash and cash equivalents	\$ 9,900	\$ -	\$ 572,970	\$ 189
1240	Due from other governments	-	-	494,857	-
1410	Prepaid items	-	-	-	-
1000	Total Assets	<u>\$ 9,900</u>	<u>\$ -</u>	<u>\$ 1,067,827</u>	<u>\$ 189</u>
<u>Liabilities</u>					
2170	Due to other funds	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Fund Balances</u>					
Nonspendable:					
3430	Prepaid items	-	-	-	-
Restricted:					
3450	Federal/state funds grant restrictions	9,900	-	1,067,827	189
3490	Other restrictions of fund balance	-	-	-	-
3000	Total Fund Balances	<u>9,900</u>	<u>-</u>	<u>1,067,827</u>	<u>189</u>
4000	Total Liabilities and Fund Balances	<u>\$ 9,900</u>	<u>\$ -</u>	<u>\$ 1,067,827</u>	<u>\$ 189</u>

429	461	
Pre-K Activity	Campus Activity	Total Nonmajor Governmental Funds
\$ -	\$ 696,221	\$ 2,505,377
-	-	494,857
-	-	3,475
<u>\$ -</u>	<u>\$ 696,221</u>	<u>\$ 3,003,709</u>
-	239,549	239,549
-	239,549	239,549
-	-	3,475
-	-	2,304,013
-	456,672	456,672
-	456,672	2,764,160
<u>\$ -</u>	<u>\$ 696,221</u>	<u>\$ 3,003,709</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-2

For the Year Ended August 31, 2018

		211	224	225	392
Data					
Control					
Codes					
		ESEA Title 1	IDEA B	IDEA B	IDEA B
		Part A	Formula	Preschool	Discretionary
	Revenues				
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	1,862,852	1,757,355	31,679	48,133
5020	Total Revenues	<u>1,862,852</u>	<u>1,757,355</u>	<u>31,679</u>	<u>48,133</u>
	Expenditures				
	Current:				
0011	Instruction	1,862,852	1,443,032	31,679	48,133
0021	Instructional leadership	-	93,337	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	220,986	-	-
0035	Food services	-	-	-	-
0036	Extracurricular activities	-	-	-	-
6030	Total Expenditures	<u>1,862,852</u>	<u>1,757,355</u>	<u>31,679</u>	<u>48,133</u>
1200	Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
0100	Beginning fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National School Breakfast and Lunch Program	244 Career and Technical Basic Grant	255 ESEA Title II Part A	263 Title III Part A English Language	289 Summer School LEP	385 State Supplemental Visually Impaired
\$ 1,903,316	\$ -	\$ -	\$ -	\$ -	\$ -
28,669	-	-	-	-	7,000
3,704,309	112,827	309,510	166,656	537,318	-
5,636,294	112,827	309,510	166,656	537,318	7,000
-	112,827	309,510	166,656	537,318	7,000
-	-	-	-	-	-
-	-	-	-	-	-
5,436,065	-	-	-	-	-
-	-	-	-	-	-
5,436,065	112,827	309,510	166,656	537,318	7,000
200,229	-	-	-	-	-
1,029,343	-	-	-	-	-
\$ 1,229,572	\$ -	\$ -	\$ -	\$ -	\$ -

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-2

For the Year Ended August 31, 2018

		397	404	410	414
Data		Advanced	Student	State	Texas
Control		Placement	Success	Textbook	Reading
Codes		Incentives	Initiative		Incentive
Revenues					
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	7,790	-	615,682	-
5900	Federal program revenues	-	-	-	-
5020	Total Revenues	<u>7,790</u>	<u>-</u>	<u>615,682</u>	<u>-</u>
Expenditures					
Current:					
0011	Instruction	7,790	-	965,095	-
0021	Instructional leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	-	-
0035	Food services	-	-	-	-
0036	Extracurricular activities	-	-	-	-
6030	Total Expenditures	<u>7,790</u>	<u>-</u>	<u>965,095</u>	<u>-</u>
1200	Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>(349,413)</u>	<u>-</u>
0100	Beginning fund balances	<u>9,900</u>	<u>-</u>	<u>1,417,240</u>	<u>189</u>
3000	Ending Fund Balances	<u>\$ 9,900</u>	<u>\$ -</u>	<u>\$ 1,067,827</u>	<u>\$ 189</u>

