

LORENZO INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board	1	
FINANCIAL SECTION		
Independent Auditors' Report on Financial Statements	2	
Management's Discussion and Analysis (Required Supplementary Information)	5	
<u>Basic Financial Statements</u>		
Government-Wide Financial Statements:		
Statement of Net Position	14	A-1
Statement of Activities	15	B-1
Fund Financial Statements:		
Balance Sheet-Governmental Funds	16	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17	C-1R
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18	C-2
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19	C-3
Statement of Fiduciary Net Position	20	E-1
Notes to the Financial Statements	21	
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedules:		
General Fund	55	G-1
Shared Services Arrangement	56	G-2
Schedule of the District's Proportionate Share of the Net Pension Liability – TRS	57	G-3
Schedule of the District Contributions for Pensions	58	G-4
Schedule of the District's Proportionate Share of the Net OPEB Liability – TRS	59	G-5
Schedule of the District's OPEB Contributions	60	G-6

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2018

TABLE OF CONTENTS
(Continued)

	<u>Page</u>	<u>Exhibit</u>
OTHER SUPPLEMENTARY INFORMATION		
Schedule of Delinquent Taxes Receivable	61	J-1
Fund Balance and Cash Flow Calculation Worksheet (Unaudited) – General Fund	62	J-2
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	63	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	65	
Schedule of Findings and Questioned Costs	67	
Summary Schedule of Prior Audit Findings	68	
Corrective Action Plan	69	
Schedule of Expenditures of Federal Awards	70	K-1
Notes to the Schedule of Expenditures of Federal Awards	71	
OTHER TEA REQUIRED SCHEDULE		
Schools FIRST Questionnaire	72	L-1

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

Lorenzo Independent School District
Name of School District

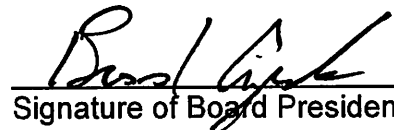
Crosby
County

054-902
Co.- Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved ___ disapproved (check one) for the year ended June 30, 2018 at a meeting of the Board of Trustees of such school district on the 17th day of September, 2018.



Signature of Board Secretary



Signature of Board President

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

(attach list as necessary):

FINANCIAL SECTION

Terry & King, CPAs, P.C.

4216 102nd
P.O. Box 93550
Lubbock, TX 79493-3550

Randel J. Terry, CPA
Ryan R. King, CPA

Telephone - (806) 698-8858 – Fax – (866) 288-6490

Independent Auditors' Report

Board of Trustees
Lorenzo Independent School District
P.O. Box 520
Lorenzo, Texas 79343

Members of the Board of Trustees:

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 the Lorenzo Independent School 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 Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Lorenzo Independent School District, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lorenzo Independent School District's basic financial statements. The accompanying other schedules listed in the table of contents as Other Supplementary Information 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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

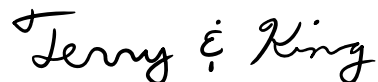
This information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Fund Balance and Cash Flow Calculation Worksheet-General Fund 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 September 14, 2018, on our consideration of the Lorenzo Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Lorenzo Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "Terry & King". The signature is written in black ink and is positioned above the typed name of the firm.

Terry & King, CPAs, P.C.
Lubbock, Texas
September 14, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

This section of Lorenzo Independent School District’s annual financial report presents our discussion and analysis of the District’s financial performance during the year ended June 30, 2018. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District’s total combined net position was \$1,840,098 at June 30, 2018.
- During the year, the District’s expenses were \$650,261 less than the \$5,459,613 generated in taxes and other revenues for governmental activities.
- The total cost of the District’s programs decreased \$1,467,063 or 23%, and no new programs were added this year. Expenses were adjusted downward by \$1,631,977 in accordance with GASB 68 and GASB 75 related to pension and OPEB expenses.
- The general fund reported a fund balance this year of \$2,873,329.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1F, Required Components of the District’s Annual Financial Report

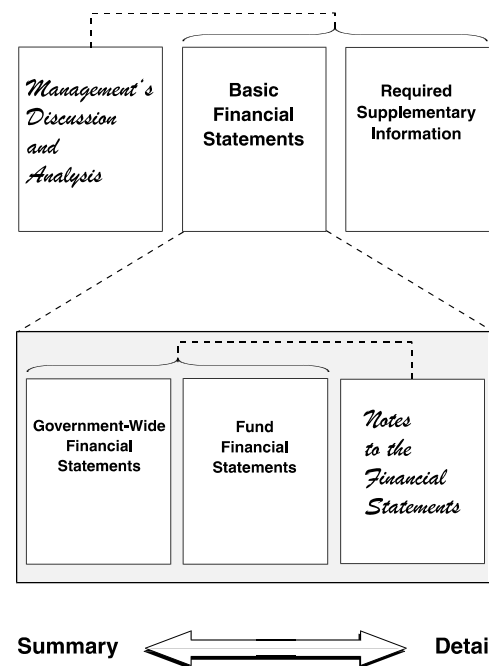


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements		
	Government-wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> ◆ Statement of net assets ◆ Statement of activities 	<ul style="list-style-type: none"> ◆ Balance sheet ◆ Statement of revenues, expenditures & changes in fund balances 	<ul style="list-style-type: none"> ◆ Statement of fiduciary net assets ◆ Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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

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

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

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The District's combined net position was \$1,840,098 at June 30, 2018. (See Table A-1).

Table A-1
Lorenzo Independent School District's Net Position

	Governmental Activities		Percentage Change
	<u>2018</u>	<u>2017</u>	
Current assets:			
Cash and cash equivalents	2,979,343	2,378,232	25%
Due from other governments	301,719	637,100	-53%
Taxes Receivable, net	38,722	36,887	5%
Interfund Balances	9,571	9,571	0%
Other Receivables	-	-	0%
Total current assets:	<u>3,329,355</u>	<u>3,061,790</u>	9%
Noncurrent assets:			
Land	230,500	230,500	0%
Buildings & Improvements	7,368,061	7,368,061	0%
Less accumulated depreciation, buildings & improvements	(4,367,064)	(4,167,673)	5%
Vehicles	1,023,671	1,022,508	0%
Less accumulated depreciation, vehicles	(833,429)	(832,229)	0%
Furniture & Equipment	1,432,519	1,416,737	1%
Less accumulated depreciation, furniture & equipment	(1,366,418)	(1,326,647)	3%
Total noncurrent assets	<u>3,487,840</u>	<u>3,711,257</u>	-6%
Total Assets	<u>6,817,195</u>	<u>6,773,047</u>	1%
Deferred Outflows	<u>338,425</u>	<u>498,242</u>	-32%
Current liabilities:			
Accounts Payable	48,620	40,362	20%
Due to Other Governments	-	-	0%
Unearned Revenue	368,684	167,365	120%
Total current liabilities	<u>417,304</u>	<u>207,727</u>	101%
Long-term liabilities:			
Net Pension Liability	1,235,973	1,572,683	-21%
Net OPEB Liability	2,340,423	4,131,899	100%
Total long-term liabilities	<u>3,576,396</u>	<u>5,704,582</u>	-37%
Total Liabilities	<u>3,993,700</u>	<u>5,912,309</u>	-32%
Deferred Inflows	<u>1,321,822</u>	<u>169,143</u>	681%
Net Position:			
Net investment in capital assets	3,487,840	3,711,257	-6%
Unrestricted	(1,647,742)	(2,521,420)	-35%
Total Net Position	<u>1,840,098</u>	<u>1,189,837</u>	55%

Changes in net position. The District's total revenues were \$5,459,613. A significant portion, 29 percent, of the District's revenue comes from taxes. (See Figure A-3.) 47 percent comes from state aid and operating grants, 18 percent comes from charges for services, while 6 percent relates to other revenues.

