

Crosby Independent School District

Annual Financial Report

For the Fiscal Year Ended June 30, 2018

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

Crosby Independent School District
Name of School District

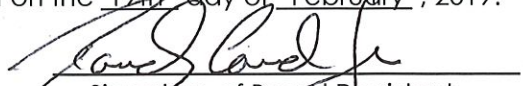
Harris
County

101-906
Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved _____ disapproved for the fiscal year ended June 30, 2018 at a meeting of the Board of Trustees of such school district on the 19th day of February, 2019.



Signature of Board Secretary



Signature of Board President
VP for Pres

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

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Financial Section

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Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing 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 Crosby Independent School District, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 1.D. to the basic financial statements, during the year ended June 30, 2018, the District implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Beginning net position has been restated as a result of the implementation of this statement. Our opinion is not modified with respect to this matter.

As discussed in Note 1.J. to the basic financial statements, the District restated the beginning net position of governmental activities and beginning fund balances of the general fund and nonmajor funds to correct misstatements in its previously issued 2017 financial statements. Our opinion is not modified with respect to this matter.

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 1.K. to the basic financial statements, the District has experienced recurring operational cash-flow deficits and has a significant deficit in general fund unassigned fund balance, which raises substantial doubt about its ability to continue as a going concern. Management's plan regarding those matters is also described in Note 1.K. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

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

The Board of Trustees of
Crosby Independent School District

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report date February 12, 2019 on our consideration of Crosby 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 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 Crosby Independent School District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
February 12, 2019

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Management's Discussion and Analysis

As management of the Crosby Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the District were exceeded by its liabilities and deferred inflows of resources at the close of the most recent fiscal year by (\$11,234,191) (*net position*). Of this amount, a deficit of (\$35,344,602) (*unrestricted net position*) exists, which includes recognition of the District's pension and OPEB liabilities and net related deferred outflows/inflows of \$36 million.
- The District's total net position increased by \$2,118,998, from current fiscal year operations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$16,945,514, an increase of \$15,712,274 from current operations.
- At the end of the current fiscal year, unassigned fund balance for the general fund was at a deficit of (\$2,516,449).
- The District's net bonded debt increased by \$18,044,714 due to the issuance of debt during the current fiscal year.

Overview of the Financial Statements

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

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

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

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal period. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and incurred but unpaid workers' compensation benefits).

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

The government-wide financial statements can be found as noted in the table of contents of this report. In fiscal year 2018, the District implemented the Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* – which superseded GASB Statement No. 45.

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

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

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

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

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

The District adopts an annual revenue and appropriations budget for its general fund, National School Breakfast and Lunch Program special revenue fund, and debt service fund. All other governmental funds adopt project length budgets. Subsequent to adoption, amendments approved by the governing body are reflected in a revised budget. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget.

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

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs.

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

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

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District’s financial position. In the case of the District, assets and deferred outflows of resources were exceeded by liabilities and deferred inflows of resources by (\$11,234,191) at the close of the most recent fiscal period.

Crosby Independent School District's Net Position

	Governmental Activities					
	June 30, 2018		June 30, 2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 26,676,241	13	\$ 22,313,412	12	\$ 4,362,829	20
Capital assets	175,454,343	87	169,433,387	88	6,020,956	4
Total assets	202,130,584	100	191,746,799	100	10,383,785	
Total deferred outflows of resources	6,880,658	100	6,964,480	100	(83,822)	(1)
Other liabilities	9,719,168	5	8,926,255	5	792,913	9
Noncurrent liabilities	200,359,485	95	163,489,917	95	36,869,568	23
Total liabilities	210,078,653	100	172,416,172	100	37,662,481	
Total deferred inflows of resources	10,166,780	100	731,445	100	9,435,335	1,290
Net position:						
Net investment in capital assets	16,865,165	(150)	21,052,668	82	(4,187,503)	(20)
Restricted	7,245,246	(64)	6,884,189	27	361,057	5
Unrestricted	(35,344,602)	314	(2,373,195)	(9)	(32,971,407)	1,389
Total net position	\$ (11,234,191)	100	\$ 25,563,662	100	\$ (36,797,853)	

The excess of assets/deferred outflows of resources over liabilities/deferred inflows of resources reported on the government-wide *Statement of Net Position* was a deficit amount of (\$11,234,191) at June 30, 2018. The deficit is attributable to unrestricted net position described below.

The largest portion of the District’s net position reflects its investment in capital assets (e.g., land and improvements, construction in progress, buildings and improvements, and furniture and equipment); less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Net position that is restricted for debt service and grants total \$7,245,246.

The *unrestricted net position* (\$35,344,602) reported a deficit in the current fiscal period. The deficit is caused by an excess of non-capital debt and liabilities/deferred inflows over non-capital assets/deferred outflows. The pension and OPEB liabilities, and related net deferred outflows/inflows, are the largest components, amounting to approximately (\$36) million.

Governmental Activities. Governmental activities increased the District's net position by \$2,118,998 from current operations. The elements giving rise to this change may be determined from the table below.

Crosby Independent School District's Changes in Net Position

	Governmental Activities					
	Twelve Months Ended		Ten Months Ended		Increase (Decrease)	
	June 30, 2018		June 30, 2017			
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	\$ 1,585,319	3	\$ 1,799,317	3	\$ (213,998)	(12)
Operating grants and contributions	(3,243,400)	(5)	6,903,249	11	(10,146,649)	(147)
Capital grants and contributions	-	-	336,000	1	(336,000)	(100)
General revenues:						
Property taxes, levied for general purposes	20,885,546	35	19,900,853	30	984,693	5
Property taxes, levied for debt service	8,902,381	15	8,506,931	13	395,450	5
Grants and contributions not restricted to specific programs	30,490,968	52	26,996,076	41	3,494,892	13
Investment earnings	186,701	-	84,257	-	102,444	122
Gain on sale of capital assets	31,719	-	-	-	31,719	-
Miscellaneous	292,316	-	399,711	1	(107,395)	(27)
Total revenues	59,131,550	100	64,926,394	100	(5,794,844)	
Expenses:						
Instruction	28,619,797	50	33,157,042	55	(4,537,245)	(14)
Instructional resources and media services	413,742	1	680,959	1	(267,217)	(39)
Curriculum and instructional staff development	846,980	1	841,052	1	5,928	1
Instructional leadership	426,264	1	576,489	1	(150,225)	(26)
School leadership	2,315,848	4	2,670,805	4	(354,957)	(13)
Guidance, counseling, and evaluation services	1,495,130	3	1,873,408	3	(378,278)	(20)
Health services	353,908	1	414,638	1	(60,730)	(15)
Student transportation	2,693,076	5	2,624,581	4	68,495	3
Food services	2,148,454	4	2,507,878	4	(359,424)	(14)
Extracurricular activities	2,224,101	4	1,995,874	3	228,227	11
General administration	1,570,528	3	1,697,090	3	(126,562)	(7)
Plant maintenance and operations	5,709,710	10	4,864,920	8	844,790	17
Security and monitoring services	547,208	1	441,642	1	105,566	24
Data processing services	1,066,875	2	1,093,692	2	(26,817)	(2)
Community services	104,932	-	34,011	-	70,921	209
Interest on long-term debt	5,873,650	10	4,589,234	8	1,284,416	28
Issuance costs and fees	240,025	-	136,371	-	103,654	76
Payments related to shared services arrangements	66,000	-	137,400	-	(71,400)	(52)
Payments to juvenile justice alternative education programs	19,800	-	395,895	1	(376,095)	(95)
Other intergovernmental charges	276,524	-	216,402	-	60,122	28
Total expenses	57,012,552	100	60,949,383	100	(3,936,831)	
Change in net position	2,118,998		3,977,011		(1,858,013)	
Net position - beginning, as originally reported	25,563,662		21,586,651		3,977,011	
Prior period adjustments (a)	(38,916,851)		-		(38,916,851)	
Net position - beginning, as restated	(13,353,189)		21,586,651		(34,939,840)	
Net position - ending	\$ (11,234,191)		\$ 25,563,662		\$ (36,797,853)	

(a) The restatement of the beginning net position is the result of the District implementing GASB Statement No. 75 in fiscal year 2018. The implementation is discussed previously in MD&A. Additionally, prior period adjustments were made for corrections of an error related to payroll expenses. These prior period adjustments are described in Note 1.J. to the financial statements.

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling \$27,247,568) represent 47 percent of total revenues and property taxes (\$29,787,927) represent 50 percent of total revenues. The remaining 3 percent is generated from charges for services, investment earnings, and miscellaneous revenues.

The primary functional expense of the District is Instruction (\$28,619,797), which represents 50 percent of total expenses. The remaining functional categories of expenses are 10 percent or less of total expenses.

Due to the change of its fiscal year end from August 31 to June 30 in the previous year, the financial information presented in the preceding table includes 10 months of operations for the period ended June 30, 2017, compared to 12 months in the current fiscal year ended June 30, 2018. Also impacting the current year's presentation is the implementation of GASB Statement No. 75 in the current year, which resulted in the District recognizing negative OPEB revenue of \$10.6 million (included in operating grants and contributions) and negative OPEB expense of \$17.3 million (allocated among all major functions). OPEB revenues and expenses are described in Note 4.D. to the basic financial statements.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$16,945,514, an increase of \$15,712,274 in comparison with the prior year (as restated), from current operations. This increase represents combined expenditures in excess of revenues of (\$7.6) million, offset by the proceeds from the issuance of bonds, including related issuance premiums, of \$23.2 million.

The general fund is the chief operating fund of the District. At the end of the current fiscal period, unassigned fund balance of the general fund had a deficit balance of (\$2,516,449) while total fund balance reached \$1,968,034. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance remains at a negative fund balance and cannot be used for future general fund expenditures, while total fund balance represents 3 percent of total general fund expenditures. The fund balance of the District's general fund increased by \$8,315,711 from current operations. The increase was a result of bond reimbursements and transfers from the capital projects fund. Expenditures exceeded revenues by \$4,759,649.

The debt service fund has a total fund balance of \$6,491,892, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$276,872 from current operations and was primarily due to an increase in property tax values which resulted in additional property tax revenues.

The capital projects fund has a total fund balance of \$7,294,372, all of which is restricted for capital acquisitions and contractual obligations. The capital projects fund balance increased by \$7,294,372 during the fiscal period, after considering a bond issuance during the year and transfer to the general fund for the payment of 2017 and 2018 capital expenditures.

Governmental funds financial statements may be found by referring to the table of contents.

General Fund Budgetary Highlights

The original expenditure budget was amended during the fiscal year to decrease appropriations by \$1,941,040. This decrease in appropriations was primarily the result of revisions to the revenue budget for lower-than-anticipated revenues, requiring reductions in planned expenditures. Actual expenditures were less than budget by \$2,353,692 in total, with the variance due primarily to budgeted capital outlay expenditures of \$1,100,000 included in the final budget, which were not incurred in the current fiscal year.

The increase of \$3,919,142 to other financing sources (uses) in the final amended budget was to reimburse the general fund for capital asset costs and construction expenditures from the capital projects fund.

Capital Assets and Noncurrent Liabilities

Capital Assets. The District's investment in capital assets for its governmental type activities as of June 30, 2018, amounts to \$175,454,343 (net of accumulated depreciation). This investment in capital assets includes land and improvements, construction in progress, buildings and improvements, and furniture and equipment.

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

- \$2,598,841 – Capital outlay for campus renovations and new elementary and middle schools

Crosby Independent School District's Capital Assets (net of depreciation)

	Governmental Activities					
	June 30, 2018		June 30, 2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 4,195,527	2	\$ 4,195,527	2	\$ -	-
Buildings and improvements	163,590,480	94	167,324,717	95	(3,734,237)	(2)
Furniture and equipment	5,069,495	3	5,773,264	3	(703,769)	(12)
Construction in progress	2,598,841	1	-	-	2,598,841	-
Totals	\$ 175,454,343	100	\$ 177,293,508	100	\$ (1,839,165)	

Construction Commitments. At the end of the current fiscal period, the District's commitments with construction contractors totaled \$1,746,288.

