

DeSoto Independent School District

Annual Financial Report

For the Fiscal Year Ended June 30, 2018

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DeSoto Independent School District
 Annual Financial Report
 For the Fiscal Year Ended June 30, 2018
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Certificate of Board

DeSoto Independent School District
Name of School District

Dallas
County

057-906
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 fiscal year ended June 30, 2018 at a meeting of the Board of Trustees of such school district on the 12th day of November, 2018.



Signature of Board Secretary



Signature of Board President

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Financial Section

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Independent Auditor's Report

To the Board of Trustees
DeSoto Independent School District
DeSoto, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of DeSoto Independent School District (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 June 30, 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

As discussed in Note 1.C. and Note 9 to the basic financial statements, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Beginning net position has been restated to reflect the change in accounting principle resulting from this statement. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary 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 supplementary information and Schedule of Required Responses to Selected School FIRST Indicators, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and is also not a required part of the basic financial statements.

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

The Board of Directors
DeSoto Independent School District

generally accepted in the United States of America. In our opinion, the supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Required Responses to Selected School FIRST Indicators has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2018 on our consideration of the District's internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 12, 2018

Management's Discussion and Analysis

As management of DeSoto Independent School District (the District), we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018. Please read this narrative in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements that begin on page 14.

Financial Highlights

- The District's total net position at June 30, 2018 was (\$70,078,126) (negative net position). Of this amount, (\$109,028,930), represents negative unrestricted net position.
- In The District's total net position increased by \$5,052,308 during the fiscal year prior to the restatement for the change in accounting principle.
- As of June 30, 2018, the District's governmental funds reported combined ending fund balances of \$18,516,837. Approximately 71% of this total amount, \$13,201,816, is unassigned and available for use within the District's fund balance policies.
- At the end of the current fiscal period, unassigned fund balance for the general fund was \$13,201,816 or 14% of the total general fund expenditures.

Overview of the Financial Statements

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 14 and 15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 29) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. The TEA required schedules and federal awards section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 14. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The statement of net position includes all the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the end of the period while the statement of activities includes all revenues and expenses generated by the District's operations during the period. These apply the accrual basis of accounting (the basis used by private sector companies).

All of the current period's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets and deferred outflows of resources are reported whether they serve the current year or future years. Liabilities and deferred inflows of resources are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and deferred outflows of resources; less liabilities and deferred inflows of resources) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

The government-wide financial statements of the District are primarily supported by taxes and intergovernmental revenues. The governmental activities of the District include: instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration.

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

Statement No. 75 establishes financial reporting standards and/or accounting standards for state and local government defined benefit OPEB plans and defined contribution OPEB plans. Statement No. 75 requires that, at transition, a government recognizes a beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The effects of the adoption of this statement has no impact on the District's governmental fund financial statements. However, adoption has resulted in certain changes to the presentation of the financial statements of the District's government-wide financial statements. More information on the adoption of this statement and the District's OPEB plan is available in Note 1. C. and Note 9, respectively.

Reporting the District's Most Significant Funds

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- Governmental funds – Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds – The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the statement of net position and the statement of activities. The internal service fund reports the District's self-insurance workers compensation program that provides services for the District's other programs and activities.
- Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of students and for a scholarship fund. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

Government-Wide Financial Analysis

The analysis below presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Negative net position of the District's governmental activities increased from (\$75,130,434) as restated, to (\$70,078,126). Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements, was (\$109,028,930) at June 30, 2018.

Table I
DeSoto Independent School District
Net Position

	Governmental Activities June 30, 2018	Governmental Activities June 30, 2017
Current and other assets	\$ 32,994,256	\$ 72,333,678
Capital assets, net	183,382,926	156,822,353
Total assets	216,377,182	229,156,031
Deferred outflows of resources	16,389,744	15,895,921
Long-term liabilities	271,152,096	245,479,468
Other liabilities	14,548,782	11,436,764
Total liabilities	285,700,878	256,916,232
Deferred inflows of resources	17,144,174	1,310,561
Net position		
Net investment in capital assets	37,981,783	(4,969,181)
Restricted	969,021	11,526,282
Unrestricted	(109,028,930)	(19,731,942)
Total net position	\$ (70,078,126)	\$ (13,174,841)

Table II
DeSoto Independent School District
Changes in Net Position

	Governmental Activities Year Ended June 30, 2018	Governmental Activities Year Ended June 30, 2017
Revenues		
Program revenues		
Charges for services	\$ 1,870,914	\$ 2,300,605
Operating grants and contributions	9,957,721	22,104,725
General revenues		
Maintenance and operations taxes	31,989,503	26,174,908
Debt service taxes	8,749,337	6,502,485
State aid	49,914,266	54,336,093
Grants and contributions not restricted	25,419	30,848
Investment earnings	500,462	91,540
Miscellaneous	225,464	563,900
Total revenues	103,233,086	112,105,104
Expenses		
Instruction, curriculum and media services	44,863,264	57,537,907
Instructional and school leadership	7,684,305	10,230,476
Student support services	7,039,559	7,770,525
Child nutrition	6,958,196	6,186,469
Extracurricular activities	3,034,528	3,420,291
General administration	4,077,332	4,756,603
Plant maintenance, security, and data processing	11,649,689	11,455,106
Community services	2,233,151	771,977
Debt service	10,450,864	9,189,636
Facilities acquisition and construction	47,431	242,270
Juvenile Justice Alternative Education Program	9,612	32,754
Other intergovernmental charges	132,847	128,761
Total expenses	98,180,778	111,722,775
Increase (decrease) in net position	5,052,308	382,329
Net position at beginning of year before restatement	(15,696,710)	(13,557,170)
Change in accounting principle	(59,433,724)	-
Net position at end of year	\$ (70,078,126)	\$ (13,174,841)

The District showed a decrease in revenue of -7.9%. State Foundation revenue decreased due to enrollment and the effect of higher maintenance and operations tax collections on the State funding formula. Operating grants and contributions decreased due to the reduction of OPEB expense related to recording the State's on-behalf contribution.

- Average daily attendance decreased by 165 students or 1.8%.
- The District's General Fund expenditures increased \$4.2 million due primarily to an increase in capital project expenditures related to the energy upgrade initiative financed through maintenance tax notes.
- The District's maintenance and operations (M&O) tax rate remained the same at \$1.17 per \$100 valuation. The District's debt service tax rate (I&S) increased from \$0.29 per \$100 valuation to \$0.32 per \$100 valuation.

The cost of all governmental activities for the current fiscal period was \$98,180,778. However, as shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$40,738,840 because some of the costs were paid by those who directly benefited from the programs (\$1,870,914) or by other governments and organizations that subsidized certain programs with grants and contributions (\$9,957,721) or by State equalization funding (\$49,914,266).

The District's Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$18,516,837, which is \$36,199,314 less than last year's total of \$54,716,151. Included in this period's total change in fund balance is a decrease of -\$5,391,145 in the District's general fund and a decrease of -\$3,409,794 in the District's debt service fund. The capital projects fund decreased -\$27,212,592 due to construction payments on the new elementary school.

The District amends the budget as needed throughout the year. The final budgeted expenditures increased by \$6,813,706 primarily due to facilities acquisition and construction in the current year.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2018, the District had \$183,382,926 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$26,359,736, or 16.8%, more than the prior year.

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

Debt Administration

At June 30, 2018, the District had \$217,648,878 in long-term debt outstanding (including accreted interest on capital appreciation bonds) versus \$222,539,539 last year – a decrease of \$4,890,661.

More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The District's maintenance and operations tax rate will remain at \$1.17 per \$100 of taxable valuation, and the debt service tax rate will remain at \$0.32 per \$100 of taxable valuation.

The District expects a 2.58% increase in average daily attendance during the 2018-2019 school year. Property values are expected to increase 11.32%.

The District's general fund original budget has budgeted expenditures to decrease \$2 million due to lower facilities acquisition and construction costs offset by increased staffing levels.

The District's general fund original budget has budgeted revenues \$1,662,800 in excess of budgeted expenditures.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at DeSoto Independent School District, 200 East Beltline Road, DeSoto, Texas 75115; (972) 223-6666.

Basic Financial Statements

DeSoto Independent School District
Statement of Net Position
June 30, 2018

Exhibit A-1

<u>Data Control Codes</u>		<u>Primary Governmental Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 13,243,826
1120	Investments	2,498,075
1220	Property taxes receivable (delinquent)	1,686,116
1230	Allowance for uncollectible taxes	(614,434)
1240	Due from other governments	16,025,395
1250	Accrued interest	3,553
1290	Other receivables, net	136,757
1300	Inventories	14,968
	Capital assets	
1510	Land	8,174,624
1520	Buildings, net	141,187,584
1530	Furniture and equipment, net	4,630,026
1580	Construction in progress	29,390,692
1000	Total assets	<u>216,377,182</u>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred loss on bond refundings	7,115,131
1705	Deferred outflows of resources - pensions	8,839,092
1706	Deferred outflows of resources - OPEB	435,521
1700	Total deferred outflows of resources	<u>16,389,744</u>
LIABILITIES		
2110	Accounts payable	3,418,633
2140	Accrued interest payable	1,497,035
2150	Payroll deductions and withholdings	1,418,747
2160	Accrued wages payable	7,737,747
2180	Due to other governments	338,469
2300	Unearned revenue	138,151
	Noncurrent liabilities	
2501	Due within one year	11,278,182
2502	Due in more than one year	206,516,750
2540	Net pension liability (District's share)	19,502,787
2545	Net OPEB liability (District's share)	33,854,377
2000	Total liabilities	<u>285,700,878</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows of resources - pensions	2,982,824
2606	Deferred inflows of resources - OPEB	14,161,350
2600	Total deferred inflows of resources	<u>17,144,174</u>
NET POSITION		
3200	Net investment in capital assets	37,981,783
3820	Restricted for federal and state programs	969,021
3900	Unrestricted	(109,028,930)
3000	TOTAL NET POSITION	<u>\$ (70,078,126)</u>

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

DeSoto Independent School District
Statement of Activities
For the Year Ended June 30, 2018

Exhibit B-1

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 Governmental Activities
PRIMARY GOVERNMENT					
Governmental activities					
11	Instruction	\$ 42,782,756	\$ 312,361	\$ 201,873	\$ (42,268,522)
12	Instructional resources and media	638,327	-	(72,124)	(710,451)
13	Curriculum and staff development	1,442,181	-	419,289	(1,022,892)
21	Instructional leadership	2,910,954	-	1,939,027	(971,927)
23	School leadership	4,773,351	-	(544,786)	(5,318,137)
31	Guidance, counseling and evaluation	3,152,196	-	471,149	(2,681,047)
32	Social work services	516,094	-	63,191	(452,903)
33	Health services	736,397	-	(88,936)	(825,333)
34	Student transportation	2,634,872	-	(239,277)	(2,874,149)
35	Food services	6,958,196	1,110,479	5,687,202	(160,515)
36	Cocurricular/extracurricular activities	3,034,528	339,738	369,932	(2,324,858)
41	General administration	4,077,332	-	(390,235)	(4,467,567)
51	Plant maintenance and operations	8,031,624	108,336	(798,359)	(8,721,647)
52	Security and monitoring services	794,953	-	(64,817)	(859,770)
53	Data processing services	2,823,112	-	(253,490)	(3,076,602)
61	Community services	2,233,151	-	1,578,601	(654,550)
72	Debt service - interest on long term debt	10,448,464	-	2,130,882	(8,317,582)
73	Debt service - bond issuance cost and fees	2,400	-	-	(2,400)
81	Facilities acquisition and construction	47,431	-	-	(47,431)
Payments to Juvenile Justice					
95	Alternative Education Program	9,612	-	-	(9,612)
99	Other intergovernmental charges	132,847	-	(451,401)	(584,248)
TP	TOTAL PRIMARY GOVERNMENT	\$ 98,180,778	\$ 1,870,914	\$ 9,957,721	\$ (86,352,143)
General revenues					
Taxes					
MT	Property taxes, levied for general purposes				\$ 31,989,503
DT	Property taxes, levied for debt service				8,749,337
SF	State aid - formula grants				49,914,266
GC	Grants and contributions not restricted				25,419
IE	Investment earnings				500,462
MI	Miscellaneous local and intermediate revenue				225,464
TR	Total general revenues				91,404,451
CN	Change in net position				5,052,308
NB	Net position (deficit) - beginning				(15,696,710)
PA	Prior period adjustment - (Note 15)				(59,433,724)
	Net position (deficit) - beginning, as restated				(75,130,434)
NE	NET POSITION (DEFICIT) - ENDING				\$ (70,078,126)