The total cost of all programs and services was \$4,809,352; 46 percent of these costs are for instruction.

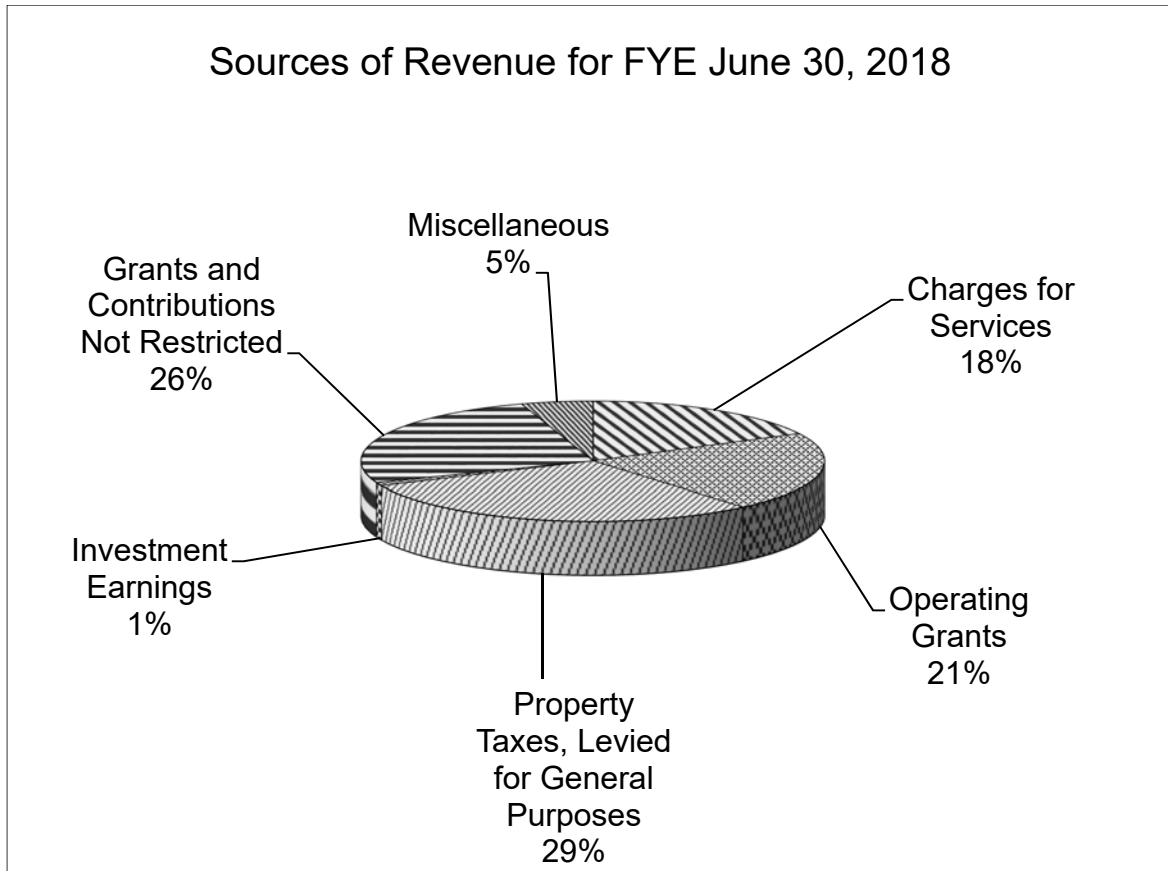


Figure A-3

Governmental Activities

- Property tax rates decreased from \$1.0271 per \$100 value to \$1.0105 per \$100 value. Values increased 13% resulting in an increase of tax revenues collected this year from \$1,402,093 in the year ending June 30, 2017 to \$1,543,623 in FYE 2018. The tax levy increased from \$1,387,238 in the prior period to \$1,546,891 in the current period.

Table A-2
Changes in Lorenzo Independent School District's Net Position

	Governmental Activities		Percentage Change
	<u>2018</u>	<u>2017</u>	
Program Revenues:			
Charges for Services	953,747	945,444	1%
Operating Grants and Contributions	1,166,233	2,070,672	-44%
General Revenues:			
Property Taxes	1,603,734	1,421,452	13%
Grants and Contributions not restricted	1,414,011	1,392,116	2%
Investment Earnings	48,946	27,570	78%
Other	272,942	243,498	12%
Total Revenues	<u>5,459,613</u>	<u>6,100,752</u>	-11%
Instruction	2,233,314	3,318,847	-33%
Instructional Resources and Media Services	20,919	27,321	-23%
Curriculum Development and Instructional Staff Development	47,723	82,122	-42%
Instructional Leadership	183,255	262,879	-30%
School Leadership	174,781	263,694	-34%
Guidance, Counseling and Evaluation Services	194,572	290,275	-33%
Health Services	40,417	47,646	-15%
Student (Pupil) Transportation	289,030	304,186	-5%
Food Services	297,551	329,033	-10%
Curricular/Extracurricular Activities	138,156	163,126	-15%
General Administration	522,473	426,116	23%
Plant Maintenance & Operation	444,938	427,336	4%
Security & Monitoring Services	7,001	7,495	-7%
Data Processing Services	55,824	87,526	-36%
Community Services	-	64,326	-100%
Payments to Shared Service Arrangements	119,733	132,026	-9%
Other Intergovernmental Charges	39,665	42,461	-7%
Total Expenses	<u>4,809,352</u>	<u>6,276,415</u>	-23%
Excess (Deficiency) Before Other Resources, Uses	650,261	(175,663)	-470%
Other Resources (Uses)	-	-	0%
Increase (Decrease) in Net Position	650,261	(175,663)	-470%
Net Position - Beginning	5,298,117	5,473,780	-3%
GASB Standard Implementation	(4,108,280)	-	-100%
Net Position - Ending	<u><u>1,840,098</u></u>	<u><u>5,298,117</u></u>	-65%

Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$4,809,352.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$1,603,734.
- Some of the cost was paid by those who directly benefited from the programs \$953,747.
- By grants and contributions \$2,580,244.

Table A-3
Net Cost of Selected District Functions

	Total Cost of Services		% Change	Net Cost of Services		% Change
	<u>2018</u>	<u>2017</u>		<u>2018</u>	<u>2017</u>	
Instruction	2,233,314	3,318,847	(33%)	1,201,122	1,676,580	(28%)
School administration	522,473	426,116	23%	305,098	263,286	16%
Plant Maintenance & Operations	444,938	427,336	4%	434,003	385,575	13%
Guidance, Counseling, & Evaluation	194,572	290,275	(33%)	7,001	93,564	(93%)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$6,272,864, which increased 3% from the preceding year. Local revenues increased \$234,502 (9%), revenues from state programs increased \$36,672 (2%), and revenues from federal programs decreased \$102,928 (6%).

General Fund expenditures increased \$238,551, or 7%. In the previous year, the District spent \$133,874 for capital expenditures. In the current year, the District spent \$57,240 on capital expenditures. Payroll related expenditures decreased \$57,893 or 1%.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget 3 times. Even with these adjustments, actual expenditures were \$10,539 below final budget amounts.

On the other hand, resources available were \$21,214 above the final budgeted amount.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had invested \$10,054,751 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$16,945 or less than 1% percent over last year.