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

Noncurrent Liabilities. At year end, the District had the following noncurrent liabilities:

Crosby Independent School District's Noncurrent Liabilities Outstanding

	Governmental Activities					
	June 30, 2018		June 30, 2017		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	\$ 148,528,268	74	\$ 130,483,554	66	\$ 18,044,714	14
Notes payable (net)	19,186,802	10	19,755,475	10	(568,673)	(3)
Workers' compensation	303,422	-	275,891	-	27,531	10
Compensated absences	452,983	-	286,692	-	166,291	58
Net pension liability	11,953,552	6	12,688,305	6	(734,753)	(6)
Net OPEB liability	19,934,458	10	35,193,279	18	(15,258,821)	(43)
Totals	\$ 200,359,485	100	\$ 198,683,196	100	\$ 1,676,289	

The District's bonded debt increased by \$18,044,714 (14 percent) during the current fiscal period, which resulted primarily from the issuance of Series 2018 bonds for \$20,100,000. The District's notes payable (net) decreased \$568,673 due to scheduled debt payments being made.

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

Economic Factors and Next Year's Budgets and Rates

- Current enrollment totals 6,339 students, which is a 6 percent increase from the prior year.
- District staff totals 862 employees, which includes 417 teachers and 115 teachers' aides and secretaries.
- The District maintains 7 campuses for instruction.
- The unemployment rate for the County is currently 4.4 percent, which is a decrease from a rate of 5.3 percent a year ago. This compares favorably to the state's average unemployment rate of 4.0 percent, which decreased from a rate of 5.0.
- Property values of the District are projected to increase by 2 percent.
- A maintenance and operations tax rate of \$1.17 and a debt service tax rate of \$0.48, a total of \$1.65 were adopted for 2018-2019. Preceding year rates were \$1.17, \$0.50, and \$1.67, respectively.

As noted previously, the District has a negative unassigned fund balance in the general fund of \$2,516,449 at June 30, 2018. Facing a significant shortage of financial resources for the fiscal 2018-2019 school year, the Board of Trustees declared financial exigency on October 8, 2018. As a component of the declaration of financial exigency, the Board of Trustees declared a need for reorganization to achieve savings through a reduction in force. See notes 1.K. and 4.F. to the basic financial statements for additional information.

Requests for Information

This financial report is intended to provide a general overview of the District's finances for all those with an interest in this information. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, Crosby Independent School District, P.O. Box 2009, Crosby, Texas, 77532-2009.

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Basic Financial Statements

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

Exhibit A-1

1

Data Control Codes		<u>Primary Government Governmental Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 1,564,751
1120	Current investments	12,319,636
1220	Property taxes receivable	2,625,810
1230	Allowance for uncollectible taxes	(78,774)
1240	Due from other governments	7,518,317
1250	Accrued interest	5,777
1290	Other receivables	25,984
1300	Inventories	65,255
1410	Prepaid items	154,485
1800	Restricted cash and cash equivalents	2,475,000
	Capital assets:	
1510	Land and improvements	4,195,527
1520	Buildings and improvements (net)	163,590,480
1530	Furniture and equipment (net)	5,069,495
1580	Construction in progress	2,598,841
1000	Total assets	202,130,584
DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred outflows - pension	5,735,169
1706	Deferred outflows - OPEB	285,518
1710	Deferred charge on refunding	859,971
1700	Total deferred outflows of resources	6,880,658
LIABILITIES		
2110	Accounts payable	2,044,190
2140	Interest payable	2,535,477
2150	Payroll deductions and withholdings	486,546
2160	Accrued wages payable	4,168,066
2180	Due to other governments	332,131
2200	Accrued liabilities	79,009
2300	Unearned revenue	73,749
	Noncurrent liabilities:	
2501	Due within one year	3,332,613
2502	Due in more than one year	165,138,862
2540	Net pension liability	11,953,552
2541	Net OPEB liability	19,934,458
2000	Total liabilities	210,078,653
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows - pension	1,828,158
2606	Deferred inflows - OPEB	8,338,622
2600	Total deferred inflows of resources	10,166,780
NET POSITION		
3200	Net investment in capital assets	16,865,165
3820	Restricted for grants	811,501
3850	Restricted for debt service	6,433,745
3900	Unrestricted	(35,344,602)
3000	TOTAL NET POSITION	<u><u>\$ (11,234,191)</u></u>

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

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

Exhibit B-1

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Program Revenues		Governmental Activities
			Charges for Services	Operating Grants and Contributions	
PRIMARY GOVERNMENT					
Governmental activities:					
0011	Instruction	\$ 28,619,797	\$ 216,705	\$ (3,581,466)	\$ (31,984,558)
0012	Intructional resources and media services	413,742	48,452	(60,749)	(426,039)
0013	Curriculum and instructional staff development	846,980	744	(64,793)	(911,029)
0021	Instructional leadership	426,264	-	(107,812)	(534,076)
0023	School leadership	2,315,848	85,968	(488,302)	(2,718,182)
0031	Guidance, counseling, and evaluation services	1,495,130	6,167	51,618	(1,437,345)
0033	Health services	353,908	-	(89,790)	(443,698)
0034	Student transportation	2,693,076	-	(143,071)	(2,836,147)
0035	Food services	2,148,454	736,267	1,595,728	183,541
0036	Extracurricular activities	2,224,101	407,691	(174,693)	(1,991,103)
0041	General administration	1,570,528	-	(262,879)	(1,833,407)
0051	Plant maintenance and operations	5,709,710	77,850	(212,922)	(5,844,782)
0052	Security and monitoring services	547,208	5,223	(6,800)	(548,785)
0053	Data processing services	1,066,875	-	(96,812)	(1,163,687)
0061	Community services	104,932	252	10,737	(93,943)
0072	Interest on long-term debt	5,873,650	-	388,606	(5,485,044)
0073	Issuance costs and fees	240,025	-	-	(240,025)
0093	Payments related to shared services arrangements	66,000	-	-	(66,000)
0095	Payments to juvenile justice alternative education programs	19,800	-	-	(19,800)
0099	Other intergovernmental charges	276,524	-	-	(276,524)
TG	Total governmental activities	<u>57,012,552</u>	<u>1,585,319</u>	<u>(3,243,400)</u>	<u>(58,670,633)</u>
TP	TOTAL PRIMARY GOVERNMENT	<u>\$ 57,012,552</u>	<u>\$ 1,585,319</u>	<u>\$ (3,243,400)</u>	<u>\$ (58,670,633)</u>
General revenues:					
MT	Property taxes, levied for general purposes				20,885,546
DT	Property taxes, levied for debt service				8,902,381
GC	Grants and contributions not restricted to specific programs				30,490,968
IE	Investment earnings				186,701
GS	Gain on sale of capital assets				31,719
MI	Miscellaneous				292,316
TR	Total general revenues				<u>60,789,631</u>
CN	Change in net position				2,118,998
NB	Net position - beginning, as originally reported				25,563,662
PA	Prior period adjustments				<u>(38,916,851)</u>
	Net position - beginning, as restated				<u>(13,353,189)</u>
NE	NET POSITION - ENDING				<u><u>\$ (11,234,191)</u></u>

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

Crosby Independent School District
 Balance Sheet – Governmental Funds
 June 30, 2018

Data Control Codes		199	599
		General Fund	Debt Service Fund
ASSETS			
1110	Cash and cash equivalents	\$ 629,751	\$ 68,891
1120	Current investments	550,306	5,828,985
1220	Property taxes receivable	1,919,343	706,467
1230	Allowance for uncollectable taxes	(57,580)	(21,194)
1240	Due from other governments	6,919,777	-
1250	Accrued interest	-	5,777
1260	Due from other funds	504,453	920,112
1290	Other receivables	5,000	-
1300	Inventories	-	-
1410	Prepaid items	154,485	-
1810	Restricted cash and cash equivalents	2,475,000	-
1000	Total assets	13,100,535	7,509,038
1000a	TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 13,100,535	\$ 7,509,038
LIABILITIES			
2110	Accounts payable	\$ 361,702	\$ 100
2150	Payroll deductions and withholdings	465,518	-
2160	Accrued wages payable	3,934,282	-
2170	Due to other funds	4,509,231	-
2180	Due to other governments	5	331,773
2200	Accrued liabilities	-	-
2300	Unearned revenue	-	-
2000	Total liabilities	9,270,738	331,873
DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable revenue - property taxes	1,861,763	685,273
2600	Total deferred inflows of resources	1,861,763	685,273
FUND BALANCES			
3430	Nonspendable - prepaid items	154,485	-
3450	Restricted - grant funds	-	-
3470	Restricted - capital acquisitions and contractual obligations	-	-
3480	Restricted - debt service	2,475,000	6,491,892
3525	Committed - retirement of loans/notes payable	1,854,998	-
3545	Committed - other	-	-
3600	Unassigned	(2,516,449)	-
3000	Total fund balances	1,968,034	6,491,892
4000	TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 13,100,535	\$ 7,509,038

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

699	Total	98
Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
\$ 38,794	\$ 827,315	\$ 1,564,751
5,373,128	567,217	12,319,636
-	-	2,625,810
-	-	(78,774)
-	598,540	7,518,317
-	-	5,777
3,589,119	-	5,013,684
-	20,984	25,984
-	65,255	65,255
-	-	154,485
-	-	2,475,000
<hr/>	<hr/>	<hr/>
9,001,041	2,079,311	31,689,925
<hr/>	<hr/>	<hr/>
\$ 9,001,041	\$ 2,079,311	\$ 31,689,925
<hr/>	<hr/>	<hr/>
\$ 1,627,660	\$ 54,728	\$ 2,044,190
-	21,028	486,546
-	233,784	4,168,066
-	504,453	5,013,684
-	353	332,131
79,009	-	79,009
-	73,749	73,749
<hr/>	<hr/>	<hr/>
1,706,669	888,095	12,197,375
<hr/>	<hr/>	<hr/>
-	-	2,547,036
<hr/>	<hr/>	<hr/>
-	-	2,547,036
<hr/>	<hr/>	<hr/>
-	-	154,485
-	811,501	811,501
7,294,372	-	7,294,372
-	-	8,966,892
-	-	1,854,998
-	379,715	379,715
-	-	(2,516,449)
<hr/>	<hr/>	<hr/>
7,294,372	1,191,216	16,945,514
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\$ 9,001,041	\$ 2,079,311	\$ 31,689,925
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Crosby Independent School District

Exhibit C-1R

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

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-1) \$ 16,945,514

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

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

Governmental capital assets	\$ 234,442,412	
Accumulated depreciation of governmental capital assets	<u>(58,988,069)</u>	175,454,343

Property taxes receivable, which will be collected subsequent to year-end but are not available soon enough to pay expenditures, are deferred in the funds.	2,547,036
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Long-term liabilities, including bonds payable, notes payable, workers' compensation, compensated absences, and net pension and OPEB liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

Bonds payable, at original par	\$(139,484,986)	
Premium on bonds payable	(8,071,733)	
Accreted interest on capital appreciation bonds	(971,549)	
Accrued interest on the bonds	(2,246,871)	
Notes payable	(18,700,000)	
Premium on notes payable	(486,802)	
Accrued interest on notes payable	(288,606)	
Workers' compensation	(303,422)	
Compensated absences	(452,983)	
Net pension liability	(11,953,552)	
Net OPEB liability	<u>(19,934,458)</u>	(202,894,962)