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

DeSoto Independent School District

Balance Sheet

Governmental Funds

June 30, 2018

Data Control Codes		10 General Fund	50 Debt Service Fund
	ASSETS		
1110	Cash and cash equivalents	\$ 6,987,210	\$ 1,736,651
1150	Investments	-	2,498,075
1220	Property taxes - delinquent	1,302,621	383,495
1230	Allowance for uncollectible taxes (credit)	(450,230)	(164,204)
1240	Due from other governments	12,612,732	1,188
1250	Accrued interest	1,312	-
1260	Due from other funds	2,932,553	-
1290	Other receivables	62,738	-
1300	Inventories	14,968	-
1000	Total assets	\$ 23,463,904	\$ 4,455,205
	LIABILITIES		
2110	Accounts payable	\$ 315,340	\$ 2,748
2150	Payroll deductions and withholdings payable	1,418,747	-
2160	Accrued wages payable	7,110,009	-
2170	Due to other funds	227,213	-
2180	Due to other governments	38,588	288,028
2300	Unearned revenues	-	-
2000	Total liabilities	9,109,897	290,776
	DEFERRED INFLOWS OF RESOURCES		
2601	Unavailable revenue	1,137,223	183,278
2600	Total deferred inflows of resources	1,137,223	183,278
	FUND BALANCES		
	Nonspendable		
3410	Inventories	14,968	-
	Restricted		
3450	Federal or state funds grant restriction	-	-
3470	Capital acquisition and contractual obligation	-	-
3480	Retirement of long-term debt	-	3,981,151
	Committed		
3545	Other committed fund balance	-	-
3600	Unassigned	13,201,816	-
3000	Total fund balances	13,216,784	3,981,151
4000	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 23,463,904	\$ 4,455,205

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

60 Capital Projects	Total Nonmajor Funds	Total Governmental Funds
\$ 2,705,998	\$ 1,615,828	\$ 13,045,687
-	-	2,498,075
-	-	1,686,116
-	-	(614,434)
-	3,411,475	16,025,395
-	2,241	3,553
226,381	832	3,159,766
-	74,019	136,757
-	-	14,968
<u>\$ 2,932,379</u>	<u>\$ 5,104,395</u>	<u>\$ 35,955,883</u>
\$ 2,896,904	\$ 110,673	\$ 3,325,665
-	-	1,418,747
-	627,738	7,737,747
-	2,932,553	3,159,766
-	11,853	338,469
-	138,151	138,151
<u>2,896,904</u>	<u>3,820,968</u>	<u>16,118,545</u>
-	-	1,320,501
-	-	1,320,501
-	-	14,968
-	969,021	969,021
35,475	-	35,475
-	-	3,981,151
-	314,406	314,406
-	-	13,201,816
<u>35,475</u>	<u>1,283,427</u>	<u>18,516,837</u>
<u>\$ 2,932,379</u>	<u>\$ 5,104,395</u>	<u>\$ 35,955,883</u>

DeSoto Independent School District**Exhibit C-2**

Reconciliation of the Governmental Funds Balance Sheet to the
Statement of Net Position
June 30, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 18,516,837
The District uses an internal service fund to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	105,171
Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund financial statements.	274,065,278
Accumulated depreciation is not reported in the fund financial statements.	(90,682,352)
Bonds and notes payable are not reported in the fund financial statements.	(140,463,808)
Accreted interest payable on capital appreciation bonds is not reported in the fund financial statements.	(68,572,673)
Property tax revenue recorded as unavailable revenue in the fund financial statements was recognized as revenue in the government-wide financial statements.	1,320,501
Interest on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(1,497,035)
Bond premiums are not recognized in the fund financial statements.	(8,612,397)
Compensated absences are not recognized in the fund financial statements.	(146,054)
Deferred charges on bond refundings are not recognized in the fund financial statements.	7,115,131
Included in the items related to government-wide long-term debt is the recognition of the District's proportionate share of the net pension liability in the amount of \$19,502,787, deferred inflows of resources related to TRS in the amount of \$2,982,824, and deferred outflows of resources related to TRS in the amount of \$8,839,092. This results in a net decrease in net position.	(13,646,519)
Included in the items related to debt is the recognition of the District's proportionate share of the TRS-Care net OPEB liability (\$33,854,377) and a deferred inflow of resources (\$14,161,350) and a deferred outflow of resources (\$435,521). This results in a net decrease in net position.	(47,580,206)
TOTAL NET POSITION (DEFICIT) - GOVERNMENTAL ACTIVITIES	<u>\$ (70,078,126)</u>

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

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DeSoto Independent School District

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Fiscal Year Ended June 30, 2018

<u>Data Control Codes</u>		<u>10 General Fund</u>	<u>50 Debt Service Fund</u>
REVENUES			
5700	Total local and intermediate sources	\$ 32,982,974	\$ 8,833,647
5800	State program revenues	53,657,881	2,182,865
5900	Federal program revenues	831,659	-
5020	Total revenues	<u>87,472,514</u>	<u>11,016,512</u>
EXPENDITURES			
Current			
0011	Instruction	49,513,199	-
0012	Instructional resources and media services	755,401	-
0013	Curriculum and instructional staff development	1,077,484	-
0021	Instructional leadership	2,489,260	-
0023	School leadership	5,868,742	-
0031	Guidance, counseling and evaluation services	3,609,519	-
0032	Social work services	343,245	-
0033	Health services	931,487	-
0034	Student (pupil) transportation	2,506,104	-
0035	Food services	56,240	-
0036	Extracurricular activities	2,829,335	-
0041	General administration	4,626,489	-
0051	Facilities maintenance and operations	8,361,748	-
0052	Security and monitoring services	678,872	-
0053	Data processing services	2,682,435	-
0061	Community Services	1,261,826	-
Debt service			
0071	Principal on long term debt	460,000	10,500,000
0072	Interest on long term debt	84,450	3,923,906
0073	Bond issuance cost and fees	-	2,400
Capital outlay			
0081	Facilities acquisition and construction	4,585,364	-
Intergovernmental:			
0095	Payments to Juvenile Justice Alternative Education Program	9,612	-
0099	Other intergovernmental charges	132,847	-
6030	Total expenditures	<u>92,863,659</u>	<u>14,426,306</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>(5,391,145)</u>	<u>(3,409,794)</u>
1200	Net change in fund balances	(5,391,145)	(3,409,794)
100	Fund balance - beginning	<u>18,607,929</u>	<u>7,390,945</u>
3000	FUND BALANCE - ENDING	<u><u>\$ 13,216,784</u></u>	<u><u>\$ 3,981,151</u></u>

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

60 Capital Projects	Total Nonmajor Funds	Total Governmental Funds
\$ 238,508	\$ 1,905,629	\$ 43,960,758
-	1,132,168	56,972,914
-	15,092,630	15,924,289
<u>238,508</u>	<u>18,130,427</u>	<u>116,857,961</u>
-	5,164,195	54,677,394
-	-	755,401
-	522,164	1,599,648
-	2,176,695	4,665,955
-	15,547	5,884,289
-	829,317	4,438,836
88,417	95,963	527,625
-	-	931,487
-	-	2,506,104
-	7,040,955	7,097,195
-	718,184	3,547,519
200	51,491	4,678,180
-	-	8,361,748
-	-	678,872
-	2,622	2,685,057
-	1,699,077	2,960,903
-	-	10,960,000
-	-	4,008,356
-	-	2,400
27,362,483	-	31,947,847
-	-	9,612
-	-	132,847
<u>27,451,100</u>	<u>18,316,210</u>	<u>153,057,275</u>
<u>(27,212,592)</u>	<u>(185,783)</u>	<u>(36,199,314)</u>
(27,212,592)	(185,783)	(36,199,314)
27,248,067	1,469,210	54,716,151
<u>\$ 35,475</u>	<u>\$ 1,283,427</u>	<u>\$ 18,516,837</u>

DeSoto Independent School District

Exhibit C-4

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities For the Fiscal Year Ended June 30, 2018

TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	\$ (36,199,314)
The District uses an internal service fund to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income of the internal service fund is reported with governmental activities. The net effect of this consolidation is to decrease net position.	(117,443)
Current year capital outlays are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The effect of reclassifying the current year capital asset additions increases government-wide net position.	32,676,987
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position in the government-wide financial statements.	(6,317,251)
Current year long-term debt principal payments on bonds payable, maintenance tax notes payable and payments of accreted interest on capital appreciation bonds are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	10,960,000
Current year interest accretion on capital appreciation bonds payable is not recorded in the fund financial statements, but is shown as an increase in accreted interest payable in the government-wide financial statements.	(6,612,480)
Interest expense on outstanding debt is accrued in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due. This amount represents the current year decrease in interest payable.	41,499
Revenues from property taxes are not recognized in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed net of an allowance for uncollectible accounts in the government-wide financial statements.	149,658
Current year amortization of the premium/discount on bonds payable is not recorded in fund financial statements, but is shown as a decrease in long-term debt in the government-wide financial statements.	543,141
Current year amortization of the deferred charges on bond refundings is not recognized in the fund financial statements, but is shown as a decrease in deferred outflows of resources in the government-wide financial statements.	(412,268)

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

DeSoto Independent School District

Reconciliation of the Governmental Funds Statement of Revenues,
Expenditures, and Changes in Fund Balances to the
Statement of Activities – Continued
For the Fiscal Year Ended June 30, 2018

<p>The increase in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.</p>	<p>\$ (146,054)</p>
<p>The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of an increase in deferred outflows (\$339,601); increase in deferred inflows (\$1,850,106); and decrease in net pension liability (\$142,820).</p>	<p>(1,367,685)</p>
<p>The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of an increase in deferred outflows (\$101,052); increase in deferred inflows (\$14,161,350); and decrease in net OPEB liability (\$25,913,816).</p>	<p>11,853,518</p>
<p>CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES</p>	<p><u>\$ 5,052,308</u></p>

DeSoto Independent School District
Statement of Net Position
Proprietary Funds
June 30, 2018

Exhibit D-1

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 198,139
	<hr/>
Total assets	198,139
LIABILITIES	
Current liabilities	
Accounts payable	92,968
	<hr/>
Total liabilities	92,968
NET POSITION	
Unrestricted net position	105,171
	<hr/>
TOTAL NET POSITION	<u>\$ 105,171</u>

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

DeSoto Independent School District

Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

Exhibit D-2

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
OPERATING REVENUES □	
Local and intermediate sources	\$ 457,040
Total operating revenues	457,040
OPERATING EXPENSES	
Other operating costs	574,483
Total operating expenses	574,483
Operating loss	(117,443)
Net position - beginning	222,614
NET POSITION - ENDING	<u>\$ 105,171</u>

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

DeSoto Independent School District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