Table A-4
District's Capital Assets

	Governmental Activities		Total Percentage Change
	<u>2018</u>	<u>2017</u>	<u>2017-2018</u>
Land	\$ 230,500	\$ 230,500	0%
Buildings and improvements	7,368,061	7,368,061	0%
Vehicles	1,023,671	1,022,507	0%
Equipment	1,432,519	1,416,738	1%
Totals at historical cost	10,054,751	10,037,806	0%
Total accumulated depreciation	(6,566,911)	(6,326,549)	(4%)
Net capital assets	<u>\$ 3,487,840</u>	<u>\$ 3,711,257</u>	<u>(6%)</u>

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

Debt Administration

The District does not current have any long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2019 budget preparation is lower.
- General operating fund spending per student will remain constant.
- The District's 2019 refined average daily attendance is expected to be basically the same.

These indicators were taken into account when adopting the general fund budget for 2019. Property taxes will decrease. State revenue will increase due to decreased property taxes.

If these estimates are realized, the District's budgetary general fund fund balance is expected to decrease slightly by the close of 2019.

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 demonstrate 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 Services Department.

BASIC FINANCIAL STATEMENTS

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

STATEMENT OF NET POSITION
June 30, 2018

1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	ASSETS:	
1110	Cash and Cash Equivalents	\$ 2,979,343
1225	Taxes Receivable, Net	38,722
1240	Due from Other Governments	301,719
1260	Interfund Balances	9,571
	Capital Assets:	
1510	Land	230,500
1520	Buildings and Improvements, net	3,000,997
1530	Furniture and Equipment, net	<u>256,343</u>
1000	<u>Total Assets</u>	<u>\$ 6,817,195</u>
	DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred Outflows - Pension	\$ 311,881
1706	Deferred Outflows - OPEB	<u>26,544</u>
	<u>Total Deferred Outflows of Resources</u>	<u>\$ 338,425</u>
	LIABILITIES:	
	Current Liabilities:	
2110	Accounts Payable	\$ 48,620
2300	Unearned Revenue	368,684
	Noncurrent Liabilities:	
2540	Net Pension Liability	1,235,973
2545	Net OPEB Liability	<u>2,340,423</u>
2000	<u>Total Liabilities</u>	<u>3,993,700</u>
	DEFERRED INFLOWS OF RESOURCES	
2605	Deferred Inflows - Pension	\$ 342,819
2606	Deferred Inflows - OPEB	<u>979,003</u>
	<u>Total Deferred Inflows of Resources</u>	<u>\$ 1,321,822</u>
	NET POSITION:	
3200	Net investment in capital assets	3,487,840
3900	Unrestricted	<u>(1,647,742)</u>
3000	<u>TOTAL NET POSITION</u>	<u>\$ 1,840,098</u>

The accompanying notes are an integral part of this statement.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

STATEMENT OF ACTIVITIES
Year Ended June 30, 2018

Data Control		1	3	4	Net (Expense)
			Program Revenues		Revenue and
Codes	Functions/Programs	Expenses	Charges for	Operating	Changes in
			Services	Grants and	Net Position
				Contributions	
	Government Activities:				
11	Instruction and Instruction-Related Services	\$ 2,233,314	\$ 458,314	\$ 573,878	\$ (1,201,122)
12	Instructional Resources and Media Services	20,919	-	(4,059)	(24,978)
13	Curriculum Development and Instructional Staff Development	47,723	-	57,026	9,303
21	Instructional Leadership	183,255	120,465	97,774	34,984
23	School Leadership	174,781	-	(46,354)	(221,135)
31	Guidance, Counseling, & Evaluation Services	194,572	17,197	170,374	(7,001)
33	Health Services	40,417	5,674	(5,381)	(40,124)
34	Student (Pupil) Transportation	289,030	113,224	26,438	(149,368)
35	Food Services	297,551	10,472	282,177	(4,902)
36	Extracurricular Activities	138,156	15,896	(4,208)	(126,468)
41	General Administration	522,473	160,917	56,458	(305,098)
51	Plant Maintenance and Operations	444,938	39,413	(28,478)	(434,003)
52	Security and Monitoring Services	7,001	2,514	1,148	(3,339)
53	Data Processing	55,824	9,661	(10,560)	(56,723)
93	Payments to Shared Service Arrangements	119,733	-	-	(119,733)
99	Other Intergovernmental Charges	39,665	-	-	(39,665)
TG	<u>Total Government Activities</u>	<u>4,809,352</u>	<u>953,747</u>	<u>1,166,233</u>	<u>(2,689,372)</u>
TP	Total Primary Government	<u>4,809,352</u>	<u>953,747</u>	<u>1,166,233</u>	<u>(2,689,372)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				1,603,734
IE	Investment Earnings				48,946
GC	Grants and Contributions Not Restricted to Specific Programs				1,414,011
MI	Miscellaneous				271,742
S1	Gain on Sale of Assets				1,200
TR	Total General Revenue				<u>3,339,633</u>
CN	Change in Net Position				650,261
NB	Net Position -- Beginning				5,298,117
PA	Prior Period Adjustment-Change in GASB Standards				<u>(4,108,280)</u>
NE	Net Position -- Ending				<u>\$ 1,840,098</u>

The accompanying notes are an integral part of this statement.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

Data Control Codes	10			98		
	General Fund	IDEA-B	Special Education	Other Governmental Funds	Total Governmental Funds	
	ASSETS:					
1110	Cash and Cash Equivalents	\$ 2,890,758	\$ -	\$ 88,585	\$ -	\$ 2,979,343
1225	Taxes Receivable, Net	38,722	-	-	-	38,722
1240	Due from Other Governments	254,004	-	43,447	4,268	301,719
1260	Due from Other Funds	13,839	-	-	-	13,839
1000	<u>TOTAL ASSETS</u>	<u>\$ 3,197,323</u>	<u>\$ -</u>	<u>\$ 132,032</u>	<u>\$ 4,268</u>	<u>\$ 3,333,623</u>
	LIABILITIES:					
	Current Liabilities:					
2110	Accounts Payable	\$ 44,654	\$ -	\$ 3,966	\$ -	\$ 48,620
2170	Due to Other Funds	-	-	-	4,268	4,268
2300	Unearned Revenue	240,618	-	128,066	-	368,684
2000	<u>Total Liabilities</u>	<u>285,272</u>	<u>-</u>	<u>132,032</u>	<u>4,268</u>	<u>421,572</u>
	DEFERRED INFLOWS OF RESOURCES:					
2600	Unavailable Revenue - Property Taxes	38,722	-	-	-	38,722
	<u>Total Deferred Inflows of Resources</u>	<u>38,722</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>38,722</u>
	FUND BALANCES:					
	Committed Fund Balances:					
3510	Construction	750,000	-	-	-	750,000
3600	Unassigned	2,123,329	-	-	-	2,123,329
3000	<u>Total Fund Balance</u>	<u>2,873,329</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,873,329</u>
4000	<u>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</u>	<u>\$ 3,197,323</u>	<u>\$ -</u>	<u>\$ 132,032</u>	<u>\$ 4,268</u>	<u>\$ 3,333,623</u>

The accompanying notes are an integral part of this statement.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2018

Total Fund Balances -- Governmental Funds Balance Sheet	\$ 2,873,329
Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	3,487,840
2 Other long-term assets are not available to pay for current-period expenditures and therefore are unearned in the funds.	38,722
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$311,881, a deferred resource inflow in the amount of \$342,819, and a net pension liability in the amount of \$1,235,973. This resulted in a decrease in net position.	(1,266,911)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$26,544, a deferred resource in the amount of \$979,003, and a net OPEB liability in the amount of \$2,340,423. This resulted in a decrease in net position	<u>(3,292,882)</u>
Net Position of Governmental Activities -- Statement of Net Position	<u><u>\$ 1,840,098</u></u>

The accompanying notes are an integral part of this statement.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES--
GOVERNMENTAL FUNDS
Year Ended June 30, 2018