Deferred charge on refunding is reported as deferred outflow of resources in the statement of net position and is not reported in the governmental funds due to it is not a current financial resource available to pay for current expenditures.	859,971
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Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/ expenditures) until then.	5,735,169
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Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.	(1,828,158)
---	-------------

Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/ expenditures) until then.	285,518
--	---------

Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time.	<u>(8,338,622)</u>
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT A-1) \$ (11,234,191)

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

Crosby Independent School District
Statement of Revenues, Expenditures, and Changes
in Fund Balances - Governmental Funds
For the Fiscal Year Ended June 30, 2018

Data Control Codes		199	599
		General Fund	Debt Service Fund
REVENUES			
5700	Local and intermediate sources	\$ 21,551,460	\$ 8,957,841
5800	State program revenues	31,223,606	1,142,486
5900	Federal program revenues	1,782,269	-
5020	Total revenues	54,557,335	10,100,327
EXPENDITURES			
Current:			
0011	Instruction	34,582,496	-
0012	Instructional resources and media services	486,147	-
0013	Curriculum and instructional staff development	1,070,225	-
0021	Instructional leadership	648,750	-
0023	School leadership	3,234,836	-
0031	Guidance, counseling, and evaluation services	1,903,909	-
0033	Health services	534,210	-
0034	Student transportation	2,996,469	-
0035	Food services	-	-
0036	Extracurricular activities	1,811,071	-
0041	General administration	2,185,355	-
0051	Plant maintenance and operations	6,208,801	-
0052	Security and monitoring services	554,130	-
0053	Data processing services	1,270,805	-
0061	Community services	68,443	-
Debt service:			
0071	Principal on long-term debt	535,000	4,785,000
0072	Interest on long-term debt	862,613	5,063,296
0073	Issuance costs and fees	1,400	12,730
Capital outlay:			
0081	Facilities acquisition and construction	-	-
Intergovernmental:			
0093	Payments to shared services arrangements	66,000	-
0095	Payments to juvenile justice alternative education programs	19,800	-
0099	Other intergovernmental charges	276,524	-
6030	Total expenditures	59,316,984	9,861,026
1100	Excess (deficiency) of revenues over (under) expenditures	(4,759,649)	239,301
OTHER FINANCING SOURCES (USES)			
7911	Issuance of capital-related bonds	5,980,023	-
7912	Sale of real and personal property	31,719	-
7915	Transfers in	7,063,618	-
7916	Premium on issuance of bonds	-	745
7917	Prepaid interest	-	36,826
8911	Transfers out	-	-
7080	Total other financing sources (uses)	13,075,360	37,571
1200	Net change in fund balances	8,315,711	276,872
0100	Fund balances - beginning, as originally reported	5,351,165	6,215,020
1300	Prior period adjustments	(11,698,842)	-
	Fund balances - beginning, as restated	(6,347,677)	6,215,020
3000	FUND BALANCES - ENDING	\$ 1,968,034	\$ 6,491,892

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

699	Total	98
Capital Projects Fund	Nonmajor Funds	Total Governmental Funds
\$ 79,525	\$ 1,388,817	\$ 31,977,643
-	433,038	32,799,130
-	4,297,718	6,079,987
79,525	6,119,573	70,856,760
-	2,066,541	36,649,037
-	56,045	542,192
-	93,892	1,164,117
-	5,392	654,142
-	100,084	3,334,920
-	585,430	2,489,339
-	-	534,210
-	149,321	3,145,790
-	2,880,878	2,880,878
-	264,705	2,075,776
-	4,945	2,190,300
-	55,456	6,264,257
-	6,042	560,172
-	-	1,270,805
-	25,523	93,966
-	-	5,320,000
-	-	5,925,909
225,895	-	240,025
2,741,512	-	2,741,512
-	-	66,000
-	-	19,800
-	-	276,524
2,967,407	6,294,254	78,439,671
(2,887,882)	(174,681)	(7,582,911)
14,029,977	-	20,010,000
-	-	31,719
-	-	7,063,618
3,215,895	-	3,216,640
-	-	36,826
(7,063,618)	-	(7,063,618)
10,182,254	-	23,295,185
7,294,372	(174,681)	15,712,274
-	1,470,151	13,036,336
-	(104,254)	(11,803,096)
-	1,365,897	1,233,240
\$ 7,294,372	\$ 1,191,216	\$ 16,945,514

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

Exhibit C-3

TOTAL NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS (EXHIBIT C-2) \$ 15,712,274

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

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

Capital assets <i>increased</i>	\$ 2,964,282	
Depreciation expense	(4,803,447)	(1,839,165)

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this period. (7,028)

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

Par value	\$ (20,010,000)	
(Premium) discount	(3,216,641)	(23,226,641)

Repayment of note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 535,000

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. 4,785,000

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

Accrued interest on current interest bonds payable <i>increased</i>	\$ (358,624)	
Accrued interest on notes payable <i>decreased</i>	26,390	
Interest accreted on the capital appreciation bonds	(56,142)	
Amortization of bond and notes payable premium	453,069	
Amortization of notes payable premium	33,673	
Amortization of deferred charge on refunding	(82,932)	15,434

The (increase) decrease in workers' compensation is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (27,531)

The (increase) decrease in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (166,291)

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

Deferred outflows increased (decreased)	(286,408)	
Deferred inflows (increased) decreased	(1,096,713)	
Net pension liability (increased) decreased	734,753	(648,368)

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

Deferred outflows increased (decreased)	66,115	
Deferred inflows (increased) decreased	(8,338,622)	
Net OPEB liability (increased) decreased	15,258,821	6,986,314

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES (EXHIBIT B-1) \$ 2,118,998

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

Crosby Independent School District
 Statement of Assets and Liabilities
 Fiduciary Fund
 June 30, 2018

Exhibit E-1

Data Control Codes		Agency Fund
		Student Activity
	ASSETS	
1110	Cash and cash equivalents	\$ 34,270
1120	Current investments	88,209
1290	Other receivables	9,682
		<hr/>
1000	TOTAL ASSETS	\$ 132,161
		<hr/>
	LIABILITIES	
2190	Due to student groups	\$ 132,161
		<hr/>
2000	TOTAL LIABILITIES	\$ 132,161
		<hr/> <hr/>

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

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Crosby Independent School District

Notes to the Financial Statements

Note 1. Summary of Significant Accounting Policies

Description of Government-wide Financial Statements

A. Reporting Entity

The Crosby Independent School District (the District) is governed by a seven-member board of trustees (the Board), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Members of the Board are elected by the public, have authority to make decisions, appoint management and significantly influence operations, and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

B. Basis of Presentation – Government-wide Financial Statements

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

C. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

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

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

The *capital projects fund* accounts for the acquisition and construction of the District's major capital facilities.

Crosby Independent School District

Notes to the Financial Statements

Additionally, the District reports the following fund types:

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

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

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

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

D. Change in Accounting Principle

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

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses related to the OPEB plan. Note disclosure and RSI requirements about the OPEB plan also are addressed. The implementation of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. Refer to Note 4.D. for more information regarding the District's OPEB plan. The implementation of Statement No. 75 resulted in the retroactive reduction of the District's beginning net position by \$34,973,876. See Note 1.J. for details of the District's prior period adjustments and restatement of beginning net position.

E. Measurement Focus and Basis of Accounting

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

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

Crosby Independent School District

Notes to the Financial Statements

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

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

The agency fund has no measurement focus but utilizes the accrual basis of accounting for reporting its assets and liabilities.

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

1. Cash and Cash Equivalents

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

2. Investments

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

3. Inventories and Prepaid Items

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

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

4. Capital Assets

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

Crosby Independent School District

Notes to the Financial Statements

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

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

Capital Asset Class	Lives
Buildings and improvements	5-50
Furniture and equipment	5-20

5. *Deferred Outflows/Inflows of Resources*

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions to the pension and OPEB plans after the measurement date which of each plan are recognized in the subsequent fiscal year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

6. *Compensated Absences*

It is the District's policy to permit employees to accumulate earned but unused leave benefits. The term leave includes state personal days and state sick leave days. Payment for unused leave days accumulated will be made upon retirement (in accordance with guidelines established by the Teacher Retirement System of Texas) for all employees. All sick pay is accrued when incurred for employees who are eligible for retirement in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have met the District's requirements and State's retirement eligibility requirements.

The District does not have a liability for unpaid vacation at year-end due to the District's policy does not allow a carryover of vacation days not taken by June 30. There are amounts included in compensated absences for employees that had accrued vacation time under the District's previous policy.

Crosby Independent School District

Notes to the Financial Statements

7. Net Position Flow Assumption

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

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

8. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

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

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

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

In the general fund, the District intends to maintain a minimum fund balance of 12.5% of the District's general fund annual operating expenditures. If a fund balance drops below 5%, the District plans to recover at a rate of 1% minimally, each year.

10. Pension

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.

Crosby Independent School District

Notes to the Financial Statements

11. 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.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

H. Use of Estimates

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

I. Data Control Codes

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

J. Prior Period Adjustment and Restatement of Beginning Net Position

Implementation of GASB Statement No. 75

As described in Note 1.D, the District implemented GASB Statement No. 75 during the year ended June 30, 2018, resulting in a reduction of beginning net position by \$34,973,876. The reduction represents the recognition of the June 30, 2017 OPEB liability of \$35,193,279, offset by June 30, 2017 deferred outflows of resources of \$219,403.

Accrued Payroll Expenditures

During the year ended June 30, 2018, the District's management identified an error in the amount of payroll expenditures reported in the previous fiscal year's financial statements. The effect of this error is to increase the June 30, 2017 liability for accrued wages payable by \$3,942,975 and decrease the change in net position/change in fund balance in the fiscal year 2017 financial statements by the same amount.

Crosby Independent School District

Notes to the Financial Statements

Construction Expenditures

The construction expenditures reported in the fiscal year 2017 financial statements were understated by \$7,860,121, relating to costs that were paid during the year ended June 30, 2018 which were incurred during the year ended June 30, 2017, and should have been recognized in the 2017 financial statements. The effect of this error on the fund financial statements is to increase the June 30, 2017 balance of accrued liabilities by \$7,860,121 and decrease the change in fund balance by the same amount. The effect of this error on the government-wide financial statements is to increase the June 30, 2017 balance of accrued liabilities by \$7,860,121 and increase the June 30, 2017 balance of capital assets by the same amount. There is no net impact on the net position or change in net position in the 2017 government-wide financial statements.

	Governmental Activities Net Position	General Fund Fund Balance	National School Breakfast and Lunch Program Fund Balance
Net position/fund balance, as previously reported at June 30, 2017	\$ 25,563,662	\$ 5,351,165	\$ 997,786
Correction of payroll expenses/expenditures	(3,942,975)	(3,838,721)	(104,254)
Correction of construction expenditures	-	(7,860,121)	-
Implementation of GASB Statement No. 75	(34,973,876)	-	-
Net position/fund balance, as restated at June 30, 2017	<u>\$ (13,353,189)</u>	<u>\$ (6,347,677)</u>	<u>\$ 893,532</u>

K. Going Concern

The District has prepared its financial statements on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The District has experienced recurring operational cash-flow deficits and has a negative unassigned fund balance in the general fund of \$2,516,449 at June 30, 2018, which raises substantial doubt about its ability to continue as a going concern. In addition, at June 30, 2018, on the government-wide basis the District's total liabilities and deferred inflows of resources exceed total assets and deferred outflows of resources by \$11,234,191. The District has recognized that it is facing a significant shortage of financial resources for the fiscal 2018-2019 school year and as detailed in Note 4.F., the Board of Trustees declared financial exigency on October 8, 2018. As a component of the declaration of financial exigency, the Board of Trustees declared a need for reorganization to achieve savings through a reduction in force.