Exhibit D-3

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from other funds	\$ 457,040
Cash payments for insurance claims and costs	(508,353)
	<hr/>
Net cash used in operating activities	(51,313)
	<hr/>
Net decrease in cash and cash equivalents	(51,313)
Cash and cash equivalents at beginning of year	249,452
	<hr/>
Cash and cash equivalents at end of year	\$ 198,139
	<hr/> <hr/>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES	
Operating loss	\$ (117,443)
Effect of increases and decreases in current assets and liabilities	
Increase (decrease) in accounts payable	66,130
	<hr/>
NET CASH USED IN OPERATING ACTIVITIES	\$ (51,313)
	<hr/> <hr/>

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

DeSoto Independent School District
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

Exhibit E-1

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 34,896	\$ 97,322
Other receivables	-	19,246
	<u>34,896</u>	<u>116,568</u>
TOTAL ASSETS	34,896	<u>\$ 116,568</u>
LIABILITIES		
Accounts payable	-	\$ 50
Due to student groups	-	116,518
	<u>-</u>	<u>116,568</u>
TOTAL LIABILITIES	-	<u>\$ 116,568</u>
NET POSITION		
Unrestricted net position	<u>34,896</u>	
TOTAL NET POSITION	<u>\$ 34,896</u>	

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

DeSoto Independent School District
Statement of Changes in Fiduciary Fund Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2018

Exhibit E-2

	Private Purpose Trust Fund
ADDITIONS	
Local and intermediate sources	<u>\$ 357</u>
Total additions	357
DEDUCTIONS	
Operating costs	<u>1,800</u>
Total deductions	<u>1,800</u>
Change in net position	(1,443)
Net position - beginning	<u>36,339</u>
NET POSITION - ENDING	<u><u>\$ 34,896</u></u>

DeSoto Independent School District

Notes to the Basic Financial Statements

Note 1. Summary of Significant Accounting Policies

DeSoto Independent School District's (the District) combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. Reporting Entity

The Board of Trustees (the Board), a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (the Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental reporting entity and has no component units.

B. Basis of Presentation

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. Internal service fund activity has been eliminated to avoid overstating revenues and expenses. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities include programs primarily supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given program and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

DeSoto Independent School District

Notes to the Basic Financial Statements

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** – This fund is the District's primary operating fund. It is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.
2. **Debt Service Fund** – This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused debt service fund balances are transferred to the general fund after all of the related debt obligations have been met.
3. **Capital Projects Fund** – This fund is established to account for proceeds from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the debt service fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** – These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Internal Service Fund** – The District utilizes an internal service fund to account for revenues and expenses related to services provided to parties inside the District on a cost-reimbursement basis. This fund facilitates distribution of support costs to the users of support services. The District has an internal service fund for its self-insured workers compensation plan.

The internal service fund is a proprietary fund type. Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary fund includes the cost of personal and contractual services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

3. **Private Purpose Trust Fund** – The District accounts for donations which have the stipulation that the funds be used for a specific purpose in this fund. The District's private purpose trust fund is a scholarship fund. These funds are not budgeted.
4. **Agency Funds** – These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. If any unused resources are declared surplus by the student groups, they are transferred to the general fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

DeSoto Independent School District
Notes to the Basic Financial Statements

C. New Accounting Standards Adopted

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

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions that are administered through trusts or equivalent arrangements, and to the financial statements of state and local government in which the non-employer contributing entity (State) and District have a legal obligation to make contributions directly to such OPEB plan. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to the OPEB plan. Note disclosure and RSI requirements about the OPEB plan also are addressed. The adoption of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. The calculation of OPEB contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2018 government-wide financial statements to reflect the reporting of net OPEB liability and deferred inflows of resources and deferred outflows of resources for its qualified OPEB plan and the recognition of OPEB expense in accordance with the provisions of the Statement. Net position as of July 1, 2017 was decreased by \$59,433,724 to reflect the cumulative effect of adoption. An aggregate net OPEB liability of \$59,768,193 offset by aggregate deferred outflows of resources of \$334,469 at June 30, 2017 were reported as a prior period adjustment to the net position on July 1, 2017. Refer to Note 9 for more information regarding the District's OPEB plan.

D. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

DeSoto Independent School District

Notes to the Basic Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers revenues to be available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as unearned revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by the Agency's *Financial Accountability System Resource Guide*.

E. Budgetary Control

Formal budgetary accounting is employed for all required governmental funds and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to June 20 of the preceding fiscal year for the subsequent fiscal period beginning September 1. The budget is formally adopted by the Board at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the Board unless the intent is to cross fund, function, or increase the overall budget allocations. Control of appropriations by the Board is maintained within funds at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund, and the food service fund. The other special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting. The budget is amended throughout the year by the Board. Such amendments are reflected in the official minutes of the Board.

DeSoto Independent School District
Notes to the Basic Financial Statements

A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

Appropriated budget funds - food service special revenue fund	\$ 966,741
Nonappropriated budget funds	<u>316,686</u>
All special revenue funds	<u><u>\$ 1,283,427</u></u>

F. Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

G. Inventories

The consumption method is used to account for inventories of paper and other supplies. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed.

H. Interfund Transactions

Short-term amounts owed between funds are classified as Due from and due to other funds. Interfund transfers arise from the need to move cash.

I. Capital Assets

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental activities columns in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at the acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Furniture and equipment	10 - 30 years

DeSoto Independent School District

Notes to the Basic Financial Statements

J. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Payment for unused vacation leave days accumulated locally will be made upon retirement or separation from the District. All vacation pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The District does not have a liability for unpaid sick leave at year end because the District's policy does not allow payment for unused sick leave not taken upon retirement or termination.

K. Cash and Cash Equivalents

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

L. Investments

Investments for the District are reported at fair value (generally based on quoted market prices) except for the position in investment pools. In accordance with state law, the pools operate in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended. Accordingly, the pools qualify as a 2a7-like pool and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. The pools are subject to regulatory oversight by the State Treasurer, although it is not registered with the SEC.

M. Net Position

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, less both accumulated depreciation and the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, excluding unspent proceeds. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

N. 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 recorded and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

DeSoto Independent School District
Notes to the Basic Financial Statements

O. 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; injuries to employees; and natural disasters. During fiscal 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

P. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Q. Pensions

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

R. Other Post-Employment Benefits

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

DeSoto Independent School District
Notes to the Basic Financial Statements

5. Deferred Outflows/Inflows of Resources

A deferred outflow of resources is a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. The District has two items that qualify for reporting in this category:

- 1. Deferred Outflows of Resources for Refunding Bonds** – reported in the government-wide statement of net position, deferred charges on refundings result from the difference in the carrying amount 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.
- 2. Deferred Outflows of Resources for Pension** – reported in the government-wide statement of net position, the deferred outflows from the pension plan result from differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, differences between expected and actual economic experiences, changes in the District's proportional share of pension liabilities, and the District's contributions subsequent to the measurement date. The differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The remaining pension related deferred outflows of resources will be amortized over the expected remaining lives of all employees that are provided with pensions through the pension plan.
- 3. Deferred Outflows of Resources For OPEB** – reported in the government-wide statement of net position, the deferred outflows from the OPEB plan result from differences between projected and actual earnings on pension plan investments, changes in actuarial assumptions, differences between expected and actual economic experiences, changes in the District's proportional share of OPEB liabilities, and the District's contributions subsequent to the measurement date. The differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The District's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The remaining pension related deferred outflows of resources will be amortized over the expected remaining lives of all employees that are provided with OPEB through TRS Care.

DeSoto Independent School District

Notes to the Basic Financial Statements

A deferred inflow of resources is an acquisition of net position that applies to a future period(s). The District has three items that qualify for reporting in this category:

1. **Deferred Inflows of Resources for Unavailable Revenue** – reported in the governmental funds balance sheet, unavailable revenue from property taxes arises from the modified accrual basis of accounting. The amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
2. **Deferred Inflows of Resources for Pension** – reported in the government-wide statement of net position, the deferred inflows from the pension plan result from changes in actuarial assumptions, differences between expected and actual economic experiences, and changes in the District's proportional share of pension liabilities. The pension related deferred inflows of resources will be amortized over the expected remaining lives of all employees that are provided with pensions through the pension plan.
3. **Deferred Inflows of Resources for OPEB** – reported in the government-wide statement of net position, the deferred inflows from the OPEB plan result from changes in actuarial assumptions, differences between expected and actual economic experiences, and changes in the District's proportional share of OPEB liabilities. The pension related deferred inflows of resources will be amortized over the expected remaining lives of all employees that are provided with OPEB through TRS Care.

Note 2. Fund Balances

In the fund financial statements, the governmental funds present fund balance as follows:

- **Nonspendable.** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified inventories as being nonspendable as these items are not expected to be converted to cash.
- **Restricted.** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committee.** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board has committed resources for campus activity funds.
- **Assigned.** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board or through the Board delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board may assign amounts for specific purposes. The District did not have any assigned fund balances as of June 30, 2018.
- **Unassigned.** This classification is the fund equity that is available for any legal purpose. The general fund is the only fund that will have a positive unassigned amount.

DeSoto Independent School District

Notes to the Basic Financial Statements

The order of spending and availability of fund balances is to reduce funds in the following order: restricted, committed, assigned, and finally unassigned funds

Note 3. Deposits and Investments

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

Cash Deposits

At June 30, 2018, the carrying amount of the District's deposit checking accounts and interest bearing demand accounts was \$5,439,323 and the bank balance was \$6,715,808. The District's cash deposits at June 30, 2018 and during the year ended June 30, 2018 were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- Depository: Comerica Bank.
- The market value of securities pledged as of the date of the highest combined balance on deposit was \$8,558,708.
- The highest combined balances of cash amounted to \$6,715,807 and occurred on June 30, 2018.
- Total amount of FDIC coverage at the time of the highest combined balance was \$250,000.

Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

DeSoto Independent School District
Notes to the Basic Financial Statements

For fiscal year 2018, the District is invested in the following:

	Fair Value Measurements Using			Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)			
Investments measured at Net asset value	Balance at June 30, 2018					
Texas Class	\$ 4,525,758	\$ -	\$ -	44%	50 days	AAA/AAAm
TexasTERM	2,528,398	-	-	24%	35 days	AAA/AAAm
TexStar	815,653	-	-	8%	46 days	AAA/AAAm
Investments by fair value level						
U.S. Government Agency Securities						
Federal Home Loan Mortgage Corp.	2,498,075	2,498,075	-	24%	27 days	NR
Total value	\$ 10,367,884	\$ 2,498,075	\$ -			

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

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

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

The District's investments in investment pools that are measured at net asset value are exempt from fair value reporting. All other investments are measured at fair value.

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the Act), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

DeSoto Independent School District

Notes to the Basic Financial Statements

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) was created as an investment pool for its participants pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. The Texas CLASS Trust Agreement (Trust) is an agreement of indefinite term regarding the investment, reinvestment and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate (the Participants), MBIA Municipal Investors Service Corporation as Program Administrator (the Program Administrator) and Wells Fargo Bank Texas, NA as Custodian (the Custodian). Texas CLASS is supervised by a Board of Trustees who are elected by the Participants. The Board of Trustees supervises the Trust and its affairs and acts as the liaison between the Participants, the Custodian, and the Program Administrator. The Board administers the affairs of the Trust. It also selects the consultants for Texas CLASS, including the Program Administrator and the Custodian.

The Board of Trustees has appointed an Advisory Board composed of Participants and other persons who do not have a business relationship with the Trust and are qualified to advise the Trust. The Advisory Board provides advice to the Board of Trustees and the Program Administrator about the investment policy and investment strategy of the Trust and about other matters as requested by the Board of Trustees and the Program Administrator. The Fund is rated AAA by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's.