Data Control Codes	10				98	
	General Fund	IDEA-B	Special Education	Other Governmental Funds	Total Governmental Funds	
REVENUES:						
5700	Local and Intermediate Sources	\$ 1,958,287	\$ -	\$ 918,046	\$ -	\$ 2,876,333
5800	State Program Revenues	1,577,720	-	46,909	8,248	1,632,877
5900	Federal Program Revenues	<u>286,635</u>	<u>641,032</u>	<u>419,263</u>	<u>416,724</u>	<u>1,763,654</u>
5020	Total Revenues	<u>3,822,642</u>	<u>641,032</u>	<u>1,384,218</u>	<u>424,972</u>	<u>6,272,864</u>
EXPENDITURES:						
Current:						
0011	Instruction and Instruction-Related Services	1,678,761	448,465	695,831	303,273	3,126,330
0012	Instructional Resources and Media Services	26,921	-	-	-	26,921
0013	Curriculum Development and Instructional Staff Development	12,100	57,027	-	-	69,127
0021	Instructional Leadership	4,194	6,940	181,635	62,269	255,038
0023	School Leadership	259,736	-	-	-	259,736
0031	Guidance, Counseling, & Evaluation Services	67,906	128,600	25,930	46,927	269,363
0033	Health Services	51,055	-	8,555	-	59,610
0034	Student (Pupil) Transportation	192,190	-	170,718	-	362,908
0035	Food Services	299,878	-	-	-	299,878
0036	Cocurricular/Extracurricular Activities	140,032	-	4,732	-	144,764
0041	General Administration	324,126	-	242,629	12,503	579,258
0051	Plant Maintenance and Operations	473,062	-	35,830	-	508,892
0052	Security and Monitoring Services	3,210	-	3,791	-	7,001
0053	Data Processing Services	75,120	-	14,567	-	89,687
0093	Payments to Shared Service Arrangements	119,733	-	-	-	119,733
0099	Other Intergovernmental Charges	<u>39,665</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,665</u>
6030	Total Expenditures	<u>3,767,689</u>	<u>641,032</u>	<u>1,384,218</u>	<u>424,972</u>	<u>6,217,911</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	54,953	-	-	-	54,953
Other Financing Sources and (Uses):						
7912	Sale of Real & Personal Property	<u>1,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,200</u>
	Total Other Financing Sources and (Uses)	<u>1,200</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,200</u>
1200	Net Change in Fund Balances	56,153	-	-	-	56,153
0100	Fund Balances -- Beginning	<u>2,817,176</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,817,176</u>
3000	Fund Balances -- Ending	<u>\$ 2,873,329</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,873,329</u>

The accompanying notes are an integral part of this statement.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Net Change in Fund Balances -- Total Governmental Funds	\$ 56,153
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their useful lives as depreciation expense. This is the amount of capital outlays during the current period.	57,240
The depreciation of capital assets is not reported in the funds. This is the amount of current depreciation on these assets.	(280,658)
Certain property tax revenues are unavailable in the funds. These are the amounts that have not been collected and are therefore do not provide current financial resources. This is the amount that these accounts changed during the current period.	1,836
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$108,580. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$106,913. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$1,375. The net result is an increase in the change in net position.	292
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$26,180. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$23,619. Finally, the proportionate share of the OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$812,837. The net result is an increase in the change in net position.	<u>815,398</u>
Change in Net Position of Governmental Activities -- Statement of Activities	<u>\$ 650,261</u>

The accompanying notes are an integral part of this statement.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2018

	<u>AGENCY FUNDS</u>
ASSETS:	
Cash and Cash Equivalents	\$ 54,380
TOTAL ASSETS	<u>\$ 54,380</u>
LIABILITIES:	
Due to Student Groups	\$ 44,809
Due to Other Funds	<u>9,571</u>
TOTAL LIABILITIES	<u>\$ 54,380</u>

The accompanying notes are an integral part of this statement.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS
Year Ended June 30, 2018

A. Summary of Significant Accounting Policies

The basic financial statements of Lorenzo Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non exchange transactions.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 2
Year Ended June 30, 2018

A. Summary of Significant Accounting Policies (Continued)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all of taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

IDEA-B: This is the District's fund for reporting the revenues and expenditures for the IDEA-B federal program for special education.

Special Education: This is the District's fund for the shared services arrangement with other member school districts for the purpose of serving students with special needs.

Annual budgets for the General Fund, IDEA-B Fund, and Special Education Fund are adopted on a basis consistent with generally accepted accounting principles.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for resources restricted to, or committed for, specific purposes by a grantor. Federal financial assistance generally is accounted for in a special revenue fund. Any unused balances are returned to the grantor at the close of specific project periods. Project accounting is employed to maintain integrity for the various sources of funds.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 3
Year Ended June 30, 2018

A. Summary of Significant Accounting Policies (Continued)

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support the District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, the revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received.

Grant funds are considered earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 4
Year Ended June 30, 2018

A. Summary of Significant Accounting Policies (Continued)

Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from general long-term debt and acquisitions under capital leases are reported as other financing sources.

c. Fund Balance Classification

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. The District does not have any restricted fund balance.

Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Directors. These amounts cannot be used for any other purpose unless the Board of Directors removes or changes the specified use by taking the same type of action (resolution) that was employed when the funds were initially committed.

Unassigned: This classification includes the residual fund balance for the General Fund.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 5
Year Ended June 30, 2018

A. Summary of Significant Accounting Policies (Continued)

d. 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.

3. Financial Statement Amounts

a. Deposits and Investments

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

b. Property Taxes

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

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. As of June 30, 2018, the amount deemed uncollectible by this estimate was \$64,292. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect the cost applicable to future accounting periods and are recorded as prepaid items.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 6
Year Ended June 30, 2018

A. Summary of Significant Accounting Policies (Continued)

d. Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Purchased or constructed capital assets are reported at cost estimated historical cost. Donated fixed assets are recorded at their estimated fair market value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	5-15
Office Equipment and Furniture	3-15
Computer Equipment	3

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of the period end.

f. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District current has two items which qualify for reporting in this category.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 7
Year Ended June 30, 2018

A. Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District currently has one type of item which arises under the modified accrual basis of accounting and one type of item that qualifies under the accrual basis of accounting. Accordingly, unavailable ad valorem tax revenue is only reported in the governmental funds balance sheet; and deferred inflows related to pensions and OPEBs is only reported in the government-wide statement of net position. These amounts are deferred and recognized as an inflow of resources in the period when the amounts become available.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line on the government-wide statement of net position.

h. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. This includes capital leases payable.

In the fund financial statements, governmental fund types report the face amount debt issued as other financing sources. Principal payments on related debt are reported as expenditures.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 8
Year Ended June 30, 2018

A. Summary of Significant Accounting Policies (Continued)

i. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

j. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The Texas Education Agency requires the display of these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide database for policy development and funding plans.

k. 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.

l. 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.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 9
Year Ended June 30, 2018

B. Stewardship, Compliance and Accountability

1. Budgetary Information

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's Financial Accounting and Reporting module, 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 Fund Types prior to June 20 of the preceding fiscal year for the subsequent fiscal year beginning July 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Child Nutrition Fund (which is included in the General Fund). The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting that is consistent with generally accepted accounting principles.