429	461	
Pre-K Activity	Campus Activity	Total Nonmajor Governmental Funds
\$ -	\$ 1,330,813	\$ 3,234,129
1,400	-	660,541
-	-	8,530,639
1,400	1,330,813	12,425,309
1,400	-	5,493,292
-	-	93,337
-	-	220,986
-	-	5,436,065
	1,181,713	1,181,713
1,400	1,181,713	12,425,393
-	149,100	(84)
-	307,572	2,764,244
\$ -	\$ 456,672	\$ 2,764,160

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF NET POSITION

NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-3

August 31, 2018

Data Control Codes		748	798	876	879
		After-School Program	Aquatic Club	MISD Health Plan	Workers' Compensation Insurance
Assets:					
1110	Cash and cash equivalents	\$ 231,718	\$ 179,901	\$ 9,474	\$ 219,527
	Total Assets	<u>231,718</u>	<u>179,901</u>	<u>9,474</u>	<u>219,527</u>
Liabilities:					
Current liabilities:					
2200	Accrued expenses	-	-	-	113,804
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>113,804</u>
Net Position:					
3600	Unrestricted	231,718	179,901	9,474	105,723
4000	Total Net Position	<u>\$ 231,718</u>	<u>\$ 179,901</u>	<u>\$ 9,474</u>	<u>\$ 105,723</u>

Total Internal Service Funds	
\$	640,620
	640,620

	113,804
	113,804

	526,816
\$	526,816

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION
NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-4
For the Year Ended August 31, 2018

Data Control Codes		748 After-School Program	798 Aquatic Club	876 MISD Health Plan	879 Workers' Compensation Insurance
Operating Revenues:					
5700	Local and intermediate sources	\$ 714,941	\$ 602,018	\$ -	\$ 352,004
5020	Total Operating Revenues	<u>714,941</u>	<u>602,018</u>	<u>-</u>	<u>352,004</u>
Operating Expenses:					
6100	Payroll costs	731,277	308,709	-	-
6200	Professional and contracted services	-	21,610	-	251,604
6300	Supplies and materials	-	80,380	-	-
6400	Other operating costs	-	187,366	-	-
	Total Operating Expenses	<u>731,277</u>	<u>598,065</u>	<u>-</u>	<u>251,604</u>
1100	Operating Income (Loss)	(16,336)	3,953	-	100,400
Other Financing Sources (Uses):					
7915	Transfers in	200,000	-	-	-
8915	Transfers Out	(50,000)	-	-	-
	Total Other Financing Sources	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	Changes in Net Position	133,664	3,953	-	100,400
0100	Beginning net position	<u>98,054</u>	<u>175,948</u>	<u>9,474</u>	<u>5,323</u>
3000	Ending Net Position	<u>\$ 231,718</u>	<u>\$ 179,901</u>	<u>\$ 9,474</u>	<u>\$ 105,723</u>

**Total
Internal
Service Funds**

\$	1,668,963
	<u>1,668,963</u>

1,039,986
273,214
80,380
187,366
<u>1,580,946</u>

88,017

200,000
<u>(50,000)</u>
<u>150,000</u>

238,017

<u>288,799</u>

<u><u>\$</u></u>	<u>526,816</u>
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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF CASH FLOWS

NONMAJOR INTERNAL SERVICE FUNDS - EXHIBIT H-5

For the Year Ended August 31, 2018

	748	798	876	879
	After-School Program	Aquatic Club	MISD Health Plan	Workers' Compensation Insurance
<u>Cash Flows from Operating Activities</u>				
Cash received from customers	\$ 714,941	\$ 602,018	\$ -	\$ 352,004
Cash receipts (payments) for quasi-external operating transactions with other funds	-	-	-	(346,681)
Cash payments to employees for services	(731,277)	(308,709)	-	-
Cash payments to other suppliers for goods and services	-	(289,356)	-	-
Net Cash Provided (Used) by Operating Activities	<u>(16,336)</u>	<u>3,953</u>	<u>-</u>	<u>5,323</u>
<u>Cash Flows from Capital Financing Activities</u>				
Transfers to/from other funds	150,000	-	-	-
Net Cash Provided by capital Financing Activities	<u>150,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Increase in Cash and Equivalents	133,664	3,953	-	5,323
Beginning cash and cash equivalents	98,054	175,948	9,474	214,204
Ending Cash and Cash Equivalents	<u>\$ 231,718</u>	<u>\$ 179,901</u>	<u>\$ 9,474</u>	<u>\$ 219,527</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income	\$ 133,664	\$ 3,953	\$ -	\$ 100,400
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Transfers	(150,000)	-	-	-
Increase (Decrease) in:				
Accrued expenses	-	-	-	(95,077)
Net Cash Provided (Used) by Operating Activities	<u>\$ (16,336)</u>	<u>\$ 3,953</u>	<u>\$ -</u>	<u>\$ 5,323</u>