Texas Short Term Asset Reserve Program (TexSTAR) is administered by J.P. Morgan Investment Management Inc. (JPMIM) and Hilltop Securities Inc. (HTS) under an agreement with the TexSTAR board of directors. JPMIM provides investment management services, and FirstSouthwest, a division of HTS, provides participant services and marketing. The fund is rated AAAM by Standard and Poor's Rating Service.

TexasTERM Local Government Investment Pool (TexasTERM) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (PFIA). TexasTERM offers a series of professionally managed portfolios that are available to municipalities, counties, school districts, special districts and other governmental entities in the State of Texas. An Advisory Board is responsible for the overall management of TexasTERM. With respect to TexasTERM, the Advisory Board's responsibilities include the formulation and implementation of its investment and operating policies. TexasTERM complies with statutory investment restrictions for Texas local governments as provided in the PFIA. The Investment Advisor and Administrator for TexasTERM is PFM Asset Management LLC.

DeSoto Independent School District
Notes to the Basic Financial Statements

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of net position	
Cash and cash equivalents	\$ 13,243,826
Fiduciary funds	
Cash and cash equivalents	132,218
Total cash and cash equivalents	<u><u>\$ 13,376,044</u></u>
Cash on hand	\$ 11,787
Deposits with financial institutions	5,439,323
Cash equivalents	7,924,934
Total cash and cash equivalents	<u><u>\$ 13,376,044</u></u>

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- 1. Credit Risk** – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The table on page 39 presents the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type held by the District.
- 2. Custodial Credit Risk** – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Investments held by third parties were fully collateralized and held in the District's name
- 3. Concentration of Credit Risk** – This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. The District's investments in public funds investment pools are not subject to the concentration risk.
- 4. Interest Rate Risk** – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for each investment pool is less than 90 days. Additionally, all investments in bank certificates of deposit are covered by the District's depository pledge. The money market fund is also fully collateralized by pledged securities.
- 5. Foreign Currency Risk** – This is the risk that exchange rates will adversely affect the fair value of an investment. At June 30, 2018, the District was not exposed to foreign currency risk.

DeSoto Independent School District
Notes to the Basic Financial Statements

Note 4. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Transfers/ Retirements	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 7,668,315	\$ 506,309	\$ -	\$ 8,174,624
Construction in progress	2,984,902	31,500,639	(5,094,849)	29,390,692
Total capital assets not being depreciated	<u>10,653,217</u>	<u>32,006,948</u>	<u>(5,094,849)</u>	<u>37,565,316</u>
Capital assets, being depreciated				
Buildings and improvements	219,215,295	45,400	5,094,849	224,355,544
Furniture and equipment	11,635,444	624,639	(115,665)	12,144,418
Total capital assets being depreciated	<u>230,850,739</u>	<u>670,039</u>	<u>4,979,184</u>	<u>236,499,962</u>
Less accumulated depreciation for				
Buildings and improvements	(77,812,843)	(5,355,117)	-	(83,167,960)
Furniture and equipment	(6,667,923)	(962,134)	115,665	(7,514,392)
Total accumulated depreciation	<u>(84,480,766)</u>	<u>(6,317,251)</u>	<u>115,665</u>	<u>(90,682,352)</u>
Total capital assets, being depreciated, net	<u>146,369,973</u>	<u>(5,647,212)</u>	<u>5,094,849</u>	<u>145,817,610</u>
Governmental activities capital assets, net	<u><u>\$ 157,023,190</u></u>	<u><u>\$ 26,359,736</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 183,382,926</u></u>

DeSoto Independent School District
Notes to the Basic Financial Statements

Depreciation expense is charged as direct expense to programs of the District as follows:

Governmental activities		
Instruction	\$	3,571,969
Instructional resources & media services		53,900
Curriculum & staff development		107,800
Instructional leadership		229,601
School leadership		377,301
Guidance, counseling & evaluation services		269,501
Social work services		1,947
Student transportation		53,900
Health services		173,140
Food services		240,462
Cocurricular/extracurricular activities		124,455
General administration		215,984
Plant maintenance and operations		254,685
Security & monitoring services		199,250
Data processing services		389,456
Community services		53,900
		<hr/>
Total depreciation expense - governmental activities	\$	6,317,251
		<hr/> <hr/>

Construction Commitments

The District had an active construction project as of June 30, 2018. The project included an elementary school construction as well as street construction to the surrounding area. Fiscal year 2018 expenses and estimated future expenditures for capital projects are funded from bond proceeds and a note payable. The following summarizes the projects in process at year end:

<u>Project</u>	<u>Estimated Total Cost</u>	<u>Expenditures Incurred to 6/30/2018</u>	<u>Estimated Future Expenditures</u>
Katharine Johnson Academy Elementary School	\$ 25,346,269	\$ 23,697,777	\$ 1,648,492
Total ongoing construction	\$ 25,346,269	\$ 23,697,777	\$ 1,648,492

Note 5. Long-Term Debt

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, maintenance tax notes, and notes payable. All long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

DeSoto Independent School District
Notes to the Basic Financial Statements

The following is a summary of the changes in the District's long-term debt for the fiscal year ended June 30, 2018:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding July 1, 2017	Issued Current Year	Retired/Refunded	Amounts Outstanding June 30, 2018	Due Within One Year
Bonded indebtedness							
1995 School Building and Refunding Bonds	5.60-6.75%	\$ 27,022,385	\$ 790,000	\$ -	\$ 135,000	\$ 655,000	\$ 130,000
2001 School Building and Refunding Bonds	4.00-5.92%	15,768,251	1,501,921	-	302,955	1,198,966	447,724
2006 School Building and Refunding Bonds	3.75-5.28%	64,851,130	513,106	-	-	513,106	-
2007 School Building and Refunding Bonds	3.80-4.50%	36,123,829	-	-	-	-	-
2010A Refunding Bonds	0.74-4.84%	8,491,469	3,481,469	-	-	3,481,469	-
2010B Refunding Bonds	0.85-4.06%	31,994,992	27,070,000	-	1,595,000	25,475,000	1,235,000
2012 Refunding Bonds	1.08-2.32%	4,995,925	4,995,925	-	475,000	4,520,925	600,321
2013 Refunding Bonds	2.00-4.41%	37,262,193	33,632,193	-	2,075,000	31,557,193	2,040,000
2015A Refunding Bonds	2.00-5.00%	7,640,000	6,190,000	-	1,465,000	4,725,000	1,505,000
2015B Refunding Bonds	3.00-5.00%	28,400,000	28,400,000	-	1,235,000	27,165,000	490,000
2016A Refunding Bonds	2.00-5.00%	1,110,000	1,110,000	-	55,000	1,055,000	30,000
2016B Refunding Bonds	2.00-5.00%	26,750,000	26,750,000	-	-	26,750,000	-
Total bonded indebtedness			134,434,614	-	7,337,955	127,096,659	6,478,045
Accreted interest -							
Capital appreciation bonds			65,122,238	6,612,480	3,162,045	68,572,673	4,095,289
Bond premiums			9,155,538	-	543,141	8,612,397	-
Maintenance Tax Notes Series 2014			8,675,000	-	460,000	8,215,000	470,000
Note payable			5,152,149	-	-	5,152,149	234,848
Net pension liability			19,645,607	5,535,840	5,678,660	19,502,787	-
Net OPEB liability			59,768,193	5,729	25,919,545	33,854,377	-
Compensated absences			-	146,054	-	146,054	-
Total other obligations			167,518,725	12,300,103	35,763,391	144,055,437	4,800,137
Total obligations of District			\$ 301,953,339	\$ 12,300,103	\$ 43,101,346	\$ 271,152,096	\$ 11,278,182

Presented below is a summary of general obligation bond requirements to maturity:

Years Ending June 30,	General Obligation Bonds		Total Requirements
	Principal	Interest	
2019	\$ 6,478,045	\$ 3,726,731	\$ 10,204,776
2020	6,582,551	3,523,369	10,105,920
2021	6,550,914	3,333,806	9,884,720
2022	5,819,635	3,206,731	9,026,366
2023	5,630,879	3,118,456	8,749,335
2024 - 2028	25,071,398	14,046,455	39,117,853
2029 - 2033	31,302,630	10,115,855	41,418,485
2034 - 2038	32,445,601	4,302,663	36,748,264
2039 - 2042	7,215,006	167,388	7,382,394
Totals	\$ 127,096,659	\$ 45,541,454	\$ 172,638,113

The 1995, 2001, 2006, 2010A, 2012 and 2013 bond series include Capital Appreciation Bonds. No interest is paid on these bonds prior to maturity. The bonds mature variously through 2040. Interest accrues on these bonds semi-annually even though the interest is not paid until maturity.

DeSoto Independent School District
Notes to the Basic Financial Statements

General obligation bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General obligation bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement. There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2018.

In addition, DeSoto Independent School District Limited Maintenance Tax Notes, Tax Credit 2014 were issued by the District on November 20, 2014, with an interest rate of 1.0%. Debt service payments for the notes will be paid from the general fund. The payment requirements are as follows:

Years Ending June 30,	Maintenance Tax Notes		Total Requirements
	Principal	Interest	
2019	\$ 470,000	\$ 79,800	\$ 549,800
2020	480,000	75,050	555,050
2021	490,000	70,200	560,200
2022	500,000	65,250	565,250
2023	510,000	60,200	570,200
2024 - 2028	2,730,000	221,100	2,951,100
2029 - 2033	3,035,000	77,225	3,112,225
Totals	\$ 8,215,000	\$ 648,825	\$ 8,863,825

The maintenance tax notes were issued under the federal Qualified Zone Academy Bond (QZAB) program. Under this program, proceeds must be used for specified programs and costs.

Lastly, on June 28, 2017, the District entered into a Note Payable with Government Capital Corporation in order to purchase HVAC mechanical retrofits and energy management controls to be installed at District facilities. The property cost was \$5,094,849 plus an additional \$57,300 in issuance costs, which rolled into the cost of the loan. The total note was \$5,152,149 and is seen as an addition on the long-term debt rollforward. The note requires a total payment of \$433,532 over 15 periods, maturing on October 15, 2032. The first payment will be made on October 15, 2018. Debt service payments for the note will be paid from the general fund. The payment requirements are as follows:

Years Ending June 30,	Note Payable		Total Requirements
	Principal	Interest	
2019	\$ 234,848	\$ 198,684	\$ 433,532
2020	288,964	144,569	433,533
2021	297,459	136,073	433,532
2022	306,204	127,328	433,532
2023	315,207	118,325	433,532
2024 - 2028	1,720,611	447,050	2,167,661
2029 - 2033	1,988,856	178,804	2,167,660
Totals	\$ 5,152,149	\$ 1,350,833	\$ 6,502,982

DeSoto Independent School District
Notes to the Basic Financial Statements

Note 6. Property Taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2017-18 fiscal period was based was \$2,793,082,299. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the period ended June 30, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.32 per \$100 valuation, respectively, for a total of \$1.49 per \$100 valuation.

Current tax collections for the period ended June 30, 2018 were 98.51% of the June 30, 2018 adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled \$852,391 and \$219,291 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and unavailable revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected.

Note 7. Interfund Balances and Activities

Interfund receivables and payables at June 30, 2018 represented short-term advances between funds. These amounts are expected to be repaid in less than one year from June 30, 2018.

Payable Fund	Receivable Fund	Amount	Primary Purpose
General fund	Capital projects fund	\$ 226,381	To cover cash shortage
Nonmajor governmental funds	General fund	2,932,553	To cover cash shortage
General fund	Nonmajor governmental funds	832	To cover cash shortage
		\$ 3,159,766	

Note 8. Defined Benefit Pension Plan

A. Plan Description

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

DeSoto Independent School District
Notes to the Basic Financial Statements

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.