2. Fair Value Measurements

The District adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 10
Year Ended June 30, 2018

B. Stewardship, Compliance and Accountability (continued)

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

C. Deposits and Investments

Under Texas state law, 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 the 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 deposits (cash, certificates of deposit, and interest bearing savings accounts included in temporary investments) was \$3,033,723 and the bank balance was \$3,366,458. The District's cash deposits at June 30, 2018 and throughout the fiscal year were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Investments

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principle and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 11
Year Ended June 30, 2018

C. Deposits and Investments (Continued)

The Public Funds Investment Act (“Act”) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports an establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

State statutes and Board policy authorize the District to invest in 1) obligations of the U.S. or its agencies and instrumentalities; 2) obligations of state, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than “A” or its equivalent; 3) guaranteed or secured certificates of deposit issued by state or national banks domiciled in Texas; 4) obligations of the state of Texas or its agencies; 5) other obligations guaranteed by the U.S. or the state of Texas or their agencies and instrumentalities; 6) fully collateralized repurchase agreements; and 7) public funds investment pools. Temporary investments are reported at cost, which approximates market, and are secured, when necessary, by the FDIC or obligations of items 1-4 above at 101% of the investment’s market value.

The District’s investments at June 30, 2018 included certificates of deposit in the amount of \$1,701,710 and investment pools in the amount of \$595,915.

<u>Investment Pool</u>	<u>Account Name</u>	<u>Fund Rating (Standard & Poor’s)</u>	<u>Maturity</u>	<u>Amount</u>
Lone Star –COF	General Fund	AAAm	Wtd Avg Maturity 44 days	\$ 1,220,391
Lone Star - COF	EPEC SSA	AAAm	Wtd Avg Maturity 44 days	935
				<u>\$ 1,221,326</u>

Public Funds Investment Pools

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of now 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.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 12
Year Ended June 30, 2018

C. Deposits and Investments (Continued)

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.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Corporate Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end as if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 13
Year Ended June 30, 2018

C. Deposits and Investments (Continued)

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 14
Year Ended June 30, 2018

D. Interfund Balances and Activities

Interfund balances at June 30, 2017 consisted of the following individual fund balances:

<u>Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
<u>General Fund:</u>		
Agency Funds	\$ 9,571	
IDEA-B Fund	-	
Special Education Fund	-	
Special Revenue Funds	<u>4,268</u>	<u>\$ -</u>
<u>Total General Fund</u>	<u>13,839</u>	<u>-</u>
 <u>Special Education Fund:</u>		
General Fund	<u>-</u>	<u>-</u>
 <u>Special Revenue Funds:</u>		
General Fund	<u>-</u>	<u>4,268</u>
 <u>Agency Fund:</u>		
General Fund	<u>-</u>	<u>9,571</u>
<u>Total</u>	<u>\$ 13,839</u>	<u>\$ 13,839</u>

These interfund receivables and payables were recorded to eliminate cash flow deficits of various funds and to report interfund balances not paid as of year-end. All balances are expected to be paid within one year.

There were no interfund transfers for the year ended June 30, 2018.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 15
Year Ended June 30, 2018

E. Capital Assets

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

<u>Government Activities</u>	<u>Balance 07/01/17</u>	<u>Additions</u>	<u>Deletions/ Reclassifications</u>	<u>Balance 06/30/18</u>
Land	\$ 230,500	\$ -	\$ -	\$ 230,500
Buildings & Improvements	7,368,061	-	-	7,368,061
Vehicles	1,022,507	41,460	40,296	1,023,671
Furniture & Equipment	<u>1,416,738</u>	<u>15,781</u>	<u>-</u>	<u>1,432,519</u>
Total Capital Assets	10,037,806	57,241	40,296	10,054,751
 <u>Less Accumulated Depreciation:</u>				
Buildings & Improvements	4,167,673	199,391	-	4,367,064
Vehicles	832,229	41,496	40,296	833,429
Furniture & Equipment	<u>1,326,647</u>	<u>39,771</u>	<u>-</u>	<u>1,366,418</u>
Total Accum. Depreciation	<u>6,326,549</u>	<u>280,658</u>	<u>40,296</u>	<u>6,566,911</u>
 Net Capital Assets	 <u>\$3,711,257</u>	 <u>\$ (223,417)</u>	 <u>\$ -</u>	 <u>\$ 3,487,840</u>

Depreciation was charges to functions as follows:

11-Instructions	\$ 152,611
12-Instructional Resources & Media Services	1,318
13-Curriculum Development	3,380
21-Instructional Leadership	12,518
23-School Leadership	12,693
31-Guidance, Counseling & Evaluation Services	13,221
33-Health Services	2,923
34-Student (Pupil) Transportation	17,742
35-Food Service	13,235
36-Cocurricular/Extracurricular Activities	7,060
41-General Administration	19,690
51-Plant Maintenance & Operations	<u>24,267</u>
	\$ 280,658

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 16
Year Ended June 30, 2018

F. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

G. Long-Term Obligations

Long-term obligations include debt and other long-term liabilities. Long-term liability activity for the year ended June 30, 2018 was as follows:

<u>Government Activities</u>	<u>Balance</u> <u>07/01/17</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>06/30/18</u>
Net Pension Liability	\$ 1,572,683	\$ (210,022)	\$ 126,688	\$ 1,235,973
Net OPEB Liability	<u>4,131,899</u>	<u>(1,763,495)</u>	<u>27,981</u>	<u>2,340,423</u>
Total	\$ 5,704,582	\$(1,973,517)	\$ 154,669	\$ 3,576,396

H. Defined Benefit Pension Plan

1. Plan Description

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

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

2. 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.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 17
Year Ended June 30, 2018

H. Pension Plan (continued)

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic 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 in (1) above.

4. Contributions

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

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

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 18
Year Ended June 30, 2018

H. Pension Plan (continued)

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current Fiscal Year Employer Contributions		\$ 128,416
Current Fiscal Year Member Contributions		\$ 265,849
2017 Measurement Year NECE On-behalf Contributions		\$ 158,337

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:

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

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 19
Year Ended June 30, 2018

H. Pension Plan (continued)

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

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

5. Actuarial Assumptions

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Municipal Bond Rate	N/A
Last year ending August 31 in 2017 to 2116 projection period (100 years)	2116
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5% including inflation
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. 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

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 20
Year Ended June 30, 2018

H. Pension Plan (continued)

position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. 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%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 21
Year Ended June 30, 2018

H. Pension Plan (continued)

7. Discount Rate Sensitivity Analysis

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

	<u>1% Decrease in</u> <u>Discount Rate (7.0%)</u>	<u>Discount Rate</u> <u>(8.0%)</u>	<u>1% Increase in</u> <u>Discount Rate (9.0%)</u>
District's proportionate Share of the net pension liability:	\$ 2,083,607	\$ 1,235,973	\$ 530,181

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

At June 30, 2018, the District reported a liability of \$1,235,973 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	\$ 1,235,973
State's proportionate share that is associated with the District	<u>\$ 1,547,987</u>
Total	<u>\$ 2,783,960</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 0.0038654838% which was a decrease of 0.0002963186% from its proportion measured as of August 31, 2016.

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

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 22
Year Ended June 30, 2018

H. Pension Plan (continued)

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

For the year ended June 30, 2018, the District recognized pension expense of \$226,362 and revenue of \$118,074 for support provided by the State.

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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual		
Economic experience	\$ 18,083	\$ 66,654
Changes in actuarial assumptions	\$ 56,301	\$ 32,231
Difference between projected and actual		
Investment earnings	\$ -	\$ 90,075
Changes in proportion and difference between		
The employer's contributions and the		
Proportionate share of contributions	<u>\$ 128,917</u>	<u>\$ 153,859</u>
Total as of August 31, 2017 measurement date	\$ 203,301	\$ 342,819
Contributions paid to TRS subsequent to the		
measurement date	<u>\$ 108,580</u>	<u>\$ -</u>
Total as of fiscal year-end	<u>\$ 311,881</u>	<u>\$ 342,819</u>

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

<u>Year ended June 30:</u>	<u>Pension Expense Amount</u>
2019	\$ (36,446)
2020	42,450
2021	(42,504)
2022	(64,431)
2023	(25,845)
Thereafter	(12,742)

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 23
Year Ended June 30, 2018

I. Defined Other Post-Employment Benefit Plans

1. 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.