Financial exigency is a fiscal management tool available to Texas school districts under applicable Texas law (Section 44.011 of the Texas Education Code). Declaration of financial exigency allows a school district to take mid-year corrective action when its financial resources are insufficient to support the district's instructional programs or it is unable to finance the full compensation of staff for the current or succeeding year. A valid declaration of financial exigency allows the district to terminate the employment of teachers and others employed under probationary, term, or continuing contracts in the middle of their contractual term of employment, with much-reduced procedural processes.

Crosby Independent School District

Notes to the Financial Statements

In addition to a reduction in force, the District's cash flow deficits are expected to be addressed through a combination of austerity measures (including expense reductions), employee attrition, and a series of short term borrowings (diminishing in amount over time). Through these measures the District's administration anticipates that the District will begin rebuilding its general fund balance to a level that is consistent with guidance and recommendation from the Texas Education Agency (being an amount equal to at least two to three months of operational expenses). However, no assurance can be provided that these measures will be successful and if unsuccessful, an insolvent financial condition could ultimately lead to the dissolution of the District. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts of liabilities that might be necessary, should the District be unable to continue to meet short and long term commitments.

Note 2. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, National School Breakfast and Lunch Program special revenue fund, and debt service fund. All other governmental funds adopt project length budgets. All annual appropriations lapse at fiscal year-end. The following procedures are followed in establishing the budgetary data reflected in the financial statements:

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a department. Transfers of appropriations between campus/departments require the approval of the District's management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level.

B. Excess of Expenditures over Appropriation

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

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General fund	33 Health services	\$ 523,390	\$ 534,210	\$ (10,820)
General fund	36 Extracurricular activities	1,810,862	1,811,071	(209)
General fund	52 Security and monitoring services	528,049	554,130	(26,081)
General fund	71 Principal on long-term debt	486,655	535,000	(48,345)

Crosby Independent School District

Notes to the Financial Statements

C. Encumbrances

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

As of June 30, 2018, there were no significant encumbrances included in governmental fund balances.

Note 3. Detailed Notes on all Funds

A. Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Investments

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

Crosby Independent School District

Notes to the Financial Statements

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

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

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

The District's investment measurements and balances, weighted average maturity and credit risks of such investments are as follows:

Governmental Fund Investment Type	June 30, 2018	Fair Value Measurements Using			Percent of Total Investments	Weighted Average Maturity (Days)	S&P / Moody's Rating
		Level 1	Level 2	Level 3			
Investments measured at amortized cost:							
Certificates of deposit	\$ 107,977	\$ -	\$ -	\$ -	1%	163	Not rated
Money market funds	169	-	-	-	0%	1	Not rated
Investment pools:							
TexPool	39,173	-	-	-	0%	24	AAAm ⁽¹⁾
TexPool Prime	7,330,405	-	-	-	60%	35	AAAm ⁽¹⁾
Lone Star Corporate Overnight	166	-	-	-	0%	44	AAAm ⁽¹⁾
Investments measured at fair value, not subject to level reporting:							
Investment pools:							
Lone Star Corporate Overnight Plus	3,774,837	-	-	-	31%	50	AAAf/SI+ ⁽¹⁾
LOGIC	173,849	-	-	-	1%	30	AAAm ⁽¹⁾
Investments measured at fair value, subject to level reporting:							
Municipal securities	448,866	-	448,866	-	4%	91	AAA ⁽¹⁾
Certificates of deposit	444,194	-	444,194	-	4%	104	Not rated
Total value	\$ 12,319,636	\$ -	\$ 893,060	\$ -	100%		
Portfolio weighted average maturity						45	
Fiduciary Fund Investment Type							
Investments measured at amortized cost:							
Investment pools:							
TexPool Prime	\$ 88,209	\$ -	\$ -	\$ -	100%	35	AAAm ⁽¹⁾
Total value	\$ 88,209	\$ -	\$ -	\$ -	100%		
Portfolio weighted average maturity						35	

⁽¹⁾ Standard & Poor's Rating

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

Crosby Independent School District

Notes to the Financial Statements

Certificates of deposit with remaining maturities of one year or less at the time of purchase and money market funds are also measured at amortized cost and are not required to be reported in the fair value hierarchy.

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

The Lone Star Corporate Overnight Plus and LOGIC investment pools are external investment pools measured at net asset value. Lone Star Corporate Overnight Plus and LOGIC's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Lone Star Corporate Overnight Plus and LOGIC have a redemption notice period of one day and may redeem daily. The investment pools authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

Municipal securities and certificates of deposit classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Credit Risk

For fiscal year 2018, the District invested in TexPool, Lone Star and LOGIC. TexPool is duly chartered and administered by the State Comptroller's Office. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC, formerly the Texas Association of School Boards Financial Services. LOGIC is administered by First Southwest, a division of Hilltop Securities, and J.P. Morgan Investment Inc. The credit rating for these investment pools are noted in the preceding table.

Interest Rate Risk

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

Concentration of Credit Risk

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

Crosby Independent School District

Notes to the Financial Statements

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2018, the District’s bank deposit balances were not exposed to custodial credit risk because such balances were insured and collateralized with securities held by the District’s agent in the District’s name.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. District policy requires investments to be in the District’s name or held by the District’s agent in the District’s name. The District is not exposed to custodial risk due to the investments are insured or registered, or securities held by the District or its agent in the District’s name.

Restricted Cash and Cash Equivalents

The District has restricted cash and cash equivalents in the amount of \$2,745,000 as of June 30, 2018 which are restricted for the purpose of future debt requirements.

B. Receivables

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

Change in uncollectibles related to general fund property taxes	\$ 380
Change in uncollectibles related to debt service property taxes	<u>(162)</u>
Total change in uncollectibles of the current fiscal period	<u>\$ 218</u>

Approximately 63% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

C. Interfund Receivables, Payables, and Transfers

1. Receivables/Payables

The composition of interfund receivable/payable balances as of June 30, 2018, is as follows:

Funds	Interfund Receivables	Interfund Payables
General fund	\$ 504,453	\$ 4,509,231
Debt service fund	920,112	-
Capital projects fund	3,589,119	-
Total nonmajor funds	<u>-</u>	<u>504,453</u>
Totals	<u>\$ 5,013,684</u>	<u>\$ 5,013,684</u>

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

The interfund payable balances between the general fund and debt service and the capital projects funds were used to finance payroll costs due to cash shortages in the general fund. See Note 1.K. for additional information.

Crosby Independent School District

Notes to the Financial Statements

2. Transfers

Interfund transfers are defined as “flows of assets from one fund to another fund without equivalent flow of assets in return and without a requirement for repayment.” Transfers are the use of funds collected in one fund to finance various programs accounted for in other funds. The following is a summary of the District’s interfund transfers for the fiscal year ended June 30, 2018:

Transfer Out	Transfer In	Amount
Capital projects fund	General fund	\$ 7,063,618
Total		\$ 7,063,618

The transfer represents the payment by the capital projects fund in fiscal year 2018 of capital asset costs and construction expenditures that were incurred by the general fund in fiscal year 2017.

D. Capital Assets

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

	Beginning Balance	Additions	Retirements, Transfers, and Adjustments	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land and improvements	\$ 4,195,527	\$ -	\$ -	\$ 4,195,527
Construction in progress	-	2,598,841	-	2,598,841
Total capital assets, not being depreciated	4,195,527	2,598,841	-	6,794,368
Capital assets, being depreciated:				
Buildings and improvements	214,646,367	142,670	-	214,789,037
Furniture and equipment	12,636,236	222,771	-	12,859,007
Total capital assets, being depreciated	227,282,603	365,441	-	227,648,044
Less accumulated depreciation for:				
Buildings and improvements	(47,321,650)	(3,876,907)	-	(51,198,557)
Furniture and equipment	(6,862,972)	(926,540)	-	(7,789,512)
Total accumulated depreciation	(54,184,622)	(4,803,447)	-	(58,988,069)
Total capital assets, being depreciated, net	173,097,981	(4,438,006)	-	168,659,975
Governmental activities capital assets, net	\$ 177,293,508	\$ (1,839,165)	\$ -	\$ 175,454,343

Crosby Independent School District

Notes to the Financial Statements

Depreciation expense was charged to functions of the District as follows:

Governmental activities:	
11 Instruction	\$ 3,733,891
34 Student transportation	251,505
35 Food services	87,715
36 Extracurricular activities	557,469
41 General administration	39,562
51 Plant maintenance and operations	70,591
52 Security and monitoring services	3,637
53 Data processing services	18,867
61 Community services	40,210
	<hr/>
Total depreciation expense-governmental activities	\$ 4,803,447
	<hr/> <hr/>

Construction Commitments

The District has commitments related to construction projects as of June 30, 2018. The projects include the construction and equipment of school facilities. At June 30, 2018, the District's commitments with contractors are as follows:

Project	Remaining Commitment
Barrett and Newport Maintenance/Repairs	\$ 1,746,288
	<hr/>
Total	\$ 1,746,288
	<hr/> <hr/>

The commitment for construction and equipment of school facilities will be financed by the capital projects fund.

E. Short-term Liabilities

During fiscal year 2017, the District issued short-term notes payable in order to provide funds for maintenance and operations in the general fund. The 2017 tax and revenue anticipation notes were secured by the proceeds of a continuing annual ad valorem tax levied for maintenance and anticipated state aid from the Texas Education Agency (TEA). The stated maturity date for the principal and interest accrued on the notes was February 15, 2018, with redemption permitted prior to the stated maturity date, at the option of the District, on October 15, 2017 or on any date thereafter. The District satisfied the obligation during fiscal year 2018.

The following is a summary of changes in the 2017 tax and revenue anticipation notes payable during the fiscal year ended June 30, 2018:

Description	Interest Rate	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities:						
2017 Tax and revenue anticipation notes	1.95%	\$ 5,400,000	\$ 5,400,000	\$ -	\$ (5,400,000)	\$ -
			<hr/>	<hr/>	<hr/>	<hr/>
Total short-term notes payable			\$ 5,400,000	\$ -	\$ (5,400,000)	\$ -
			<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Crosby Independent School District

Notes to the Financial Statements

Long-term Liabilities

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

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 124,259,986	\$ 20,010,000	\$ (4,785,000)	\$ 139,484,986	\$ 2,564,986
Issuance premium (discount) (CIB's)	5,308,161	3,216,641	(453,069)	8,071,733	-
Accreted interest (CAB's)	915,407	56,142	-	971,549	-
Total bonds payable, net	130,483,554	23,282,783	(5,238,069)	148,528,268	2,564,986
Notes payable:					
Notes payable	19,235,000	-	(535,000)	18,700,000	600,000
Issuance premium	520,475	-	(33,673)	486,802	-
Total notes payable, net	19,755,475	-	(568,673)	19,186,802	600,000
Workers' compensation	275,891	131,560	(104,029)	303,422	104,141
Compensated absences	286,692	270,525	(104,234)	452,983	63,486
Net pension liability	12,688,305	2,745,782	(3,480,535)	11,953,552	-
Net OPEB liability*	35,193,279	3,374	(15,262,195)	19,934,458	-
Governmental activities long-term liabilities	\$ 198,683,196	\$ 26,434,024	\$ (24,757,735)	\$ 200,359,485	\$ 3,332,613

* See Note 1.D. for information regarding the implementation of GASB 75.