B. Pension Plan Fiduciary Net Position

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

C. 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 post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan Description above.

D. Contributions

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

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

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

DeSoto Independent School District
Notes to the Basic Financial Statements

The contributions amount for the District's fiscal year 2018 are as follows:

Employer contributions	\$	1,999,047
Member contributions		1,977,784
NECE on-behalf contributions		2,896,500

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

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during the 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:

1. 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.
2. During a new member's first 90 days of employment.
3. When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
4. When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

DeSoto Independent School District
Notes to the Basic Financial Statements

E. Actuarial Assumptions

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

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

* If a municipal bond rate was to be used, the rate would be 3.42% as of August 2017 (i.e. the rate closest to but not later than the Measurement Date). The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index".

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

Discount Rate

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

DeSoto Independent School District
Notes to the Basic Financial Statements

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

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. developed	13.0%	5.1%	0.8%
Emerging markets	9.0%	5.9%	0.7%
Directional hedge funds	4.0%	3.2%	0.1%
Private equity	13.0%	7.0%	1.1%
Stable value:			
U.S. treasuries	11.0%	0.7%	0.1%
Absolute return	0.0%	1.8%	0.0%
Stable value hedge funds	4.0%	3.0%	0.1%
Cash	1.0%	(0.2%)	0.0%
Real return:			
Global inflation linked bonds	3.0%	0.9%	0.0%
Real assets	16.0%	5.1%	1.1%
Energy and natural resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk parity			
Risk parity	5.0%	6.7%	0.3%
Inflation expectation			2.2%
Alpha	0.0%		1.0%
Total	100%		8.7%

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

F. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (7.00%)	Discount Rate (8.00%)	1% Increase In Discount Rate (9.00%)
District's proportionate share of the net pension liability	\$ 32,877,845	\$ 19,502,787	\$ 8,365,880

DeSoto Independent School District
Notes to the Basic Financial Statements

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

At June 30, 2018, the District reported a liability of \$19,502,787 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 were as follows:

District's proportionate share of the collective net pension liability	\$ 19,502,787
State's proportionate share that is associated with the District	<u>28,317,789</u>
	<u>\$ 47,820,576</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 employer'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, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0609946% an increase of 17% from its proportionate share of 0.0519883% at August 31, 2016.

Changes since the Prior Actuarial Valuation

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

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

For the fiscal year ended June 30, 2018, the District recognized pension expense of \$3,527,653 and revenue of \$2,159,968 for support provided by the State.

DeSoto Independent School District
Notes to the Basic Financial Statements

At June 30, 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
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 285,335	\$ (1,051,760)
Changes in actuarial assumptions	888,383	(508,578)
Difference between projected and actual investment earnings	-	(1,421,321)
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	6,137,644	(1,165)
Contributions paid to TRS subsequent to the measurement date	1,527,730	-
	<u>\$ 8,839,092</u>	<u>\$ (2,982,824)</u>

\$1,527,730 reported as deferred outflows of resources resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,	Pension Expense Amount
<u> </u>	<u> </u>
2019	\$ 667,039
2020	1,911,953
2021	571,385
2022	214,933
2023	632,197
Thereafter	331,031
Total	<u>\$ 4,328,538</u>

Note 9. Defined Other Post-Employment Benefit Plan

Plan Description

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

DeSoto Independent School District
Notes to the Basic Financial Statements

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 <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

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

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

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

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

* or surviving spouse

Contributions

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

DeSoto Independent School District
Notes to the Basic Financial Statements

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% 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 the TRS-Care plan by type of contributor.

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

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

District contributions	\$ 404,747
Member contributions	166,010
NECE on-behalf contributions (state)	569,307

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

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

DeSoto Independent School District
Notes to the Basic Financial Statements

Actuarial Assumptions

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

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

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

**Includes inflation at 2.50%

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

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

DeSoto Independent School District
Notes to the Basic Financial Statements

Sensitivity of the Net OPEB Liability

Discount Rate

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

Sensitivity of the Net OPEB Liability to the Single Discount Rate Assumptions		
1% Decrease (2.42%)	Current Discount Rate (3.42%)	1% Increase (4.42%)
\$ 39,956,570	\$ 33,854,377	\$ 28,949,591

Healthcare Cost Trend Rates

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

Sensitivity of the Net OPEB Liability to the Healthcare Cost Trend Rate Assumptions		
1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 28,187,151	\$ 33,854,377	\$ 41,290,492

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

At June 30, 2018, the District reported a liability of \$33,854,377 for its proportionate share of the TRS'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 net OPEB liability	\$ 33,854,377
State's proportionate share of the net OPEB liability associated with the District	47,618,752
Total	\$ 81,473,129

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

At August 31, 2017, the employer's proportion of the collective net OPEB liability was 0.0778508% which was the same proportion measured as of August 31, 2016.

DeSoto Independent School District
Notes to the Basic Financial Statements

Changes since the Prior Actuarial Valuation

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

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

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

GASB 75 requires the District to record OPEB expense for the amount of the State's proportionate share of the collective OPEB expense that is allocated to the District and record revenue in the same amount for the support provided for the State. For the measurement period ended August 31, 2017, the State's proportionate share of the collective OPEB expense was a negative expense of \$8,504,163,580 and the District's proportionate share is a negative \$15,934,501. The amount is recorded as a negative revenue and negative expense for the District's year ended June 30, 2018.

For the year ended June 30, 2018, the District recognized total negative OPEB expense of (\$27,788,019), which includes both the District's proportionate share of the collective OPEB expense and the State's proportionate share of the collective OPEB expense that is allocated to the District as described above.

At June 30, 2018, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ (706,736)
Changes of assumptions	-	(13,454,614)
Net difference between projected and actual earnings on pension plan investments	5,143	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	156	-
District contributions after measurement date	430,222	-
Totals	\$ 435,521	\$ (14,161,350)

DeSoto Independent School District
Notes to the Basic Financial Statements

\$430,222 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ending June 30,		
2019	\$	(1,867,907)
2020		(1,867,907)
2021		(1,867,907)
2022		(1,867,907)
2023		(1,869,193)
Thereafter		(4,815,230)
Total	\$	(14,156,051)

Note 10. Health Care

During the period ended June 30, 2018, employees of the District were covered by a health insurance plan (the Plan). The District contributed \$351 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional contribution and contributions for dependents. All contributions were paid to a fully insured plan.

Note 11. Workers Compensation

The District participates in the Workers Compensation Solutions Workers Compensation Self-Insurance Joint Fund. Workers Compensation Solutions has performed an evaluation of claims submitted for incidents occurring prior to June 30, 2018, and has projected open claims and incurred but not reported claims will cost \$92,968.

Edwards Risk Management, Inc. provides claims administration. Reinsurance is provided for individual claim losses exceeding \$450,000 and aggregate losses exceeding \$2,000,000 for the entire pool. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

Changes in workers compensation claims liability amounts for the last three fiscal years are represented below:

Fiscal Year	Beginning of Period Claims Liability	Claims and Changes in Estimates	Claims Payments	End of Period Claims Liability
2018	\$ 26,838	\$ 421,058	\$ 354,928	\$ 92,968
2017	174,181	353,422	500,765	26,838
2016	196,779	319,945	342,543	174,181

DeSoto Independent School District
Notes to the Basic Financial Statements

Note 12. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation, Per Capita, Existing Debt Allotment, and Instruction Facilities Allotment Programs. Amounts due from federal and state governments as of June 30, 2018, are summarized below. All federal grants shown below are passed through the Agency and are reported as due from other governments.

Fund	State Entitlements	Federal Government	Local Governments	Total
General	\$ 12,194,132	\$ 418,600	\$ -	\$ 12,612,732
Special revenue	156,428	3,255,047	-	3,411,475
Debt service	1,188	-	-	1,188
Total	\$ 12,351,748	\$ 3,673,647	\$ -	\$ 16,025,395

Note 13. Litigation and Contingencies

The District is a party to various legal actions, none of which are believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying basic financial statements for such contingencies.

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Governmental bonds issued after August 31, 1986 are subject to the rebate provisions of the Tax Reform Act of 1986. The rebate applies to earnings from bond issue proceed investments that exceed bond issue stated interest rates. The formula is based on a five year history, therefore the exact amount of liability, if any, is unknown until five years from the bond issuance date. This calculation yielded no known material rebate liability as of June 30, 2018.

DeSoto Independent School District
Notes to the Basic Financial Statements

Note 14. Revenues from Local and Intermediate Sources

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

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Property taxes	\$ 31,691,771	\$ -	\$ 8,681,818	\$ -	\$ 40,373,589
Food sales	-	1,110,479	-	-	1,110,479
Investment income	165,319	15,058	81,175	238,508	500,060
Penalties, interest and other tax related income	227,463	-	70,252	-	297,715
Co-curricular student activities	226,841	250,954	-	-	477,795
Other	671,580	529,138	402	-	1,201,120
Total	\$ 32,982,974	\$ 1,905,629	\$ 8,833,647	\$ 238,508	\$ 43,960,758

Note 15. Unearned and Unavailable Revenue

Unearned and unavailable revenue reported in the governmental funds at June 30, 2018 consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net tax unavailable revenue	\$ 727,129	\$ -	\$ 183,278	\$ 910,407
SHARS unavailable revenue	410,094	-	-	410,094
Total unavailable revenue	\$ 1,137,223	\$ -	\$ 183,278	\$ 1,320,501
Other unearned revenue	\$ -	\$ 138,151	\$ -	\$ 138,151
Total unearned revenue	\$ -	\$ 138,151	\$ -	\$ 138,151

Revenue that is not considered available at year end is reported as a deferred inflow of resources in the governmental funds and is recorded as revenue in the government-wide financial statements. Accordingly, tax and SHARS revenues are reported as revenue in the government-wide financial statements.

Note 16. Excess of Expenditures over Appropriations by Function

The Texas Education Agency (the Agency) requires the budgets for certain governmental funds to be filed with the Agency. The budget should not be exceeded in any functional category under the Agency's requirements. Expenditures exceeded appropriations in four functional categories in the general fund and one functional category in the food service fund for the fiscal year ended June 30, 2018.