**Total
Internal
Service Funds**

\$ 1,668,963

(346,681)

(1,039,986)

(289,356)

(7,060)

150,000

150,000

142,940

497,680

\$ 640,620

\$ 238,017

(150,000)

(95,077)

\$ (7,060)

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT H-6

For the Year Ended August 31, 2018

Data Control Codes		865	899	Total Agency Funds
		Student Activity	Magnolia Livestock Show	
<u>Assets</u>				
1110	Cash and cash equivalents	\$ 636,134	\$ 52,109	\$ 688,243
1000	Total Assets	<u>\$ 636,134</u>	<u>\$ 52,109</u>	<u>\$ 688,243</u>
<u>Liabilities</u>				
Current liabilities:				
2190	Due to student groups	\$ 636,134	\$ 52,109	\$ 688,243
2000	Total Liabilities	<u>\$ 636,134</u>	<u>\$ 52,109</u>	<u>\$ 688,243</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1

For the Year Ended August 31, 2018

	1	2	3
	Tax Rates		Net Assessed/ Appraised Value For School Tax Purposes
Last Ten Years	Maintenance	Debt Service	
2009 and prior	Various	Various	Various
2010	\$ 1.0400	\$ 0.5590	\$ 3,488,756,540
2011	\$ 1.0400	\$ 0.3600	\$ 3,570,183,714
2012	\$ 1.0900	\$ 0.2900	\$ 3,669,168,292
2013	\$ 1.0400	\$ 0.3595	\$ 3,882,191,497
2014	\$ 1.0400	\$ 0.3595	\$ 4,127,425,795
2015	\$ 1.0400	\$ 0.3595	\$ 4,448,138,076
2016	\$ 1.0400	\$ 0.3595	\$ 5,136,608,436
2017	\$ 1.0400	\$ 0.3395	\$ 5,656,561,487
2018	\$ 1.0400	\$ 0.3395	\$ 6,002,349,971
1000 Totals			

10	20	31	32	40	50
Beginning Balance 9/1/17	Current Year's Total Levy	Maintenance Total Collected	Debt Service Total Collected	Entire Year's Adjustments	Ending Balance 8/31/18
\$ 304,536	\$ -	\$ 2,051	\$ 477	\$ 40,099	\$ 261,909
69,238	-	2,399	556	84	66,199
90,709	-	3,862	894	1,739	84,214
97,595	-	5,932	1,374	2,102	88,187
148,153	-	54,795	12,691	(54,668)	135,335
194,470	-	75,159	17,407	(65,925)	167,829
258,362	-	82,565	19,122	(43,700)	200,375
398,351	-	109,244	25,302	6,267	257,538
1,015,121	-	351,255	105,874	138,523	419,469
-	79,282,745	58,995,383	19,258,589	-	1,028,773
<u>\$ 2,576,535</u>	<u>\$ 79,282,745</u>	<u>\$ 59,682,645</u>	<u>\$ 19,442,286</u>	<u>\$ 24,521</u>	<u>\$ 2,709,828</u>

MAGNOLIA INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM - EXHIBIT J-2
For the Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts			Variance With Final Budget Positive (Negative)
		Original	Final	Actual	
	<u>Revenues</u>				
5700	Local and intermediate sources	\$ 2,075,497	\$ 2,075,497	\$ 1,903,316	\$ (172,181)
5800	State program revenues	45,897	45,897	28,669	(17,228)
5900	Federal program revenues	2,604,971	3,329,971	3,704,309	374,338
5020	Total Revenues	4,726,365	5,451,365	5,636,294	184,929
	<u>Expenditures</u>				
	Current:				
0035	Food services	4,726,365	5,451,365	5,436,065	15,300
6030	Total Expenditures	4,726,365	5,451,365	5,436,065	15,300
1200	Net Change in Fund Balance	-	-	200,229	200,229
0100	Beginning fund balance	1,029,343	1,029,343	1,029,343	-
3000	Ending Fund Balance	\$ 1,029,343	\$ 1,029,343	\$ 1,229,572	\$ 200,229