2. 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.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

3. Benefits Provided

TRS-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.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 24
Year Ended June 30, 2018

I. Defined Other Post-Employment Benefit Plans (continued)

TRS-Care Plan Premium Rates			
<u>Effective Sept. 1, 2016 – Dec. 31, 2017</u>			
	<u>TRS-Care 1</u>	<u>TRS-Care 2</u>	<u>TRS-Care 3</u>
	<u>Basic Plan</u>	<u>Optional Plan</u>	<u>Optional Plan</u>
Retiree*	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only *or surviving spouse	28	62	82

4. 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. Fund 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.

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 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>Contribution Rates</u>		
	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
Current Fiscal Year Employer Contributions		\$ 30,543
Current Fiscal Year Member Contributions		\$ 25,333
2017 Measurement Year NECE On-behalf Contributions		\$ 25,989

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 25
Year Ended June 30, 2018

I. Defined Other Post-Employment Benefit Plans (continued)

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 \$182.6 million in fiscal year 2018.

5. Actuarial Assumptions

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

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

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

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.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 26
Year Ended June 30, 2018

I. Defined Other Post-Employment Benefit Plans (continued)

**Includes Inflation at 2.50%

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

Other Information: There was a significant plan change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

6. Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44 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. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 27
Year Ended June 30, 2018

I. Defined Other Post-Employment Benefit Plans (continued)

The asset allocation and long-term expected rate of return for the Teacher Retirement System of Texas as of August 31, 2017 is 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%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net 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.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
District's proportionate Share of the OPEB liability:	\$ 2,762,281	\$ 2,340,423	\$ 2,001,345

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 28
Year Ended June 30, 2018

I. Defined Other Post-Employment Benefit Plans (continued)

8. Healthcare Cost Trend Rates Sensitivity Analysis

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

	<u>1% Decrease</u>	Current Healthcare Cost <u>Trend Rate</u>	<u>1% Increase</u>
District's proportionate Share of the OPEB liability:	\$ 1,948,636	\$ 2,340,423	\$ 2,854,497

9. 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 \$2,340,423 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 collective net OPEB liability	\$ 2,340,423
State's proportionate share that is associated with the District	<u>\$ 2,173,774</u>
Total	<u>\$ 4,514,197</u>

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 0.0053819850%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016. The Notes to the Financial Statements for August 31, 2016 for TRS state that the change in proportion was immaterial and, therefore, disregarded this year.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 29
Year Ended June 30, 2018

I. Defined Other Post-Employment Benefit Plans (continued)

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:

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$(1,516,621) and revenue of \$(727,403) for support provided by the State.

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 OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual actuarial experiences	\$ -	\$ 48,858
Changes in actuarial assumptions	\$ -	\$ 930,145
Difference between projected and actual investment earnings	\$ 356	\$ -
Changes in proportion and difference between The employer’s contributions and the Proportionate share of contributions	<u>\$ 8</u>	<u>\$ -</u>
Total as of August 31, 2017 measurement date	\$ 364	\$ 979,003
Contributions paid to TRS subsequent to the measurement date	<u>\$ 26,180</u>	<u>\$ -</u>
Total as of fiscal year-end	<u>\$ 26,544</u>	<u>\$ 979,003</u>

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:

<u>Year ended June 30:</u>	<u>OPEB Expense Amount</u>
2019	\$(129,132)
2020	(129,132)
2021	(129,132)
2022	(129,132)
2023	(129,223)
Thereafter	(332,888)

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 30
Year Ended June 30, 2018

J. Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug expenditures for eligible TRS-Care participants. The District's portion of subsidy reimbursements received by TRS for the years ended June 30, 2018, 2017, and 2016 were \$13,993, \$10,967, and \$14,579, respectively.

K. Health Care Coverage

During the year ended June 30, 2018, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee participating in the plan. Employees, at their option, authorized payroll deductions to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable annually, and terms of coverage and premium costs are included in the contractual provisions.

L. Property/Casualty Insurance

During the year ended June 30, 2018, Lorenzo ISD participated in the TASB Risk Management Fund's (the Fund's) Property, Liability, and Auto Programs. These programs provide the District with coverage for auto liability, auto physical damage, legal liability, privacy & information security, and property.

These Funds were created and are operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Funds execute Interlocal Agreements that define the responsibilities of the parties.

The Funds purchase stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Program, Liability Program, and Auto Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended June 30, 2018, the funds anticipate Lorenzo ISD has no additional liability beyond the contractual obligations for payment of contributions.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 31
Year Ended June 30, 2018

L. Property/Casualty Insurance (continued)

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

M. Unemployment Compensation Pool

During the year ended June 30, 2018, Lorenzo ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

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

N. Workers' Compensation Pool

During the year ended June 30, 2018, Lorenzo ISD met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 32
Year Ended June 30, 2018

N. Workers' Compensation Pool (continued)

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2017, the Fund carries a discounted reserve of \$51,843,324 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended June 30, 2018, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available at the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin, Texas.

O. Litigation

No reportable litigation was pending or in progress against the District at June 30, 2018.

P. Commitments and Contingencies

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

Q. Accumulated Unpaid Sick Leave Benefits

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability for vacation leave has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 33
Year Ended June 30, 2018

R. Shared Services Arrangements

The District participates in a shared services arrangement for special education services with the following school districts as the fiscal agent:

Idalou Independent School District
Crosbyton Independent School District
Lockney Independent School District
Ralls Independent School District
Petersburg Independent School District

The District, as fiscal agent, is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the member districts. The fiscal agent is responsible for all financial activities of the SSA.

S. Property Tax Abatement

Lorenzo ISD entered into an agreement with Pleasant Hill Wind Energy on October 22, 2012. The agreement was for Pleasant Hill Wind Energy to invest capital of \$37,000,000 on a long-term basis for a valuation limitation of \$10,000,000. For fiscal year 2018, which is year 5 of the agreement, with the M&O tax rate \$1.0105 per \$100, with property valued at \$32,127,118 without considering the limit and \$10,000,000 with the limit. When calculated, the district forgoes collecting \$223,595 in tax revenue; however, that will be offset by the increase in state funding through the FSP funding formula and a possible Revenue Protection Payment. In addition to the tax abatement, Pleasant Hill Wind Energy has committed to pay supplemental payments to the district in the amount of \$100 per ADA.

Lorenzo ISD also entered into an agreement with Lorenzo Wind, LLC on December 12, 2016. The agreement was for Lorenzo Wind, LLC to invest capital of \$98,000,000 on a long-term basis for a valuation limitation of \$20,000,000. For fiscal year 2018, which is year 1 of the agreement, with the M&O tax rate \$1.0105 per \$100, with property valued at \$0 without considering the limit and \$0 with the limit. When calculated, the district forgoes collecting \$0 in tax revenue. In addition to the tax abatement, Lorenzo Wind, LLC has committed to pay supplemental payments to the district in the amount of \$100 per ADA based on 2014-2015's ADA of 264, or \$50,000, whichever is higher.