DeSoto Independent School District
Notes to the Basic Financial Statements

Note 17. Prior Period Adjustment

Net position at July 1, 2017 was restated per the following table for the implementation of GASB 75:

	Governmental Activities
	<u> </u>
Beginning net position, as previously reported	\$ (15,696,710)
Implementation of GASB 75 for OPEB	<u>(59,433,724)</u>
Beginning net position, restated	<u><u>\$ (75,130,434)</u></u>

Note 18. Nonmonetary Transactions

During 2018, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$652,673. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$652,673 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas

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Required Supplementary Information

DeSoto Independent School District
 Budgetary Comparison Schedule – General Fund
 For the Year Ended June 30, 2018

Exhibit G-1

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget
		Original	Final	(GAAP BASIS)	Positive or (Negative)
REVENUES					
5700	Local and intermediate sources	\$ 33,203,204	\$ 32,929,339	\$ 32,982,974	\$ 53,635
5800	State program revenues	54,377,212	53,719,969	53,657,881	(62,088)
5900	Federal program revenues	925,000	925,000	831,659	(93,341)
5020	Total revenues	88,505,416	87,574,308	87,472,514	(101,794)
EXPENDITURES					
Current					
0011	Instruction	49,583,662	50,188,799	49,513,199	675,600
0012	Instructional resources and media services	848,535	848,535	755,401	93,134
0013	Curriculum and instructional staff development	1,443,886	1,550,070	1,077,484	472,586
0021	Instructional leadership	2,695,313	2,609,263	2,489,260	120,003
0023	School leadership	5,750,936	5,853,398	5,868,742	(15,344)
0031	Guidance, counseling and evaluation services	4,243,304	3,639,815	3,609,519	30,296
0032	Social work services	350,787	433,787	343,245	90,542
0033	Health services	942,869	949,876	931,487	18,389
0034	Student (pupil) transportation	2,347,096	2,557,096	2,506,104	50,992
0035	Food services	-	-	56,240	(56,240)
0036	Extracurricular activities	2,779,424	2,921,848	2,829,335	92,513
0041	General administration	4,050,867	4,405,979	4,626,489	(220,510)
0051	Facilities maintenance and operations	8,340,030	8,654,685	8,361,748	292,937
0052	Security and monitoring services	763,174	767,155	678,872	88,283
0053	Data processing services	2,653,004	2,934,704	2,682,435	252,269
0061	Community services	698,870	889,757	1,261,826	(372,069)
Debt service					
0071	Principal on long-term debt	460,000	460,000	460,000	-
0072	Interest on long-term debt	84,450	84,450	84,450	-
Capital outlay					
0081	Facilities acquisition and construction	-	5,094,849	4,585,364	509,485
Intergovernmental					
0095	Payments to Juvenile Justice Alternative Education Program	35,000	35,000	9,612	25,388
0099	Other intergovernmental charges	127,000	132,847	132,847	-
	Total expenditures	88,198,207	95,011,913	92,863,659	2,148,254
1100	Excess (deficiency) of revenues over (under) expenditures	307,209	(7,437,605)	(5,391,145)	2,046,460
1200	Net change in fund balances	307,209	(7,437,605)	(5,391,145)	2,046,460
0100	Fund balance - beginning	18,607,929	18,607,929	18,607,929	-
3000	FUND BALANCE - ENDING	\$ 18,915,138	\$ 11,170,324	\$ 13,216,784	\$ 2,046,460

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

DeSoto Independent School District

Exhibit G-2

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0609946%	0.0519883%	0.0498181%	0.0336442%
District's proportionate share of net pension liability	\$ 19,502,787	\$ 19,645,607	\$ 17,610,035	\$ 8,986,830
State's proportionate share of the net pension liability associated with the District	<u>28,317,789</u>	<u>33,950,679</u>	<u>31,354,989</u>	<u>25,809,819</u>
TOTALS	<u>\$ 47,820,576</u>	<u>\$ 53,596,286</u>	<u>\$ 48,965,024</u>	<u>\$ 34,796,649</u>
District's covered payroll	\$ 60,949,899	\$ 55,996,281	\$ 51,070,870	\$ 47,685,980
District's proportionate share of the net pension liability as a percentage of its covered payroll	32.00%	35.08%	34.48%	18.85%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, 81,2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2017 - the period from September 1, 2016 - August 31, 2017.

Note: Ten years of data is not available.

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

Exhibit G-3

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
TRS				
Contractually required contribution	\$ 1,863,057	\$ 1,255,991	\$ 1,622,610	\$ 1,342,111
Contributions in relation to contractually required contribution	<u>(1,863,057)</u>	<u>(1,255,991)</u>	<u>(1,622,610)</u>	<u>(1,342,111)</u>
CONTRIBUTIONS DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 59,288,941	\$ 60,392,297	\$ 54,874,390	\$ 49,824,480
Contributions as a percentage of covered payroll	3.14%	2.08%	2.96%	2.69%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2016 - August 31, 2017.

Note: Ten years of data is not available.

DeSoto Independent School District

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

Exhibit G-4

	<u>2018</u>
District's proportion of the net OPEB liability	0.0778508%
District's proportionate share of net OPEB liability	\$ 33,854,377
State's proportionate share of the net OPEB liability associated with the District	<u>47,618,752</u>
TOTALS	<u>\$ 81,473,129</u>
District's covered payroll	\$ 60,949,899
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	55.54%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

Note: GASB 68, 81.2.a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2017 through the period from September 1, 2016 - August 31, 2017.

Note: Ten years of data is not available.

DeSoto Independent School District
 Schedule of the District's Contributions to the
 Teacher Retirement System of Texas OPEB Plan
 Last Fiscal Year

Exhibit G-5

	<u>2018</u>
TRS	
Contractually required contribution	\$ 499,063
Contributions in relation to contractually required contribution	<u>(499,063)</u>
CONTRIBUTIONS DEFICIENCY (EXCESS)	<u>\$ -</u>
District's covered payroll	\$ 59,288,941
Contributions as a percentage of covered payroll	0.84%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2016 - August 31, 2017.

Note: Ten years of data is not available.

DeSoto Independent School District
 Notes to the Required Supplementary Information

Note 1. Budgetary Data

A. Budgetary Information

The official budget was prepared for adoption for the general, child nutrition, and debt service funds. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1.
2. A meeting of the Board is called for the purpose of adopting the proposed budget with public notice given at least 10 days prior to the meeting.
3. Prior to the expenditures of funds, the budget is adopted by the Board.

After adoption, the budget may be amended through action by the Board. Budget amendments are approved at the functional expenditure level. All amendments are before the fact and reflected in the official minutes of the Board. Budgets are controlled at the functional level by personnel responsible for the organizational financial reporting. All budget appropriations lapse at the year end. Budget amendments throughout the year were not significant.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2018, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the functions:

Fund	Function	Final Budget	Actual	Variance
General fund	School leadership	\$ 5,853,398	\$ 5,868,742	\$ (15,344)
General fund	Food services	-	56,240	(56,240)
General fund	General administration	4,405,979	4,626,489	(220,510)
General fund	Community services	889,757	1,261,826	(372,069)

Function 23 - The District's variance is due to payroll exceeding the budget for the anticipated opening of the new elementary school in August 2018.

Function 35 - The District's variance is due to the reimbursement to the Food Service Fund for meal charges by students that were unpaid at the end of the year and had not been budgeted.

Function 41 – The District's variance is due to outside legal service billings that were not received in a timely fashion to amend the budget prior to the end of the fiscal year.

Function 61 – The District's variance is due to a reclassification of expenditures, the majority of which are payroll related, for a federal grant that was overspent during the grant year and had to be reclassified when discovered by the District after the close of the fiscal year.

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Combining Schedules

DeSoto Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

Data Control Codes		203 Child Care Development Block Grant	211 ESEA 1, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
	ASSETS					
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 2,786
1240	Due from other governments	82,664	695,286	528,695	31,684	-
1250	Accrued interest	-	-	-	-	-
1260	Due from other funds	-	-	-	-	-
1290	Other receivables	-	387	-	-	-
1000	TOTAL ASSETS	\$ 82,664	\$ 695,673	\$ 528,695	\$ 31,684	\$ 2,786
	LIABILITIES					
2110	Accounts payable	\$ 112	\$ 11,447	\$ 977	\$ -	\$ -
2160	Accrued wages payable	-	89,693	258,492	3,174	-
2170	Due to other funds	82,552	594,533	269,226	28,510	-
2180	Due to other governments	-	-	-	-	2,786
2300	Unearned revenues	-	-	-	-	-
2000	Total liabilities	82,664	695,673	528,695	31,684	2,786
	FUND BALANCES					
	Restricted					
3450	Federal or state funds grant restriction	-	-	-	-	-
	Committed					
3545	Other committed fund balance	-	-	-	-	-
3000	Total fund balances	-	-	-	-	-
4000	TOTAL LIABILITIES AND FUND BALANCES	\$ 82,664	\$ 695,673	\$ 528,695	\$ 31,684	\$ 2,786

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 A2 & E2	274 GEAR UP	288 Investing in Innovation Grant
\$ 1,058,690	\$ -	\$ -	\$ -	\$ -	\$ 153,957	\$ -
-	2,729	87,621	22,539	654,185	-	412,368
-	-	-	-	-	-	-
-	-	-	-	-	-	-
1,790	-	-	-	70,317	-	82
<u>\$ 1,060,480</u>	<u>\$ 2,729</u>	<u>\$ 87,621</u>	<u>\$ 22,539</u>	<u>\$ 724,502</u>	<u>\$ 153,957</u>	<u>\$ 412,450</u>
\$ 40,825	\$ -	\$ -	\$ -	\$ 8,885	\$ 38,196	\$ 6,664
11,305	-	28,150	-	13,776	26,934	27,164
41,609	2,729	59,471	22,539	701,841	841	378,622
-	-	-	-	-	-	-
-	-	-	-	-	87,986	-
93,739	2,729	87,621	22,539	724,502	153,957	412,450
966,741	-	-	-	-	-	-
-	-	-	-	-	-	-
966,741	-	-	-	-	-	-
<u>\$ 1,060,480</u>	<u>\$ 2,729</u>	<u>\$ 87,621</u>	<u>\$ 22,539</u>	<u>\$ 724,502</u>	<u>\$ 153,957</u>	<u>\$ 412,450</u>

DeSoto Independent School District
Combining Balance Sheet
Nonmajor Governmental Funds – Continued
June 30, 2018

Data Control Codes	289 Other Federal Grants	352 Title IV, B 21st Century	385 Visually Impaired SSVI	397 Teacher Training Reimbursement	410 State Textbook Fund	
ASSETS						
1110	Cash and cash equivalents	\$ 8,529	\$ -	\$ 977	\$ 8,130	\$ -
1240	Due from other governments	82,441	516,742	-	-	156,428
1250	Accrued interest	-	-	-	-	-
1260	Due from other funds	-	-	-	-	-
1290	Other receivables	-	-	-	-	-
1000	TOTAL ASSETS	<u>\$ 90,970</u>	<u>\$ 516,742</u>	<u>\$ 977</u>	<u>\$ 8,130</u>	<u>\$ 156,428</u>
LIABILITIES						
2110	Accounts payable	\$ -	\$ 1,841	\$ -	\$ -	\$ -
2160	Accrued wages payable	565	97,308	-	-	-
2170	Due to other funds	81,876	417,593	-	-	156,428
2180	Due to other governments	6,199	-	-	-	-
2300	Unearned revenues	2,330	-	977	5,850	-
2000	Total liabilities	90,970	516,742	977	5,850	156,428
FUND BALANCES						
Restricted						
3450	Federal or state funds grant restriction	-	-	-	2,280	-
Committed						
3545	Other committed fund balance	-	-	-	-	-
3000	Total fund balances	-	-	-	2,280	-
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 90,970</u>	<u>\$ 516,742</u>	<u>\$ 977</u>	<u>\$ 8,130</u>	<u>\$ 156,428</u>

429 Other State Special Revenue Funds	461 Campus Activity Funds	481 Meadows Foundation Grant	483 McCowan MS Grant	499 STEM Grant	Total Nonmajor Governmental Funds
\$ 32,468	\$ 325,811	\$ 5,077	\$ 3,324	\$ 16,079	\$ 1,615,828
138,093	-	-	-	-	3,411,475
-	2,241	-	-	-	2,241
-	832	-	-	-	832
-	1,443	-	-	-	74,019
<u>\$ 170,561</u>	<u>\$ 330,327</u>	<u>\$ 5,077</u>	<u>\$ 3,324</u>	<u>\$ 16,079</u>	<u>\$ 5,104,395</u>
\$ -	\$ 1,726	\$ -	\$ -	\$ -	\$ 110,673
71,177	-	-	-	-	627,738
82,750	11,433	-	-	-	2,932,553
106	2,762	-	-	-	11,853
16,528	-	5,077	3,324	16,079	138,151
170,561	15,921	5,077	3,324	16,079	3,820,968
-	-	-	-	-	969,021
-	314,406	-	-	-	314,406
-	314,406	-	-	-	1,283,427
<u>\$ 170,561</u>	<u>\$ 330,327</u>	<u>\$ 5,077</u>	<u>\$ 3,324</u>	<u>\$ 16,079</u>	<u>\$ 5,104,395</u>