General Obligation Bonds

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

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 9-30 year current interest bonds (CIB) with various amounts of principal maturing each year. Rates may be fixed or variable. The following is a summary of changes in the general obligation bonds for the fiscal year ended June 30, 2018:

Series	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2006 CAB	-	\$ 601,906	2019	\$ 439,986	\$ -	\$ -	\$ 439,986
2009 REF	2.50-4.20%	4,385,000	2024	4,260,000	-	(1,710,000)	2,550,000
2012 REF	2.00-3.00%	9,275,000	2029	9,095,000	-	-	9,095,000
2013 REF	1.00-4.00%	25,025,000	2029	20,650,000	-	(1,270,000)	19,380,000
2013 BLDG	4.00-5.00%	67,020,000	2043	67,020,000	-	-	67,020,000
2014 BLDG	3.50-4.00%	8,985,000	2043	8,985,000	-	-	8,985,000
2015 BLDG	3.00-3.625%	9,400,000	2043	6,495,000	-	(1,805,000)	4,690,000
2015 REF	3.00-4.00%	7,450,000	2024	7,315,000	-	-	7,315,000
2018 BLDG	4.00-5.00%	20,010,000	2048	-	20,010,000	-	20,010,000
Totals				\$ 124,259,986	\$ 20,010,000	\$ (4,785,000)	\$ 139,484,986

Crosby Independent School District

Notes to the Financial Statements

A portion of the bonds sold in the Series 2006 were capital appreciation bonds (CAB), commonly referred to as "premium compound interest bonds." These bonds were issued at a discount to their par or maturity value and will accrete interest until maturity:

Description	Accreted Value	Stated Value	Ending Value Accreted Interest
2006	\$ 1,411,535	\$ 439,986	\$ 971,549
Total accreted interest			\$ 971,549

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Principal Value	Interest	Total Requirements
2019	\$ 2,564,986	\$ 5,882,272	\$ 8,447,258
2020	3,410,000	5,762,146	9,172,146
2021	3,550,000	5,626,496	9,176,496
2022	3,695,000	5,485,674	9,180,674
2023	3,845,000	5,339,071	9,184,071
2024	3,990,000	5,186,271	9,176,271
2025	4,105,000	5,043,831	9,148,831
2026	4,215,000	4,956,031	9,171,031
2027	4,345,000	4,827,631	9,172,631
2028	4,480,000	4,695,281	9,175,281
2029	4,620,000	4,558,781	9,178,781
2030	4,505,000	4,410,706	8,915,706
2031	4,685,000	4,231,956	8,916,956
2032	4,875,000	4,046,056	8,921,056
2033	5,075,000	3,852,556	8,927,556
2034	5,290,000	3,645,763	8,935,763
2035	5,530,000	3,430,194	8,960,194
2036	5,780,000	3,166,669	8,946,669
2037	6,045,000	2,925,150	8,970,150
2038	6,320,000	2,639,850	8,959,850
2039	6,610,000	2,375,681	8,985,681
2040	6,940,000	2,054,863	8,994,863
2041	7,285,000	1,717,913	9,002,913
2042	7,650,000	1,364,100	9,014,100
2043	8,030,000	992,456	9,022,456
2044	2,175,000	602,250	2,777,250
2045	2,285,000	493,500	2,778,500
2046	2,405,000	379,250	2,784,250
2047	2,525,000	259,000	2,784,000
2048	2,655,000	132,750	2,787,750
Totals	\$ 139,484,986	\$ 100,084,148	\$ 239,569,134

As of June 30, 2018, the District had \$86,500,000 of authorized but unissued bonds.

Crosby Independent School District

Notes to the Financial Statements

In previous years, the District defeased certain outstanding bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the liability for the defeased bonds are not included in the District's financial statements. As of June 30, 2018, there were no outstanding defeased bonds.

Notes Payable

The District issued maintenance tax notes to provide funds for capital improvements and equipping facilities. The maintenance tax notes are secured by the proceeds of a continuing direct annual ad valorem tax levied for maintenance. The notes are issued as 15-20 year current interest notes.

The following is a summary of changes in the notes payable during the fiscal year ended June 30, 2018:

Description	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
2010 Qualified school construction maintenance tax notes (QSCMT)	5.95%	\$ 7,235,000	2025	\$ 7,235,000	\$ -	\$ -	\$ 7,235,000
2016 Maintenance tax notes	2.5-3.25%	9,255,000	2036	9,030,000	-	(360,000)	8,670,000
2017 Maintenance tax notes	3.00%	2,970,000	2032	2,970,000	-	(175,000)	2,795,000
Totals				\$ 19,235,000	\$ -	\$ (535,000)	\$ 18,700,000

Annual debt service requirements to maturity for the notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2019	\$ 600,000	\$ 769,614	\$ 1,369,614
2020	620,000	751,614	1,371,614
2021	560,000	733,014	1,293,014
2022	575,000	716,214	1,291,214
2023	595,000	698,964	1,293,964
2024	610,000	681,114	1,291,114
2025	7,865,000 [1]	662,814	8,527,814
2026	645,000	213,431	858,431
2027	665,000	196,381	861,381
2028	685,000	178,781	863,781
2029	700,000	159,431	859,431
2030	725,000	139,669	864,669
2031	745,000	117,919	862,919
2032	770,000	95,569	865,569
2033	560,000	72,469	632,469
2034	575,000	55,669	630,669
2035	595,000	38,419	633,419
2036	610,000	19,825	629,825
Totals	\$ 18,700,000	\$ 6,300,911	\$ 25,000,911

[1] The District plans to make annual principal payments, which are accumulated in an escrow account, beginning February 15, 2015, that range from \$440,000 to \$680,000 prior to the maturity in year 2025 for the 2010 QSCMT noted above. The balance as of June 30, 2018 is \$2,475,000 and is presented as restricted cash in the financial statements.

Crosby Independent School District

Notes to the Financial Statements

F. Fund Balance

Other committed fund balance includes the following commitments of funds:

Other governmental fund:	
Campus activity funds	\$ 379,715
Total other committed fund balance	\$ 379,715

G. Revenues from Local and Intermediate Sources

During the fiscal year ended June 30, 2018, revenues from local and intermediate sources consisted of the following:

	General	Debt Service	Capital Projects	Nonmajor Funds	Totals
Property taxes	\$ 20,897,810	\$ 8,897,145	\$ -	\$ -	\$ 29,794,955
Investment income	37,631	60,696	79,525	8,849	186,701
Food sales	-	-	-	750,610	750,610
Extracurricular activities	178,846	-	-	591,256	770,102
Other	437,173	-	-	38,102	475,275
Totals	\$ 21,551,460	\$ 8,957,841	\$ 79,525	\$ 1,388,817	\$ 31,977,643

Note 4. Other Information

A. Risk Management

Property/Liability

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

Health Insurance

During the fiscal year ended June 30, 2018, employees of the District were covered by TRS-Active Care (the Plan), a statewide health coverage program for Texas public education employees implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of \$150 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS. 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.

Crosby Independent School District

Notes to the Financial Statements

Workers' Compensation

The District established a new limited risk management program for workers' compensation in 2016, replacing the previously established program, by participating as a self-funded member of the Texas Public Schools Workers' Compensation Project (Pool). The Pool was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. As a self-funded member of the Pool, the District is solely responsible for all claims costs, both reported and unreported. A third party administrator provides administrative services to its self-funded members including claims administration and customer service. Premiums are paid into the general fund by the other funds and are available to pay claims, claim reserves, and administrative costs of the program.

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

	Ten Months Ended 6/30/2017	Year Ended 6/30/2018
Unpaid claims, beginning of fiscal year	\$ 306,258	\$ 275,891
Incurred claims	73,885	131,560
Claim payments	(104,252)	(104,029)
Unpaid claims, end of fiscal year	\$ 275,891	\$ 303,422

B. Litigation and Contingencies

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through June 30, 2018, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

Crosby Independent School District

Notes to the Financial Statements

C. Defined Benefit Pension Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

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.

Crosby Independent School District

Notes to the Financial Statements

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

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

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

District contributions	\$ 1,368,942
Member contributions	3,274,692
NECE on-behalf contributions (state)	1,996,811

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 that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

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

Crosby Independent School District

Notes to the Financial Statements

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

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

Actuarial Assumptions

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

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

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

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

Crosby Independent School District

Notes to the Financial Statements

Discount Rate

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

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

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

Crosby Independent School District

Notes to the Financial Statements

Discount Rate Sensitivity Analysis

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

1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
\$ 20,151,326	\$ 11,953,552	\$ 5,127,574

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 \$11,953,552 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 are as follows:

District's proportionate share of the net pension liability	\$ 11,953,552
State's proportionate share of the net pension liability associated with the district	<u>19,031,719</u>
Total	<u>\$ 30,985,271</u>

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

At August 31, 2017, the employer's proportion of net pension liability was .0373845%, which was an increase of .0038074% from its proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation

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

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

For the fiscal year ended June 30, 2018, the District recognized pension expense of \$3,468,974 and revenue of \$1,451,664 for support provided by the State.

Crosby Independent School District

Notes to the Financial Statements

At June 30, 2018, the District reported deferred outflows of resources for contributions made after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 174,886	\$ 644,639
Changes of assumptions	544,503	311,715
Net difference between projected and actual earnings on pension plan investments	-	871,149
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	3,877,098	655
District contribution after measurement date	1,138,682	-
Totals	\$ 5,735,169	\$ 1,828,158

\$1,138,682 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2019	\$ 476,290
2020	1,239,316
2021	417,657
2022	185,799
2023	312,986
Thereafter	136,281
Total	\$ 2,768,329

D. Defined Other Post-Employment Benefit Plan

Plan Description

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

OPEB Plan Fiduciary Net Position

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

Crosby Independent School District

Notes to the Financial Statements

Benefits Provided

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

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

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

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

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

* or surviving spouse

Contributions

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

Crosby Independent School District

Notes to the Financial Statements

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

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

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

District contributions	\$ 324,330
Member contributions	276,435
NECE on-behalf contributions (state)	584,801

In addition, the State of Texas contributed \$160,257, \$156,623 and \$103,677 in 2018, 2017, and 2016, respectively, for on-behalf payments for Medicare Part D.

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

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

Crosby Independent School District

Notes to the Financial Statements

Actuarial Assumptions

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

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

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

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

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

**Includes inflation at 2.50%

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

Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .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.

Crosby Independent School District

Notes to the Financial Statements

Sensitivity of the Net OPEB Liability

Discount Rate

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

1% Decrease (2.42%)	Current Single Discount Rate (3.42%)	1% Increase (4.42%)
\$ 23,527,610	\$ 19,934,458	\$ 17,046,375

Healthcare Cost Trend Rates

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

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 16,597,428	\$ 19,934,458	\$ 24,313,063

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 \$19,934,458 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 19,934,458
State's proportionate share of the net OPEB liability associated with the District	31,736,731
Total	\$ 51,671,189

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 .0458408% which was the same proportion measured as of August 31, 2016.

Crosby Independent School District

Notes to the Financial Statements

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

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

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

GASB 75 requires the District to record OPEB expense for the amount of the State's proportionate share of collective OPEB expense that is associated with the District, and record revenue in the same amount for the support provided by the State. For the measurement period ended August 31, 2017, the State's proportionate share of collective OPEB expense was a negative expense of \$8,504,163,580 and the portion of that amount that is associated with the District is a negative expense of \$10,619,954. This amount is recorded as a negative revenue and negative expense for the year ended June 30, 2018.

For the year ended June 30, 2018, the District recognized total negative OPEB expense of \$17,281,938, which includes both the District's proportionate share of collective OPEB expense and the portion of the State's proportionate share of collective OPEB expense that is associated with the District, as described above.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ -	\$ 416,147
Changes of assumptions	-	7,922,475
Net difference between projected and actual earnings on pension plan investments	3,028	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	93	-
District contributions after measurement date	282,397	-
	<u> </u>	<u> </u>
Totals	<u>\$ 285,518</u>	<u>\$ 8,338,622</u>

Crosby Independent School District

Notes to the Financial Statements

\$282,397 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	
2019	\$ (1,099,878)
2020	(1,099,878)
2021	(1,099,878)
2022	(1,099,878)
2023	(1,100,635)
Thereafter	<u>(2,835,354)</u>
Total	<u>\$ (8,335,501)</u>

E. Nonmonetary Transactions

During fiscal year 2018, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of \$185,852. The District receives the textbooks as part of state funding for textbook allotment. The textbooks have been recorded in the amount of \$185,852 in a special revenue fund as both state revenues and expenditures, which represents the amount of consideration given by the State of Texas.