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND - EXHIBIT J-3

For the Year Ended August 31, 2018

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate sources	\$ 19,030,170	\$ 19,030,170	\$ 19,922,874	\$ 892,704
5800	State program revenues	344,293	344,293	344,298	5
5020	Total Revenues	19,374,463	19,374,463	20,267,172	892,709
	Expenditures				
	Debt service:				
0071	Principal on long-term debt	10,590,000	10,590,000	10,590,000	-
0072	Interest on long-term debt	8,774,463	8,774,463	8,774,462	1
0073	Bond issuance costs and fees	10,000	10,000	2,550	7,450
6030	Total Expenditures	19,374,463	19,374,463	19,367,012	7,451
1200	Net Change in Fund Balance	-	-	900,160	900,160
0100	Beginning fund balance	8,875,810	8,875,810	8,875,810	-
3000	Ending Fund Balance	\$ 8,875,810	\$ 8,875,810	\$ 9,775,970	\$ 900,160

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***FEDERAL AWARDS AND
COMPLIANCE SECTION***



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

January 10, 2019

To the Board of Trustees of
Magnolia Independent School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Magnolia Independent School District (the "District"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 10, 2018.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

January 10, 2019

To the Board of Trustees of the
Magnolia Independent School District:

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or 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.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

For the Year Ended August 31, 2018

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended August 31, 2018

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of the District.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs included as major programs are:

<u>CFDA Number(s)</u>	<u>Name of Federal Program Cluster</u>
84.010	Title I, Part A

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The District did qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None Noted

C. FINDINGS – FEDERAL AWARDS AUDIT

None Noted

MAGNOLIA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1

For the Year Ended August 31, 2018

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through State Department of Education</i>			
Title I, Part A	84.010	18610101170906	\$ 1,862,852
IDEA B, Formula Grant*	84.027	186600011709066000	1,757,355
IDEA B, Preschool*	84.173	186610011709066000	31,679
IDEA B, Discretionary*	84.027	66001806	48,133
Title III, Part A - ELA	84.365	18671001170906	166,656
Carl D. Perkins	84.048	18420006170906	112,827
Title II, Part A, Supporting Effective Instruction	84.367	18694501170906	309,510
Summer School LEP	84.369	69551202	9,497
Title IV, Part A	84.424	18680101170906	41,878
Hurricane Recovery	84.938G	18510701170906	18,489
Emergency Impact Aid	84.938C	51271901	467,454
TOTAL U.S. DEPARTMENT OF EDUCATION			4,826,330
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through State Department of Education</i>			
School Breakfast Programs	10.553	71401801	776,030
National School Lunch	10.555	71401801	2,546,374
USDA Commodities	10.565	3001401	381,904
TOTAL U.S. DEPARTMENT OF AGRICULTURE			3,704,308
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 8,530,638

* Indicates clustered program under OMB Compliance Supplement

The accompanying notes are an integral part of this schedule.

Federal Revenue per SEFA	\$ 8,530,638
Medicaid Reimbursement - General Fund	1,755,113
C-2 Federal Revenue	\$ 10,285,751

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2018

NOTE 1: BASIS OF ACCOUNTING

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

The District has elected not to use the ten percent De Minimis Indirect Cost Rate.

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MAGNOLIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED
SCHOOL FIRST INDICATORS - EXHIBIT L-1
For the Year Ended August 31, 2018

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any debt agreement at fiscal year?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the District make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other government agencies?	Yes
SF8	Did the 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 capital appreciation bonds included in the government-wide financial statements at fiscal year end?	\$ <u><u>-</u></u>
SF11	Net pension asset (1920) at fiscal year end	\$ <u><u>-</u></u>
SF12	Net pension liabilities (2540) at fiscal year end	\$ <u><u>23,041,967</u></u>