DeSoto Independent School District

Combining Statement of Revenues, Expenditures and Changes in
Fund Balances – Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2018

Data Control Codes		203 Child Care Development Block Grant	211 ESEA 1, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
REVENUES						
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-	-
5900	Federal program revenues	304,375	1,950,127	1,836,417	26,529	72,080
5020	Total revenues	304,375	1,950,127	1,836,417	26,529	72,080
EXPENDITURES						
Current						
0011	Instruction	205,311	1,647,437	1,068,968	26,529	72,080
0013	Curriculum and instructional staff development	13,000	122,562	-	-	-
0021	Instructional leadership	24,877	167,021	12,635	-	-
0023	School leadership	-	2,570	-	-	-
0031	Guidance, counseling and evaluation services	166	-	754,814	-	-
0032	Social work services	44,181	-	-	-	-
0035	Food services	-	-	-	-	-
0036	Extracurricular activities	-	-	-	-	-
0041	General administration	8,005	-	-	-	-
0053	Data processing services	-	-	-	-	-
0061	Community services	8,835	10,537	-	-	-
6030	Total expenditures	304,375	1,950,127	1,836,417	26,529	72,080
1200	Net change in fund balance	-	-	-	-	-
0100	Fund balance - beginning	-	-	-	-	-
4000	FUND BALANCE - ENDING	\$ -	\$ -	\$ -	\$ -	\$ -

240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II, A Training and Recruiting	263 Title III, A English Lang. Acquisition	269 A2 & E2	274 GEAR UP	288 Investing in Innovation Grant
\$ 1,125,537	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
130,828	-	-	-	-	-	-
5,561,744	82,026	185,535	40,950	1,227,172	1,229,986	855,410
6,818,109	82,026	185,535	40,950	1,227,172	1,229,986	855,410
-	82,026	-	29,873	220,340	627,246	220,638
-	-	185,535	10,725	138,159	-	7,835
-	-	-	-	845,051	586,030	513,046
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
7,040,955	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	21,000	16,670	5,816
-	-	-	-	2,622	-	-
-	-	-	352	-	40	108,075
7,040,955	82,026	185,535	40,950	1,227,172	1,229,986	855,410
(222,846)	-	-	-	-	-	-
1,189,587	-	-	-	-	-	-
\$ 966,741	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

DeSoto Independent School District

Combining Statement of Revenues, Expenditures and
 Changes in Fund Balances – Nonmajor Governmental Funds
 For the Fiscal Year Ended June 30, 2018

Data Control Codes		289 Summer School LEP	352 Title IV, B 21st Century	385 Visually Impaired SSVI	397 Teacher Training Reimbursement	410 State Textbook Fund
REVENUES						
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	2,280	652,673
5900	Federal program revenues	152,609	1,567,670	-	-	-
5020	Total revenues	152,609	1,567,670	-	2,280	652,673
EXPENDITURES						
Current						
0011	Instruction	123,684	-	-	-	652,673
0013	Curriculum and instructional staff development	15,948	-	-	-	-
0021	Instructional leadership	-	-	-	-	-
0023	School leadership	12,977	-	-	-	-
0031	Guidance, counseling and evaluation services	-	-	-	-	-
0032	Social work services	-	-	-	-	-
0035	Food services	-	-	-	-	-
0036	Extracurricular activities	-	-	-	-	-
0041	General administration	-	-	-	-	-
0053	Data processing services	-	-	-	-	-
0061	Community services	-	1,567,670	-	-	-
6030	Total expenditures	152,609	1,567,670	-	-	652,673
1200	Net change in fund balance	-	-	-	2,280	-
0100	Fund balance - beginning	-	-	-	-	-
4000	FUND BALANCE - ENDING	\$ -	\$ -	\$ -	\$ 2,280	\$ -

429 Other State Special Revenue Funds	461 Campus Activity Funds	481 Meadows Foundation Grant	483 McCowan MS Grant	499 STEM Grant	Total Non-Major Governmental Funds
\$ 27,125	\$ 752,967	\$ -	\$ -	\$ -	\$ 1,905,629
342,178	-	-	-	4,209	1,132,168
-	-	-	-	-	15,092,630
369,303	752,967	-	-	4,209	18,130,427
183,181	-	-	-	4,209	5,164,195
28,400	-	-	-	-	522,164
28,035	-	-	-	-	2,176,695
-	-	-	-	-	15,547
74,337	-	-	-	-	829,317
51,782	-	-	-	-	95,963
-	-	-	-	-	7,040,955
-	718,184	-	-	-	718,184
-	-	-	-	-	51,491
-	-	-	-	-	2,622
3,568	-	-	-	-	1,699,077
369,303	718,184	-	-	4,209	18,316,210
-	34,783	-	-	-	(185,783)
-	279,623	-	-	-	1,469,210
\$ -	\$ 314,406	\$ -	\$ -	\$ -	\$ 1,283,427

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Required T.E.A. Schedules

DeSoto Independent School District

Schedule of Revenues, Expenditures and Changes in Fund Balance

Schedule of Delinquent Taxes Receivable

For the Fiscal Year Ended June 30, 2018

<u>Last Ten Years</u>	<u>Tax Rates</u>		<u>(3) Assessed/ Appraised Value for School Tax Purposes</u>
	<u>(1) Maintenance</u>	<u>(2) Debt Service</u>	
2009 and prior years	Various	Various	Combined 2009 and prior
2010	1.040000	0.470000	2,233,596,072
2011	1.040000	0.450000	2,105,349,551
2012	1.040000	0.400000	2,096,688,182
2013	1.040000	0.400000	2,066,718,966
2014	1.040000	0.450000	2,093,189,363
2015	1.040000	0.430000	2,216,234,188
2016	1.170000	0.290000	2,382,114,141
2017	1.170000	0.290000	2,541,291,208
2018 School year under audit	1.170000	0.320000	2,793,082,299
1000 TOTALS			

Exhibit J-1

(10)	(20)	(31)	(32)	(40)	(50)
Beginning Balance July 1, 2017	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance June 30, 2018
\$ 314,218	\$ -	\$ 43,924	\$ 13,626	\$ (18,682)	\$ 237,986
60,659	-	7,635	3,304	(2,248)	47,472
61,303	-	8,424	3,645	(653)	48,581
70,556	-	12,277	4,722	(773)	52,784
108,830	-	20,476	7,875	(3,986)	76,493
123,490	-	26,975	11,672	6,582	91,425
181,598	-	38,654	15,982	(1,692)	125,270
231,123	-	62,807	15,568	2,391	155,139
581,294	-	120,142	29,779	(184,748)	246,625
-	40,346,332	31,339,110	8,571,379	168,498	604,341
<u>\$ 1,733,071</u>	<u>\$ 40,346,332</u>	<u>\$ 31,680,424</u>	<u>\$ 8,677,552</u>	<u>\$ (35,311)</u>	<u>\$ 1,686,116</u>

DeSoto Independent School District

Exhibit J-2

Schedule of Revenues, Expenditures and Changes in Fund Balance
 Budgetary Comparison Schedule – Child Nutrition Program
 For the Fiscal Year Ended June 30, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive of (Negative)
		Original	Final		
REVENUES					
5700	Total local and intermediate sources	\$ 1,207,500	\$ 1,070,901	\$ 1,125,537	\$ 54,636
5800	State program revenues	35,000	130,828	130,828	-
5900	Federal program revenues	5,131,357	5,258,076	5,561,744	303,668
5020	Total revenues	6,373,857	6,459,805	6,818,109	358,304
EXPENDITURES					
0035	Food services	6,873,857	6,792,515	7,040,955	(248,440)
6030	Total expenditures	6,873,857	6,792,515	7,040,955	(248,440)
1200	Net change in fund balance	(500,000)	(332,710)	(222,846)	109,864
0100	Fund balance - beginning	1,189,587	1,189,587	1,189,587	-
3000	FUND BALANCE - ENDING	\$ 689,587	\$ 856,877	\$ 966,741	\$ 109,864

DeSoto Independent School District

Exhibit J-3

Schedule of Revenues, Expenditures, and Changes in Fund Balance
 Budgetary Comparison Schedule – Debt Service Fund
 For the Fiscal Year Ended June 30, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance with Final Budget Positive of (Negative)
		Original	Final		
REVENUES					
5700	Total local and intermediate sources	\$ 8,942,744	\$ 8,773,256	\$ 8,833,647	\$ 60,391
5800	State program revenues	2,539,896	2,185,108	2,182,865	(2,243)
5020	Total revenues	11,482,640	10,958,364	11,016,512	58,148
EXPENDITURES					
Debt service					
0071	Principal on long term debt	10,500,000	10,500,000	10,500,000	-
0072	Interest on long term debt	3,919,906	3,923,906	3,923,906	-
0073	Bond issuance cost and fees	4,000	2,400	2,400	-
6030	Total expenditures	14,423,906	14,426,306	14,426,306	-
1100	Excess (deficiency) of revenues over (under) expenditures	(2,941,266)	(3,467,942)	(3,409,794)	58,148
1200	Net change in fund balance	(2,941,266)	(3,467,942)	(3,409,794)	58,148
0100	Fund balance - beginning	7,390,945	7,390,945	7,390,945	-
3000	FUND BALANCE - ENDING	\$ 4,449,679	\$ 3,923,003	\$ 3,981,151	\$ 58,148

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Federal Awards Section

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

To the Board of Trustees
DeSoto Independent School District

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of DeSoto Independent School District (the District), as of and for the year ended June 30, 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 November 12, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses, 2018-001.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies, 2018-002 and 2018-003.

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 an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-004.

The District's Response to Findings

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

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 12, 2018

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

To the Board of Trustees
DeSoto Independent School District DeSoto, Texas

Report on Compliance for Each Major Federal Program

We have audited DeSoto 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 June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 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, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-005, which we consider to be a significant deficiency.

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas
November 12, 2018

DeSoto Independent School District
 Schedule of Findings and Questioned Costs
 For the Fiscal Year Ended June 30, 2018

Section 1. Summary of Auditor's Results

Financial Statements

An unmodified opinion was issued on the financial statements.

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> X </u> Yes	<u> </u> None reported
Noncompliance material to financial statements noted?	<u> X </u> Yes	<u> </u> No

Federal and State Awards

Internal control over major programs:

Material weakness(es) identified?	<u> </u> Yes	<u> X </u> No
Significant deficiencies identified that are not considered to be material weakness(es)?	<u> X </u> Yes	<u> </u> None reported

An unmodified opinion was issued on compliance for major programs.

Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance, or State of Texas Uniform Grant Management Standards?	<u> </u> Yes	<u> X </u> No
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Identification of major federal programs:

- 84.0110A - Title I
- 84.165A - Academies for Academic Enhancement and Excellence
- 84.334S - Gear Up

Dollar threshold use to distinguish between Type A and Type B programs?	<u>\$750,000</u> – Federal
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Auditee qualified as low-risk auditee?	<u> X </u> Yes	<u> </u> No
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DeSoto Independent School District

Schedule of Findings and Questioned Costs – Continued
For the Fiscal Year Ended June 30, 2018

Section 2. Financial Statement Findings

Finding 2018-001 – Material Weakness in Internal Control over Financial Reporting – Fiscal Year End Closing Procedures

Criteria: The Chief Financial Officer (CFO) reviews balance sheet reconciliations during the month and year end close process. The CFO validates that the accounting treatment is correct, items have been recorded in the correct accounts, and that the source documentation to create closing journal entries is sufficient.

Condition: Presently, the CFO does not adequately review fiscal year end reconciliations, and there were several audit adjustments.