F. Subsequent Event

As described in Note 1.K., on October 8, 2018, the District's Board of Trustees approved a resolution to declare a financial exigency and need for reorganization (reduction in force) affecting employment areas and related positions.

Subsequently, District administration has announced the termination of employment of 95 employees, and has accepted the resignation or retirements of an additional 34 employees.

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Required Supplementary Information

Crosby Independent School District
Schedule of Revenues, Expenditures, and Changes in
Fund Balance - Budget and Actual
General Fund
For the Fiscal Year Ended June 30, 2018

Exhibit G-1

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 22,699,323	\$ 21,630,155	\$ 21,551,460	\$ (78,695)
5800	State program revenues	34,155,373	31,589,372	31,223,606	(365,766)
5900	Federal program revenues	1,300,000	1,283,000	1,782,269	499,269
5020	Total revenues	58,154,696	54,502,527	54,557,335	54,808
EXPENDITURES					
Current:					
0011	Instruction	33,741,587	34,990,476	34,582,496	407,980
0012	Instructional resources and media services	509,608	503,646	486,147	17,499
0013	Curriculum and instructional staff development	1,036,951	1,083,170	1,070,225	12,945
0021	Instructional leadership	704,611	664,271	648,750	15,521
0023	School leadership	3,284,457	3,261,512	3,234,836	26,676
0031	Guidance, counseling, and evaluation services	1,972,387	1,962,256	1,903,909	58,347
0033	Health services	562,430	523,390	534,210	(10,820)
0034	Student transportation	2,725,707	3,104,105	2,996,469	107,636
0036	Extracurricular activities	1,485,758	1,810,862	1,811,071	(209)
0041	General administration	2,427,525	2,370,536	2,185,355	185,181
0051	Plant maintenance and operations	6,368,735	6,586,086	6,208,801	377,285
0052	Security and monitoring services	456,630	528,049	554,130	(26,081)
0053	Data processing services	1,163,715	1,355,692	1,270,805	84,887
0061	Community services	61,447	73,433	68,443	4,990
Debt service:					
0071	Principal on long-term debt	5,886,655	486,655	535,000	(48,345)
0072	Interest on long-term debt	862,613	862,613	862,613	-
0073	Issuance costs and fees	1,400	1,400	1,400	-
Capital outlay:					
0081	Facilities acquisition and construction	-	1,100,000	-	1,100,000
Intergovernmental:					
0093	Payments to shared services arrangements	66,000	66,000	66,000	-
0095	Payments to juvenile justice alternative education programs	60,000	60,000	19,800	40,200
0099	Other intergovernmental charges	233,500	276,524	276,524	-
6030	Total expenditures	63,611,716	61,670,676	59,316,984	2,353,692
1100	Excess (deficiency) of revenues over (under) expenditures	(5,457,020)	(7,168,149)	(4,759,649)	2,408,500
OTHER FINANCING SOURCES (USES)					
7911	Issuance of capital-related bonds	-	-	5,980,023	5,980,023
7912	Sale of real and personal property	-	-	31,719	31,719
7915	Transfers in	-	3,919,142	7,063,618	3,144,476
7080	Total other financing sources (uses)	-	3,919,142	13,075,360	9,156,218
1200	Net change in fund balance	(5,457,020)	(3,249,007)	8,315,711	11,564,718
0100	Fund balances - beginning, as originally reported	5,351,165	5,351,165	5,351,165	-
1300	Prior period adjustment	-	-	(11,698,842)	(11,698,842)
	Fund balances - beginning, as restated	5,351,165	5,351,165	(6,347,677)	(11,698,842)
3000	FUND BALANCE - ENDING	\$ (105,855)	\$ 2,102,158	\$ 1,968,034	\$ (134,124)

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

Crosby Independent School District**Exhibit G-2**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability	0.0373845%	0.0335771%	0.0323325%	0.0188607%
District's proportionate share of the net pension liability	\$ 11,953,552	\$ 12,688,305	\$ 11,429,108	\$ 5,037,954
State's proportionate share of the net pension liability associated with the District	<u>19,031,719</u>	<u>21,022,958</u>	<u>19,600,726</u>	<u>16,313,927</u>
TOTALS	<u>\$ 30,985,271</u>	<u>\$ 33,711,263</u>	<u>\$ 31,029,834</u>	<u>\$ 21,351,881</u>
District's covered payroll	\$ 39,985,219	\$ 35,355,165	\$ 32,541,661	\$ 29,518,270
District's proportionate share of the net pension liability as a percentage of its covered payroll	29.89%	35.89%	35.12%	17.07%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

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

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

Exhibit G-3

	<u>2018</u>	<u>2017 (1)</u>	<u>2016</u>	<u>2015</u>
TRS				
Contractually required contributions	\$ 1,368,942	\$ 994,987	\$ 1,065,900	\$ 957,378
Contributions in relation to the contractually required contributions	(1,368,942)	(994,987)	(1,065,900)	(957,378)
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 42,528,472	\$ 33,078,371	\$ 35,355,165	\$ 32,541,661
Contributions as a percentage of covered payroll	3.22%	3.01%	3.01%	2.94%

* The amounts presented for the fiscal years were determined as of the District's fiscal year end June 30.
 Ten years of data is not available.

(1) Fiscal 2017 presents ten months of data - September 1, 2016-June 30, 2017.

Crosby Independent School District**Exhibit G-4**

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

	<u>2018</u>
District's proportion of the net OPEB liability	0.0458408%
District's proportionate share of the net OPEB liability	\$ 19,934,458
State's proportionate share of net OPEB liability associated with the District	<u>31,736,731</u>
TOTAL	<u>\$ 51,671,189</u>
District's covered payroll	\$ 39,985,219
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	49.85%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

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

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

Exhibit G-5

	<u>2018</u>
TRS	
Contractually required contributions	\$ 324,330
Contributions in relation to the contractually required contributions	<u>(324,330)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>
District's covered payroll	\$ 42,528,472
Contributions as a percentage of covered payroll	0.76%

* The amounts presented for the fiscal year were determined as of the District's fiscal year end June 30.
 Ten years of data is not available.

Crosby Independent School District
 Notes to the Required Supplementary Information

Note 1. Budget

A. Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than June 19 and adopted by June 30 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

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

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is formally approved and adopted by the Board.

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

B. Excess of Expenditures Over Appropriation

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

Fund	Function	Final Budget	Actual	Variance
General fund	33 Health services	\$ 523,390	\$ 534,210	\$ (10,820)
General fund	36 Extracurricular activities	1,810,862	1,811,071	(209)
General fund	52 Security and monitoring services	528,049	554,130	(26,081)
General fund	71 Principal on long-term debt	486,655	535,000	(48,345)

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Supplementary Information

Crosby Independent School District
 Combining Balance Sheet
 Nonmajor Governmental Funds - Special Revenue Funds
 June 30, 2018

	211	224	225
Data Control Codes	ESEA, Title I, Part A - Improving Basic Programs	IDEA - Part B, Formula	IDEA - Part B, Preschool
ASSETS			
1110	\$ -	\$ -	\$ -
1120	-	-	-
1240	263,212	215,099	5,144
1290	-	-	-
1300	-	-	-
1000	\$ 263,212	\$ 215,099	\$ 5,144
LIABILITIES			
2110	\$ -	\$ 550	\$ -
2150	11,675	6,039	153
2160	37,231	73,250	2,369
2170	214,306	135,260	2,622
2180	-	-	-
2300	-	-	-
2000	263,212	215,099	5,144
FUND BALANCES			
3450	-	-	-
3545	-	-	-
3000	-	-	-
4000	\$ 263,212	\$ 215,099	\$ 5,144

226	240	244	255	263	289
IDEA - Part B, High Cost Risk Pool	National School Breakfast and Lunch Program	Career and Technical - Basic Grant	ESEA, Title II, Part A: Teacher and Principal Training & Recruiting	Title III, Part A, English Language Acquisition and Language Enhancement	Other Federally Funded Special Revenues
\$ -	\$ 412,470	\$ -	\$ -	\$ -	\$ -
-	567,217	-	-	-	-
51,002	21,571	3,631	26,489	7,719	4,673
-	-	-	-	-	-
-	65,255	-	-	-	-
<u>\$ 51,002</u>	<u>\$ 1,066,513</u>	<u>\$ 3,631</u>	<u>\$ 26,489</u>	<u>\$ 7,719</u>	<u>\$ 4,673</u>
\$ -	\$ 54,058	\$ -	\$ -	\$ -	\$ -
-	2,267	-	702	166	-
-	105,836	-	11,713	3,385	-
51,002	54,375	3,631	14,074	4,168	4,673
-	-	-	-	-	-
-	38,476	-	-	-	-
51,002	255,012	3,631	26,489	7,719	4,673
-	811,501	-	-	-	-
-	-	-	-	-	-
-	811,501	-	-	-	-
<u>\$ 51,002</u>	<u>\$ 1,066,513</u>	<u>\$ 3,631</u>	<u>\$ 26,489</u>	<u>\$ 7,719</u>	<u>\$ 4,673</u>

Crosby Independent School District
 Combining Balance Sheet
 Nonmajor Governmental Funds - Special Revenue Funds - Continued
 June 30, 2018

		410	429
Data Control Codes		State Textbook Fund	Prekindergarten State Grant Program
ASSETS			
1110	Cash and cash equivalents	\$ 35,241	\$ -
1120	Current investments	-	-
1240	Due from other governments	-	-
1290	Other receivables	-	-
1300	Inventories	-	-
1000	TOTAL ASSETS	<u>\$ 35,241</u>	<u>\$ -</u>
LIABILITIES			
2110	Accounts payable	\$ -	\$ -
2150	Payroll deductions and withholdings	-	-
2160	Accrued wages payable	-	-
2170	Due to other funds	-	-
2180	Due to other governments	-	-
2300	Unearned revenue	35,241	-
2000	Total liabilities	35,241	-
FUND BALANCES			
3450	Restricted - grant funds	-	-
3545	Committed - other	-	-
3000	Total fund balances	-	-
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 35,241</u>	<u>\$ -</u>

461	496	498	499	
Campus Activity Funds	State School Climate and Transformation Project	Crosby Education Foundation Grant	Professional Development Grant Program	Total Nonmajor Funds (See Exhibit C-1)
\$ 379,604	\$ -	\$ -	\$ -	\$ 827,315
-	-	-	-	567,217
-	-	-	-	598,540
584	-	14,544	5,856	20,984
-	-	-	-	65,255
<u>\$ 380,188</u>	<u>\$ -</u>	<u>\$ 14,544</u>	<u>\$ 5,856</u>	<u>\$ 2,079,311</u>
\$ 120	\$ -	\$ -	\$ -	\$ 54,728
-	-	26	-	21,028
-	-	-	-	233,784
-	-	14,518	5,824	504,453
353	-	-	-	353
-	-	-	32	73,749
473	-	14,544	5,856	888,095
-	-	-	-	811,501
379,715	-	-	-	379,715
<u>379,715</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,191,216</u>
<u>\$ 380,188</u>	<u>\$ -</u>	<u>\$ 14,544</u>	<u>\$ 5,856</u>	<u>\$ 2,079,311</u>