T. Prior Period Adjustment

During fiscal year 2018, the District adopted GASB Statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$(4,108,280) which resulted in a restated beginning net position balance of \$1,189,837.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE FINANCIAL STATEMENTS, Page 34
Year Ended June 30, 2018

U. Negative Operating Grants and Contributions – Statement of Activities

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

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

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11 – Instruction	\$ 573,878	\$ (470,192)	\$ 1,044,070
12 – Instructional Resources and Media Services	(4,059)	(4,911)	852
13 – Curriculum and Instructional Staff Development	57,026	-	57,026
23 – School Leadership	(46,354)	(56,084)	9,730
31 – Guidance, Counseling & Evaluation	170,374	(15,737)	186,111
33 – Health Services	(5,381)	(9,646)	4,265
34 – Student (Pupil) Transportation	26,438	(30,574)	57,012
35 – Food Services	282,177	-	282,177
36 – Extracurricular Activities	(4,208)	(6,825)	2,617
41 – General Administration	56,458	(35,734)	92,192
51 – Facilities Maintenance and Operations	(28,478)	(47,585)	19,107
52 – Security and Monitoring Services	1,148	-	1,148
53 – Data Processing Services	(10,560)	(18,114)	7,554
	<u>\$ 1,166,233</u>	<u>\$ (727,403)</u>	<u>\$ 1,893,636</u>

REQUIRED SUPPLEMENTARY INFORMATION

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2018

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 1,827,776	\$ 1,872,776	\$ 1,958,287	\$ 85,511
5800	State Program Revenues	1,661,047	1,661,047	1,577,720	(83,327)
5900	Federal Program Revenues	259,355	267,605	286,635	19,030
5020	Total Revenues	<u>3,748,178</u>	<u>3,801,428</u>	<u>3,822,642</u>	<u>21,214</u>
EXPENDITURES:					
Current:					
0011	Instruction	1,645,347	1,680,097	1,678,761	1,336
0012	Instructional Resources and Media Services	27,102	27,102	26,921	181
0013	Curriculum Dev. & Instructional Staff Dev.	11,942	12,192	12,100	92
0021	Instructional Leadership	5,000	5,000	4,194	806
0023	School Leadership	259,862	259,862	259,736	126
0031	Guidance, Counseling & Evaluation Services	72,449	68,449	67,906	543
0033	Health Services	51,492	51,492	51,055	437
0034	Student (Pupil) Transportation	203,856	193,856	192,190	1,666
0035	Food Services	255,155	300,155	299,878	277
0036	Curricular/Extracurricular Activities	152,268	141,268	140,032	1,236
0041	General Administration	321,241	324,741	324,126	615
0051	Plant Maintenance and Operations	470,390	473,390	473,062	328
0052	Security and Monitoring Services	5,000	5,000	3,210	1,790
0053	Data Processing Services	73,874	75,624	75,120	504
0093	Payments to Fiscal Agent/Member Dist.-SSA	120,000	120,000	119,733	267
0099	Other Intergovernmental Charges	50,000	40,000	39,665	335
6030	Total Expenditures	<u>3,724,978</u>	<u>3,778,228</u>	<u>3,767,689</u>	<u>10,539</u>
Other Financing Sources (Uses):					
7912	Sale of Real & Personal Property	-	-	1,200	1,200
	Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>	<u>1,200</u>	<u>1,200</u>
1200	Net Change in Fund Balance	23,200	23,200	56,153	32,953
0100	Fund Balance - Beginning	<u>2,817,176</u>	<u>2,817,176</u>	<u>2,817,176</u>	<u>-</u>
3000	Fund Balance - Ending	<u>\$ 2,840,376</u>	<u>\$ 2,840,376</u>	<u>\$ 2,873,329</u>	<u>\$ 32,953</u>

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

EXHIBIT G-2

SSA - SPECIAL EDUCATION
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2018

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 911,027	\$ 917,527	\$ 918,046	\$ 519
5800	State Program Revenue	49,800	46,550	46,909	359
5900	Federal Program Revenues	501,254	426,504	419,263	(7,241)
5020	Total Revenues	<u>1,462,081</u>	<u>1,390,581</u>	<u>1,384,218</u>	<u>(6,363)</u>
EXPENDITURES:					
Current:					
0011	Instruction	655,856	696,356	695,831	525
0013	Curriculum Dev. & Instructional Staff Dev	8,150	650	-	650
0021	Instructional Leadership	192,337	182,337	181,635	702
0031	Guidance, Counseling & Evaluation Services	32,750	26,750	25,930	820
0033	Health Services	9,339	9,339	8,555	784
0034	Student (Pupil) Transportation	163,509	171,359	170,718	641
0036	Cocurricular/Extracurricular Activities	1,500	5,250	4,732	518
0041	General Administration	346,265	242,765	242,629	136
0051	Plant Maintenance and Operations	32,300	36,550	35,830	720
0052	Security and Monitoring Services	4,800	3,950	3,791	159
0053	Data Processing Services	15,275	15,275	14,567	708
6030	Total Expenditures	<u>1,462,081</u>	<u>1,390,581</u>	<u>1,384,218</u>	<u>6,363</u>
Other Financing Sources (Uses):					
8911	Operating Transfers Out	-	-	-	-
	Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - Beginning	-	-	-	-
3000	Fund Balance - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
For the Year Ended June 30, 2018

	Measurement Year Ended August 31,			
	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.3865484%	0.4161800%	0.0045489%	0.0036948%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,235,973	\$ 1,572,683	\$ 1,607,976	\$ 986,931
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	<u>1,547,987</u>	<u>2,018,088</u>	<u>1,892,043</u>	<u>1,666,460</u>
Total	<u>\$ 2,783,960</u>	<u>\$ 3,590,771</u>	<u>\$ 3,500,019</u>	<u>\$ 2,653,391</u>
District's Covered Employee Payroll	\$ 3,491,178	\$ 3,602,048	\$ 3,524,858	\$ 3,616,192
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	35.40%	43.66%	45.62%	27.29%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: Only four years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
For the Year Ended June 30, 2018

	Fiscal Year Ended June 30,			
	2018	2017	2016	2015
Contractually Required Contribution	\$ 128,416	\$ 127,080	\$ 132,916	\$ 126,274
Contribution in Relation to the Contractually Required Contribution	<u>\$ (128,416)</u>	<u>\$ (127,080)</u>	<u>\$ (132,916)</u>	<u>\$ (126,274)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 3,452,577	\$ 3,497,475	\$ 3,610,831	\$ 3,532,107
Contributions as a percentage of Covered Employee Payroll	3.72%	3.63%	3.68%	3.58%

Note: Only four years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
For the Year Ended June 30, 2018

	<u>Measurement Year</u> <u>Ended June, 30</u> <u>2017</u>
District's Proportion of the Net OPEB Liability (Asset)	0.0053819850%
District's Proportionate Share of the Net OPEB Liability (Asset)	\$ 2,340,423
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	<u>2,173,774</u>
Total	<u>\$ 4,514,197</u>
District's Covered Payroll	\$ 3,491,178
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	67.04%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.91%

Note: Only one year of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
For the Year Ended June 30, 2018

	Fiscal Year Ended June 30, <u>2018</u>
Contractually Required Contribution	\$ 30,543
Contribution in Relation to the Contractually Required Contribution	<u>(30,543)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>
 District's Covered Payroll	 \$ 3,452,577
 Contributions as a percentage of Covered Payroll	 0.88%

Note: Only one year of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

OTHER SUPPLEMENTARY INFORMATION

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended June 30, 2018

Last Ten Years Ended June 30	1		2		3		10		20		31		32		40		50	
	Tax Rates		Assessed/Appraised Value for School Tax Purposes	Beginning Balance 07/01/17	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 06/30/18									
	Maintenance	Debt Service																
2009 and Prior Years	Various	Various	Various	--	\$ 25,850	\$ -	\$ 384	\$ -	\$ (3,461)	\$ 22,005								
2010	1.01710	--	1.01710	122,666,503	2,757	-	707	-	(70)	1,980								
2011	1.01720	--	1.01720	139,591,150	3,127	-	194	-	(60)	2,873								
2012	1.01720	--	1.01720	168,439,442	3,868	-	65	-	(318)	3,485								
2013	1.02710	--	1.02710	181,457,210	4,955	-	95	-	(230)	4,630								
2014	1.02710	--	1.02710	181,184,403	6,905	-	2,030	-	(38)	4,837								
2015	1.00710	--	1.00710	229,096,217	11,098	-	3,517	-	(231)	7,350								
2016	1.02710	--	1.02710	188,698,277	13,415	-	3,210	-	(432)	9,773								
2017	1.02710	--	1.02710	135,063,577	32,818	-	19,757	-	(207)	12,854								
2018-School Year Under Audit	1.01050	--	1.01050	153,081,742	-	1,546,891	1,513,664	-	-	33,227								
1000	TOTALS				\$ 104,793	\$ 1,546,891	\$ 1,543,623	\$ -	\$ (5,047)	\$ 103,014								

Columns 10 + 20 - 30 - 30a + 40 Equals Column 50

Column 3 - Assessed/Appraised Value for School Tax Purposes:
This is the net appraised value, after deductions of all exemptions, tax freeze amounts and reductions provided by law and those granted by the district, based on maintenance requirements.