Context: We observed the following inadequate fiscal year end closing procedures:

- 1. Accounts Payable.** During our testing of unrecorded liabilities, we noted that the District did not properly identify and accrue six (6) invoices that resulted in a material misstatement of the District's financial statements.
- 2. Foundation Revenue.** During our testing of foundation revenue, we noted that the District did not properly record foundation revenue received, recording and entry to deferred revenue instead of foundation revenue.
- 3. Federal Grant Reconciliations.** During our testing of federal grant revenue, we noted that the District does not reconcile cash receipts received to submitted reimbursement requests. This resulted in an overdraw of reimbursements requested for one grant at year end.

Effect or Potential Effect: Without sufficient fiscal year end closing procedures, errors are not detected timely, and the financial statements were materially misstated.

Cause: The District's business office does not have their year end close process instructions documented, and during the 2018 close process, the District had significant management turnover in the business office.

Recommendation: Document the year end close process. The District's future CFO or Director of Finance should have strong governmental accounting knowledge and the ability to implement effective monthly and fiscal year end closing procedures, complete or review reconciliations, and review a preliminary trial balance prior to the audit beginning. We also recommend that the District hire a grant manager as the District has a lot of different grants that are material in nature and there is currently no position in place to manage all the grants and ensure that all grants are in compliance, and all grants are reconciled on a monthly basis.

View of Responsible Officials: See corrective action plan

Finding 2018-002 – Significant Deficiency in Internal Control over Financial Reporting – Expense Reimbursement Process

Criteria: Before reimbursing employee expenses, the employee provides the District with documentation to support an incurred business expense. This includes the original receipt, documentation of business purpose, names of persons in attendance, and appropriate expense report for the incurred cost.

Condition: Expenses were reimbursed without proper documentation.

DeSoto Independent School District

Schedule of Findings and Questioned Costs – Continued
For the Fiscal Year Ended June 30, 2018

Context: Expenses were reimbursed without a receipt or proper expense reconciliation form to justify the expense.

Effect or Potential Effect: Without sufficient documentation, the District could reimburse an employee for unallowable costs.

Cause: The District's management approved expense reimbursements before the business office received the proper documentation.

Recommendation: We recommend that the expense reimbursement policy be followed by any individual requesting reimbursement from the District.

View of Responsible Officials: See corrective action plan

Finding 2018-003 – Significant Deficiency in Internal Control over Financial Reporting – Attendance Reports did not have evidence of review or approval

Criteria: The PEIMS coordinator reviews a campus attendance summary signed by the principal and compares the attendance information to what the teachers have entered into the system. The summary is also reviewed for reasonableness and the review process is evidenced by the signature of the PEIMS supervisor.

Condition: The approval process described above was eliminated in the current fiscal year.

Context: The supervisor is no longer evidencing his approval when comparing the campus attendance summary signed by the principal to the teacher attendance report or reviewing for reasonableness. During our walkthrough of internal controls, we noted a discrepancy between the two reports that had not been detected or reported.

Effect or Potential Effect: Without signing off on the review process, there is no evidence the review is being performed, and discrepancies are not reported.

Cause: The District's PEIMS supervisor no longer performs the key control in the attendance report policy.

Recommendation: We recommend that the supervisor review the reports for discrepancies and reasonableness and evidence such review by signing.

View of Responsible Officials: See corrective action plan

Finding 2018-004 – Compliance Finding – Expenditures Exceeded Amended Budget

Criteria: Legal requirements for school district budgets are formulated by the state (Texas Education Code), the TEA, and the local district. In accordance with the requirements of the Texas Education Code and the TEA, no funds may be expended in any manner other than as provided for in the adopted budget. A school district must amend the official budget before exceeding a functional expenditure category.

Condition: Expenditures exceeded the final amended budget in four functions in the general fund and one function in the child nutrition fund.

Context: The District's actual expenditures exceeded the final amended budget in fiscal years 2018 and 2017.

DeSoto Independent School District

Schedule of Findings and Questioned Costs – Continued
For the Fiscal Year Ended June 30, 2018

Effect or Potential Effect: Expenditures are being incurred without proper budget amendments.

Cause: The District's management authorized expenditures in excess of appropriations and are not properly monitoring actual versus budgeted expenditures. We also noted that purchase orders are not being completed consistently, therefore the business office is not able to compare the purchase order to the budget before the purchase is made.

Recommendation: We recommend that the District implement policies and procedures to strengthen the oversight and monitoring of expenditures and budget appropriations. We also recommend that the District complete purchase orders.

View of Responsible Officials: See corrective action plan

Section 3. Federal Awards Findings

Finding 2018-005 – Significant Deficiency in Internal Control over Compliance

Information on the Federal Programs: CFDA 84.010A – Title I, Part A – Improving Basic Programs, United States Department of Education. CFDA 84.165A – Academies for Academic Enhancement and Excellence, United States Department of Education; CFDA 84.334S – Gear Up, United States Department of Education.

Pass-Through Entity: State Department of Education

Compliance Requirements: Suspension and Debarment. The District must follow the procurement standards set out at 2 CFR sections 200.317 through 200.326.

Criteria: Before the District enters into a transaction with a vendor for a purchase that equals or exceeds \$25,000, the District must verify that the vendor is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition: During our testing of suspension and debarment, we were unable to verify that the District checked for suspension and debarment.

Cause: Purchasing does not keep documentation when they check for suspension or debarment.

Effect or Potential Effect: Failure to check and document suspension and debarment increases the risk that the District may contract with a suspended or debarred vendor, and thus have unallowable costs.

Questioned Costs: None

Context: During our testing of suspension and debarment, we noted documentation for checking suspension and debarment for vendors was not kept by the purchasing department.

Recommendation: We recommend that the District add a policy to print or scan documentation showing that all vendors with purchases of \$25,000 or greater are not suspended or debarred.

View of Responsible Officials: See corrective action plan.

DeSoto Independent School District

Schedule of Findings and Questioned Costs – Continued
For the Fiscal Year Ended June 30, 2018

Corrective Action Plan (prepared by the District)

Finding 2018-001 – Material Weakness in Internal Control over Financial Reporting – Fiscal Year End Closing Procedures

Corrective Action Planned: The District's new Superintendent and interim CFO, both in place after fiscal year end, are working together to reorganize and properly staff the Business Office with qualified individuals that will have the depth of knowledge to remedy all of these findings and strongly concur with the audit recommendation.

Anticipated completion date: Fiscal year 2019

Auditee contact person: Superintendent and interim CFO

Finding 2018-002 – Significant Deficiency in Internal Control over Financial Reporting – Expense Reimbursement Process

Corrective Action Planned: This was further investigated by the District, determined to be an isolated incident, and the credit card was cancelled. All reimbursements in the future will only occur after proper documentation has been submitted.

Anticipated completion date: Immediately

Auditee contact person: Interim CFO

Finding 2018-003 – Significant Deficiency in Internal Control over Financial Reporting – Attendance Reports did not have evidence of review or approval

Corrective Action Planned: The District concurs with the recommendation and will start a review process that is evidenced by the supervisor signing off on the attendance report.

Anticipated completion date: Immediately

Auditee contact person: PEIMS Supervisor

Finding 2018-004 – Significant Deficiency in Internal Control over Financial Reporting – Expenditures Exceeded Amended Budget

Corrective Action Planned: The District will begin monitoring budgets and preparing monthly budget amendments for the Board of Trustees' approval to minimize any function being overspent at year end. The District has a very detailed purchasing procedures manual and has expressed the expectation to all budget managers that they will comply to encumbering funds by issuance of a purchase order when appropriate which ensures budgeted funds are available for their acquisition of supplies, materials, or services.

Anticipated completion date: Immediately

Auditee contact person: Interim CFO

Finding 2018-005 – Significant Deficiency in Internal Control over Compliance

Corrective Action Planned: The District will comply with this requirement and check for and document all vendor searches to assure current approved vendors and potential new vendors have not been suspended or debarred.

Anticipated completion date: Implemented immediately

Auditee contact person: Interim CFO and Director of Purchasing

DeSoto Independent School District
 Schedule of Expenditures of Federal Awards
 For the Fiscal Year Ended June 30, 2018

Exhibit K-1

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct programs			
Academies for Academic Enhancement and Excellence*	84.165A	U165A170043	\$ 1,227,172
Gear Up*	84.334S	P334A140055	1,229,986
Investing in Innovation Fund	84.411C	U411C150127	855,410
Total direct programs			3,312,568
Passed Through State Department of Education:			
ESEA, Title I, Part A - Improving Basic Programs*	84.0110A	17610101057906	135,685
ESEA, Title I, Part A - Improving Basic Programs*	84.0110A	18610101057906	1,734,375
ESEA, Title I, Part A - 1003 School Improvement*	84.0110A	18610123057906	80,067
Total Title I, Part A			1,950,127
Special Education Cluster (IDEA):			
IDEA - Part B, Formula	84.027A	186600010579066000	1,836,417
IDEA - Part B, Preschool	84.173A	186610010579066000	26,529
IDEA - Part B, Discretionary	84.027A	176600060579066000	72,080
Total Special Education Cluster (IDEA)			1,935,026
Career and Technical - Basic Grant	84.048A	18420006057906	82,026
Career and Technical - Basic Grant	84.048A	173922017110010	55,353
Total Career and Technical Grants			137,379
Title III, Part A - Limited English Proficient	84.365A	17671001057906	11,450
Title III, Part A - English Language Acquisition	84.365A	18671001057906	29,500
Total Title III, Part A			40,950
21st Century	84.287C	176950247110007	16,148
21st Century	84.287C	186950247110007	1,551,522
Total 21st Century			1,567,670
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	18694501057906	185,535
ESEA, Title IV, Part A	84.424A	18680101057906	22,240
Workforce Innovation and Opportunity Act (WIOA) Cluster:			
2016-2018 Adult Program	17.258	173918017110010	45,630
2016-2018 Dislocated Workers Program	17.278	173920017110010	29,386
Total WIOA Cluster			75,016
Total passed through State Department of Education			5,913,943
TOTAL U.S. DEPARTMENT OF EDUCATION			9,226,511
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through State Department of Education			
CCDF Cluster:			
Child Care and Development Block Grant	93.575	173921017110012	304,375
Total passed through State Department of Education			304,375
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			304,375

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

DeSoto Independent School District
 Schedule of Expenditures of Federal Awards – Continued
 For the Fiscal Year Ended June 30, 2018

Exhibit K-1

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through the State Department of Agriculture			
Child Nutrition Cluster:			
National School Breakfast Program	10.553	71401801	\$ 1,227,762
National School Lunch Program - Cash Assistance	10.555	71301801	3,299,582
National School Lunch Prog. - Non-Cash Assistance	10.555	71301801	411,960
Total Child Nutrition Cluster			4,939,304
Child & Adult Care Food Program - Cash Assistance	10.558	CEID: 00277	622,440
Total passed through the State Department of Agriculture			5,561,744
TOTAL U.S. DEPARTMENT OF AGRICULTURE			5,561,744
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 15,092,630

* Denotes major federal program

DeSoto Independent School District

Notes to the Schedule of Expenditures of Federal Awards

The District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

The District participates in numerous State and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2018, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying combined financial statements for such contingencies.

The following table reconciles total expenditures per the schedule of expenditures of federal awards (Exhibit K-1) to the federal program revenues per Exhibit C-3:

Total expenditures of federal awards per Exhibit K-1	\$	15,092,630
SHARS revenue		714,789
JROTC		116,870
		<hr/>
Total federal programs revenue per Exhibit C-3	\$	<u>15,924,289</u>

The District has elected not to use the 10% de minimis indirect cost rate.