Crosby Independent School District

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

		211	224	225
Data Control Codes		ESEA, Title I, Part A - Improving Basic Programs	IDEA - Part B, Formula	IDEA - Part B, Preschool
REVENUES				
5700	Local and intermediate sources	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-
5900	Federal program revenues	851,035	1,086,550	16,963
5020	Total revenues	851,035	1,086,550	16,963
EXPENDITURES				
Current:				
0011	Instruction	797,316	357,279	16,963
0012	Instructional resources and media services	-	-	-
0013	Curriculum and instructional staff development	48,498	15,009	-
0021	Instructional leadership	-	4,287	-
0023	School leadership	255	-	-
0031	Guidance, counseling, and evaluation services	-	577,772	-
0034	Student transportation	-	132,203	-
0035	Food services	-	-	-
0036	Extracurricular activities	-	-	-
0041	General administration	1,356	-	-
0051	Plant maintenance and operations	-	-	-
0052	Security and monitoring services	-	-	-
0061	Community services	3,610	-	-
6030	Total expenditures	851,035	1,086,550	16,963
1200	Net change in fund balances	-	-	-
0100	Fund balances - beginning, as originally reported	-	-	-
1300	Prior period adjustment	-	-	-
	Fund balances - beginning, as restated	-	-	-
3000	FUND BALANCES - ENDING	\$ -	\$ -	\$ -

226	240	244	255	263	289
IDEA - Part B, High Cost Risk Pool	National School Breakfast and Lunch Program	Career and Technical - Basic Grant	ESEA, Title II, Part A: Teacher and Principal Training & Recruiting	Title III, Part A, English Language Acquisition and Language Enhancement	Other Federally Funded Special Revenues
\$ -	\$ 759,459	\$ -	\$ -	\$ -	\$ -
-	40,822	-	-	-	-
51,002	2,054,022	22,136	110,136	75,109	30,765
51,002	2,854,303	22,136	110,136	75,109	30,765
44,900	-	21,212	105,042	70,921	4,749
-	-	-	-	-	-
-	-	239	1,665	3,762	15,000
-	-	-	-	-	-
-	-	-	-	390	-
-	-	525	-	-	-
6,102	-	-	-	-	11,016
-	2,880,878	-	-	-	-
-	-	-	-	-	-
-	-	160	3,429	-	-
-	55,456	-	-	-	-
-	-	-	-	-	-
-	-	-	-	36	-
51,002	2,936,334	22,136	110,136	75,109	30,765
-	(82,031)	-	-	-	-
-	997,786	-	-	-	-
-	(104,254)	-	-	-	-
-	893,532	-	-	-	-
\$ -	\$ 811,501	\$ -	\$ -	\$ -	\$ -

Crosby Independent School District

Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances

Nonmajor Governmental Funds - Special Revenue Funds - Continued

For the Fiscal Year Ended June 30, 2018

Data Control Codes		410	429
		State Textbook Fund	Prekindergarten State Grant Program
REVENUES			
5700	Local and intermediate sources	\$ -	\$ -
5800	State program revenues	368,576	23,607
5900	Federal program revenues	-	-
5020	Total revenues	368,576	23,607
EXPENDITURES			
Current:			
0011	Instruction	368,576	22,662
0012	Instructional resources and media services	-	-
0013	Curriculum and instructional staff development	-	945
0021	Instructional leadership	-	-
0023	School leadership	-	-
0031	Guidance, counseling, and evaluation services	-	-
0034	Student transportation	-	-
0035	Food services	-	-
0036	Extracurricular activities	-	-
0041	General administration	-	-
0051	Plant maintenance and operations	-	-
0052	Security and monitoring services	-	-
0061	Community services	-	-
6030	Total expenditures	368,576	23,607
1200	Net change in fund balances	-	-
0100	Fund balances - beginning, as originally reported	-	-
1300	Prior period adjustment	-	-
	Fund balances - beginning as restated	-	-
3000	FUND BALANCES - ENDING	\$ -	\$ -

461	496	498	499	
Campus Activity Funds	State School Climate and Transformation Project	Crosby Education Foundation Grant	Professional Development Grant Program	Total Nonmajor Funds (See Exhibit C-2)
\$ 591,256	\$ 1,673	\$ 23,549	\$ 12,880	\$ 1,388,817
-	-	33	-	433,038
-	-	-	-	4,297,718
591,256	1,673	23,582	12,880	6,119,573
249,390	-	1,996	5,535	2,066,541
56,045	-	-	-	56,045
861	1,138	-	6,775	93,892
-	535	-	570	5,392
99,439	-	-	-	100,084
7,133	-	-	-	585,430
-	-	-	-	149,321
-	-	-	-	2,880,878
264,705	-	-	-	264,705
-	-	-	-	4,945
-	-	-	-	55,456
6,042	-	-	-	6,042
291	-	21,586	-	25,523
683,906	1,673	23,582	12,880	6,294,254
(92,650)	-	-	-	(174,681)
472,365	-	-	-	1,470,151
-	-	-	-	(104,254)
472,365	-	-	-	1,365,897
\$ 379,715	\$ -	\$ -	\$ -	\$ 1,191,216

Crosby Independent School District
 Schedule of Delinquent Taxes Receivable
 For the Fiscal Year Ended June 30, 2018

Year Ended June 30,	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2009 and prior years	\$	Various	\$	Various	\$	Various
2010		1.17		0.2700		1,239,013,333
2011		1.17		0.2700		1,276,037,971
2012		1.17		0.2700		1,282,400,903
2013		1.17		0.2700		1,287,574,028
2014		1.17		0.5000		1,323,928,443
2015		1.17		0.5000		1,510,967,066
2016		1.17		0.5000		1,606,094,132
2017		1.17		0.5000		1,671,335,749
2018		1.17		0.5000		1,760,500,180
1000 TOTALS						

Exhibit J-1

10 Beginning Balance 7/1/17	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 6/30/18
\$ 557,858	\$ -	\$ 24,699	\$ 7,126	\$ (9,657)	\$ 516,376
66,017	-	5,011	1,156	-	59,850
77,709	-	5,321	1,228	(358)	70,802
143,743	-	9,924	2,290	2,087	133,616
116,478	-	15,895	3,668	2,675	99,590
160,694	-	29,749	12,713	7,019	125,251
225,526	-	58,817	25,136	12,870	154,443
361,514	-	142,868	61,054	28,486	186,078
923,517	-	355,303	151,838	(101,058)	315,318
-	29,400,353	19,922,134	8,513,733	-	964,486
<u>\$ 2,633,056</u>	<u>\$ 29,400,353</u>	<u>\$ 20,569,721</u>	<u>\$ 8,779,942</u>	<u>\$ (57,936)</u>	<u>\$ 2,625,810</u>

Crosby Independent School District
 Schedule of Revenues, Expenditures, and Changes in
 Fund Balance – Budget and Actual
 National School Breakfast and Lunch Program
 For the Fiscal Year Ended June 30, 2018

Exhibit J-2

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 1,177,944	\$ 777,944	\$ 759,459	\$ (18,485)
5800	State program revenues	69,500	71,078	40,822	(30,256)
5900	Federal program revenues	1,651,531	1,651,531	2,054,022	402,491
5020	Total revenues	2,898,975	2,500,553	2,854,303	353,750
EXPENDITURES					
Current:					
0035	Food services	2,723,975	3,273,975	2,880,878	393,097
0051	Plant maintenance and operations	175,000	175,000	55,456	119,544
6030	Total expenditures	2,898,975	3,448,975	2,936,334	512,641
1200	Net change in fund balance	-	(948,422)	(82,031)	866,391
0100	Fund balances - beginning, as originally reported	997,786	997,786	997,786	-
1300	Prior period adjustment	-	-	(104,254)	(104,254)
	Fund balances - beginning, as restated	997,786	997,786	893,532	(104,254)
3000	FUND BALANCE - ENDING	\$ 997,786	\$ 49,364	\$ 811,501	\$ 762,137

Crosby Independent School District
 Schedule of Revenues, Expenditures, and Changes in
 Fund Balance – Budget and Actual
 Debt Service Fund
 For the Fiscal Year Ended June 30, 2018

Exhibit J-3

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 9,008,258	\$ 9,068,258	\$ 8,957,841	\$ (110,417)
5800	State program revenues	1,299,140	2,074,102	1,142,486	(931,616)
5020	Total revenues	10,307,398	11,142,360	10,100,327	(1,042,033)
EXPENDITURES					
Debt service:					
0071	Principal on long-term debt	4,772,270	4,787,270	4,785,000	2,270
0072	Interest on long-term debt	5,063,296	5,063,296	5,063,296	-
0073	Issuance costs and fees	12,730	12,730	12,730	-
6030	Total expenditures	9,848,296	9,863,296	9,861,026	2,270
1100	Excess (deficiency) of revenues over (under) expenditures	459,102	1,279,064	239,301	(1,039,763)
OTHER FINANCING SOURCES (USES)					
7916	Premium on issuance of bonds	-	745	745	-
7917	Prepaid interest	-	-	36,826	36,826
7080	Total other financing sources and (uses)	-	745	37,571	36,826
1200	Net change in fund balance	459,102	1,279,809	276,872	(1,002,937)
0100	Fund balance - beginning	6,215,020	6,215,020	6,215,020	-
3000	FUND BALANCE - ENDING	<u>\$ 6,674,122</u>	<u>\$ 7,494,829</u>	<u>\$ 6,491,892</u>	<u>\$ (1,002,937)</u>

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Overall Compliance, Internal Control Section and Federal Awards

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Crosby Independent School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 12, 2019. Our report on the financial statements includes emphasis of matter paragraphs about the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the correction of misstatements in previously issued financial statements, and conditions that raised substantial doubt about the District's ability to continue as a going concern.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2018-001 and 2018-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District’s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as items 2018-002, 2018-003, 2018-004, 2018-005, and 2018-006.

District’s Response to Findings

The District’s response to the findings identified in our audit is described in the accompanying corrective action plan. The District’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
February 12, 2019

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

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

Report on Compliance for Each Major Federal Program

We have audited Crosby Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2018-007, that we consider to be a material weakness.

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

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

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Conroe, Texas
February 12, 2019

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

Section 1. Summary of Auditor's Results

Financial Statements

- | | |
|---|---------------|
| 1. Type of auditor's report issued | Unmodified |
| 2. Internal control over financial reporting: | |
| <i>a.</i> Material weakness(es) identified? | Yes |
| <i>b.</i> Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 3. Noncompliance material to financial statements noted? | Yes |

Federal Awards

- | | |
|---|------------------|
| 4. Internal control over major programs: | |
| <i>a.</i> Material weakness(es) identified? | Yes |
| <i>b.</i> Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported |
| 5. Type of auditor's report issued on compliance with major programs | Unmodified |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? | Yes |
| 7. Identification of major programs | 84.010A –Title I |
| 8. Dollar threshold used to distinguish between Type A and Type B federal programs | \$750,000 |
| 9. Auditee qualified as a low-risk auditee? | Yes |

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

Section 2. Financial Statement Findings

2018-001: Financial Statement Misstatements

Type of Finding: Material Weakness in Internal Control over Financial Reporting

Criteria

Management is responsible for the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting. The existence of a material misstatement of an entity's financial statements is an indication of a material weakness in internal control.

Condition

Beginning net position of governmental activities and beginning fund balances of the general fund and nonmajor funds were restated in the June 30, 2018 financial statements to correct misstatements associated with payroll expenditures of the prior year which had not been recognized in the previously reported June 30, 2017 financial statements. These misstatements were subsequently identified by the District's management. The restatement was a reduction of net position/fund balance by approximately \$3.9 million, to recognize the effects of the prior year expenditures.

Cause

In the preparation of its financial records for the year ended June 30, 2017, the District failed to identify and accrue certain payroll expenditures incurred during the period. Because these errors were not detected timely, there is an indication that closing procedures, specifically the monitoring and review of financial information, were not being effectively performed.