Column 20 - Current Year's Levy:
This amount is calculated by multiplying tax rate(s) times the applicable Assessed/Appraised Value(s) in Column 3.

Columns 30 and 30a - These are the total collections net of adjustments described in Column 40, according to each year of tax levy, and do NOT include penalties and interest.

Column 40 - Entire Year's Adjustments:
Total adjustments include corrections for errors in taxes assessed, taxes lost due to tax freeze and discounts allowed for early payment of taxes.

Column 50 - Ending Balance 6/30/18

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND AS OF JUNE 30, 2018

Data Control Code	Explanation	Amount
1	Total General Fund Balance 6/30/17 (Exhibit C-1 object 3000 for the General Fund Only)	<u>\$ 2,873,329</u>
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund Only)	<u>-</u>
3	Total General Fund Restricted Fund Balance (from Exhibit C-1-- total of object 345X-349X for the General Fund only)	<u>-</u>
4	Total General Fund Committed Fund Balance (from Exhibit C-1-- total of object 351X-354X for the General Fund only)	<u>750,000</u>
5	Total General Fund Assigned Fund Balance (from Exhibit C-1-- total of object 355X-359X for the General Fund only)	<u>-</u>
6	Estimated amount needed to cover fall cash flow deficits in General Fund (net of borrowed funds and funds representing deferred revenues)	<u>1,193,102</u>
7	Estimate of two month's average cash disbursements during the fiscal year.	<u>837,264</u>
8	Estimate of delayed payments from state sources (58XX)	<u>250,000</u>
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	<u>-</u>
10	Estimate of delayed payments from federal sources (59XX)	<u>36,000</u>
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	<u>-</u>
12	Optimum Fund Balance and Cash Flow (2 + 3 + 4 + 5 + 6 + 7 + 8 + 9)	<u>\$ 3,066,366</u>
13	Excess/(Deficit) Undesignated Unreserved General Fund Fund Balance (1 - 10)	<u>\$ (193,037)</u>

If item 11 is a positive number

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Fund Balance

(UNAUDITED)

Terry & King, CPAs, P.C.

4216 102nd
P.O. Box 93550
Lubbock, TX 79493-3550

Randel J. Terry, CPA
Ryan R. King, CPA

Telephone - (806) 698-8858 – Fax – (866) 288-6490

Independent Auditors' Report

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*

Board of Trustees
Lorenzo Independent School District
P.O. Box 520
Lorenzo, TX 79343

Members of the Board of Trustees:

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 the Lorenzo Independent School District, as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise the Lorenzo Independent School District's basic financial statements, and have issued our report thereon dated September 14, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Lorenzo Independent School 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 Lorenzo Independent School District's internal control.

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

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



Independent Auditors' Report
Page 2

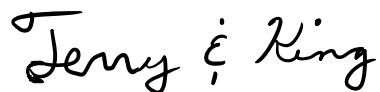
Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Respectfully submitted,

A handwritten signature in black ink that reads "Terry & King". The signature is written in a cursive, flowing style.

Terry & King, CPAs, P.C.
Lubbock, Texas
September 14, 2018

Terry & King, CPAs, P.C.

4216 102nd
P.O. Box 93550
Lubbock, TX 79493-3550

Randel J. Terry, CPA
Ryan R. King, CPA

Telephone - (806) 698-8858 – Fax – (866) 288-6490

Independent Auditors' Report

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

Board of Trustees
Lorenzo Independent School District
P.O. Box 520
Lorenzo, Texas 79343

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Lorenzo Independent School District's 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. Lorenzo Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

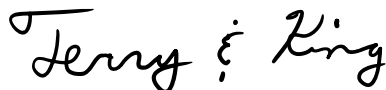
Management of Lorenzo Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over 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 Lorenzo Independent School District's internal control over compliance.

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

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

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

Respectfully submitted,



Terry & King, CPAs, P.C.
Lubbock, Texas
September 14, 2018

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

A. Summary of Auditors' Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial Statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required To be reported in accordance with the Uniform Guidance? Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.027	IDEA-B Formula
84.173	IDEA-B Preschool

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SUMMARY OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2018

<u>Findings/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation if Not Implemented</u>
Not Applicable - None		

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2018

Not Applicable – None Required

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
<u>U.S. Department of Education</u>			
Passed Through State Department of Education:			
ESEA Title 1, Part A - Improving Basic Programs	84.010A	18610101054902	158,918
ESEA Title 1, Part C - Migratory Children	84.011A	18615001054902	209,059
IDEA-B Formula*	84.027A	186600010549026600	641,032
IDEA-B Preschool*	84.173A	186610010549026610	21,433
Total Special Education Cluster (IDEA)			662,465
ESEA Title V, Sub-part 2, Rural Schools	84.358B	18696001054902	4,965
ESEA Title II, Part A - Teacher & Principal Training	84.367A	18694501054902	18,059
ESEA Title IV, Part A, Subpart 1	84.424A	18680101054902	10,000
Total U.S. Department of Education			1,063,466
<u>U.S. Department of Health and Human Services</u>			
Direct Program:			
Medicare/Medicaid Reimbursement	93.778	N/A	419,263
Total U.S. Department of Health and Human Services			419,263
<u>U.S. Department of Agriculture</u>			
Passed Through State Department of Education:			
National School Lunch Program*	10.555	71301701	153,816
School Breakfast Program*	10.553	71401701	95,141
Total Child Nutrition Cluster			248,957
Direct Program:			
NSLP Equipment Assistance Grant	10.579	N/A	9,973
Commodity Supplemental Food Program*	10.565	N/A	21,995
Total Food Distribution Cluster			31,968
Total U.S. Department of Agriculture			280,925
<u>TOTAL EXPENDITURES OF FEDERAL AWARDS</u>			<u>\$ 1,763,654</u>

* - Indicates a cluster program under Uniform Guidance.

The accompanying notes are an integral part of this schedule.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position of the District.

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 expenditures were accounted for in the General Fund and Special Revenue Funds, components of the Governmental Fund type.

The modified accrual basis of accounting is used for the Governmental Fund Types in the fund financial statements. 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 General 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 grants 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 unearned revenue until earned.

The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in 2 CFR Part 200, Part 3, Section H, Period of Performance.

The District is not eligible to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance because the District has previously received a negotiated indirect cost rate for its federal awards.

LORENZO INDEPENDENT SCHOOL DISTRICT
Lorenzo, Texas

SCHOOLS FIRST QUESTIONNAIRE
For the Year Ended June 30, 2018

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	N/A
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 1,235,973
SF13	Net OPEB Liability (2545) at fiscal year-end	\$ 2,340,423