Effect or Potential Effect

Material misstatements of the District's financial statements were not prevented, or detected and corrected, by the District's system of internal control. Failure to establish effective monitoring and closing procedures will allow possible irregularities to exist and continue without notice.

Recommendation

We recommend that the District review its internal control procedures over financial reporting to ensure controls are in place to identify and record all transactions in the correct period.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

2018-002: Management Override of Internal Controls

Type of Finding: Material Weakness in Internal Control over Financial Reporting; Identified/Suspected Fraud

Criteria

"Internal control" is defined as a process effected by those charged with governance, management, and other personnel that is designed to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. Although the level of risk of management override of controls will vary from entity to entity, the risk is, nevertheless, present in all entities.

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

Management override of controls is a means by which fraudulent financial reporting can be perpetrated. Fraudulent financial reporting involves intentional misstatements to deceive financial statement users. This includes omitting, advancing, or delaying recognition in the financial statements of events and transactions that have occurred during the reporting period, or concealing, or not disclosing, facts that could affect the amounts recorded in the financial statements.

Condition

The District's reported expenditures for the year ended June 30, 2018 included approximately \$7.8 million related to costs incurred in the previous year for construction projects. The construction projects were substantially completed as of June 30, 2017 (the end of the prior fiscal year) at a final total cost in excess of the resources planned and available for their payment (see related finding 2018-003). The District's management was in possession of payment applications from the project contractors and was aware of the costs of the projects, but failed to record the costs in the District's financial accounting records for the year ended June 30, 2017. The costs were recorded when paid, during the fiscal year ended June 30, 2018, subsequent to the issuance of the 2017 Bonds (see related finding 2018-003).

This misstatement in the period of recognition was identified during the audit and corrected through a restatement of the beginning balance of fund balance.

Cause

The costs of the construction projects exceeded the available resources of the District and the District was not able to pay the amounts due. District management's pressure to manage cash flows and the perception of financial performance contributed to the delay in recognition of expenditures until the resources for payment were available, subsequent to the issuance of a new series of bonds. The District's system of internal controls was not adequately designed to address the risk of management override of controls.

Effect or Potential Effect

The District's June 30, 2017 financial statements were materially misstated. The District's liabilities, expenditures, cash flow requirements, and overall financial condition were misrepresented.

Recommendation

The Board of Trustees is responsible for the oversight of management and the monitoring of the District's finances. We recommend the Board review its policies and procedures pertaining to its role in oversight of management, focusing on the areas related to the extent of oversight and level of detail of review, and make improvements to strengthen the effectiveness of its oversight and financial monitoring functions.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

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

2018-003: Construction Project Administration and Funding
Type of Finding: Noncompliance; Identified/Suspected Abuse

Criteria

Texas Education Code requires approval of change orders for facilities construction contracts. While change orders can be permitted, Texas Education Code Section 44.0411 states that "the total contract price may not be increased because of the changes unless additional money for increased costs is approved for that purpose from available money or is provided for by the authorization of the issuance of time warrants." The District's local policy stipulates that change orders permitted by law shall be approved by the Board or its designee (the Superintendent) prior to any changes being made in the approved plans or the actual construction of the facility. The Superintendent is designated as responsible for the administration of all construction projects, and the Superintendent's responsibilities include keeping the Board informed concerning construction projects and also providing information to the general public. Additionally, District policy requires Board approval and acceptance of completed construction prior to final payment for construction projects.

Texas Education Code also includes criteria relevant to a school district's bond issuances. Under section 45.001, proceeds from a bond issue can be used for the construction, acquisition, and equipment of school buildings, the acquisition of land, and the purchase of capital items such as buses. Generally accepted best-practices related to debt management require the proceeds from bond issuances to be invested through an investment program designed for compliance with federal and state statutes governing the types of permissible investments until needed for the authorized purpose of the bonds.

Additional criteria related to bond issuances include Texas Government Code (section 1201.042) which states that proceeds from the sale of a public security issued to finance the acquisition, construction, equipping, or furnishing of a project or facility may be used to reimburse the issuer for a cost that is paid or incurred before the date of the public security's issuance and that is attributable to the project or facility, and United States Department of Treasury Regulation Section 1.150-2 which states that in order to issue a reimbursement bond an issuer must timely adopt a declaration of official intent that an original expenditure will be reimbursed with the proceeds of a subsequent reimbursement bond issue. On the date of the declaration, the issuer must have a reasonable expectation that it will reimburse the original expenditure with proceeds of an obligation. The declaration of official intent must not be later than 60 days after payment of the original expenditure.

Condition

In 2013 voters approved the issuance of \$86.5 million in bonds to finance the District's Long Range Facility Improvement Plan (the 2013 Bonds). Subsequent to the issuance of the 2013 Bonds, the Board approved guaranteed maximum price construction contracts for the Long Range Facility Improvement Plan in an aggregate amount of \$89.8 million. Any costs incurred related to the Long Range Facility Improvement Plan in excess of the funding provided by the 2013 Bonds were to be funded by the District's general fund.

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

As described in the "criteria" section above, the District's local policy stipulates that change orders permitted by law shall be approved by the Board or its designee (the Superintendent) prior to any changes being made in the approved plans or the actual construction of the facility, and the Superintendent is designated as responsible for the administration of all construction projects. In a manner inconsistent with this policy, throughout the course of construction, changes were requested at additional costs, without following the customary process for documentation and approval of change orders. The Superintendent requested changes, additions, and/or revisions to the scope and cost of the construction contracts, without written, formalized change orders, and without negotiating or determining the cost of these changes in advance. With subsequent change orders and additions, the final cost of the guaranteed maximum price contracts was \$94.1 million, and with additional costs incurred beyond the guaranteed maximum price contracts the total amount of costs incurred through completion of construction amounted to approximately \$102.6 million. This final cost is approximately \$16.1 million in excess of the funding provided by the voter-approved bond issuance.

Throughout the course of construction, funding was not monitored to ensure that the District had resources available to pay for these increased costs and ultimately these additional costs accumulated to a level beyond the available resources of the District's general fund. As resources were not available or provided for the payment of these costs, the changes should not have been permitted under the requirements of the Texas Education Code, as described above.

Further, it appears that related to this manner of administration of the construction contracts, District management did not have a plan of funding for the additional costs of the projects as they were accumulating. After the projects were complete or substantially complete, which occurred on or about June of 2017, District management was in the position of having to identify other potential funding sources to provide for payment of the remaining unpaid balances due to contractors for which the resources of the general fund were insufficient. The balances that were due to contractors, which the District did not have the ability to pay, were not reported in the District's June 30, 2017 financial statements (see related finding 2018-002).

The issuance of additional voted bonds, which could be used for new construction, was identified as a solution to provide the necessary funding for payment of the District's obligations incurred related to the 2013 Bond construction projects, and on July 24, 2017 the District's Board approved a resolution to authorize reimbursement of construction costs previously incurred from the proceeds of a potential future debt issuance. The resolution was structured to meet the requirements of the Texas Government Code and Treasury Regulation related to the reimbursement of costs stated above in the "criteria" section of this finding. The future debt issuance was expected to be proposed at an election to be held on November 7, 2017.

At the November 2017 election, the District's voters approved a \$109.5 million bond package for the purpose of financing the construction of new schools and additions (the 2017 Bonds). The bond package included a provision for the reimbursement to the District's general fund for the costs of the 2013 Bond projects previously absorbed by the general fund in an approximate amount of \$10,848,826 (as further described in the following two paragraphs, the "M&O Reimbursement"). Information made available to the general public regarding this M&O Reimbursement indicated that a significant rise in construction costs at the time of construction, related to the general state of the local economy and housing market, had caused the final costs of the 2013 Bond projects to be more than the original amount budgeted, and that the District's general fund had absorbed these excess costs.

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

At the time of the issuance of the first series of the 2017 Bonds in January 2018, the District disclosed in the Series 2018 Official Statement of that it anticipated that \$3,919,142 of the proceeds from the bonds would be deposited in the general fund for this reimbursement. This amount was based on an analysis of original expenditures paid by the general fund during the period beginning 60 days prior to the July 24, 2017 resolution, through December 2017. Upon issuance of the first series of the 2017 Bonds in January 2018 this amount was deposited in the District's general fund.

In addition to the reimbursement described above, approximately \$7.2 million of the proceeds of the 2017 Bonds were used to pay the costs of construction related to the 2013 Bond projects, representing the amounts due to contractors for construction that was completed in the 2017 fiscal year which were not reported in the District's financial records until payment was possible through the issuance of this new series of bonds (see above and also related finding 2018-002). The District made a partial payment for the guaranteed maximum price contracts of \$5 million in February 2018, and the final payment was \$2.2 million and was paid by the District in May 2018, without prior approval of the Board, which is inconsistent with District local policy which requires Board approval and acceptance of completed construction prior to final payment for construction projects, as described in the "criteria" section above. These payments, plus the reimbursement previously described, amounted to \$11,125,431, which is \$276,605 in excess of the approximated "M&O Reimbursement" provided in the 2017 Bond package described above.

Additionally, through a series of interfund borrowings over the three-month period of April through June 2018, the District transferred a total of \$5,650,000 of additional 2017 Bond proceeds from the capital projects fund to the general fund to cover operational and payroll expenditures over that period, transferring \$1,400,000 in April, \$1,750,000 in May, and \$2,500,000 in June. An additional transfer of \$1,990,000 occurred in July 2018, for a total of \$7,640,000 in 2017 Bond proceeds transferred to the general fund to cover payroll and other operational expenditures from the time of the bond issuance through July 2018. As a result of these transfers, the District's financial statements included an interfund payable from the general fund to the capital projects fund, to reflect the obligation of the general fund to return the bond monies to the capital projects fund, with a balance of \$5,650,000 as of June 30, 2018, and \$7,640,000 as of July 31, 2018.

Facing a shortage of resources in the general fund, in September of 2018 District management reviewed the fiscal year 2017-2018 expenditures of the general fund to identify potential additional individual expenditures of the general fund that could be considered eligible for payment using bond proceeds. Through this process, an additional \$2,060,881 of expenditures was identified as eligible. The balance of the interfund payable as of June 30, 2018 (\$5,650,000) was reduced by this amount (\$2,060,881) to adjust the balance due for the restoration of bond proceeds as of June 30, 2018 to \$3,589,119, as presented in the District's June 30, 2018 financial statements.

With the addition of the \$1,990,000 transferred in July 2018, the net balance of unreturned general fund borrowings was \$5,579,119 as of July 31, 2018. This balance was subsequently repaid during the period from September through December 2018 through a series of transfers from the general fund to the capital projects fund amounting to \$1,000,000 in September, \$990,000 in October, \$1,000,000 in November, and \$2,589,119 in December.

The additional amount of \$2,060,881 described above was not included in the initial estimates and projections used to develop the 2017 Bond package. This amount, plus the \$276,605 overage described above, amounts to a total of \$2,337,486 in expenditures not included in the original bond package.

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

Cause

The District's management failed to adequately administer the construction projects and related funding sources of the District. Further, the District's management failed to provide comprehensive relevant information regarding the related financing issues and status to the Board and to the general public.

Effect or Potential Effect

The District did not have available resources to fund the additional construction costs incurred with respect to the 2013 Bond construction program, leading to deterioration in the District's financial condition.

Additionally, use of the proceeds of the 2017 Bonds to cover the excess costs of projects authorized under the 2013 Bonds and for other purposes not originally included in the bond budget could result in a deficiency in funding available for the District's current authorized bond construction projects. As of June 30, 2018, as described above, \$2,337,486 of bond proceeds not included in the original 2017 Bond budget had been allocated to the general fund.

Furthermore, the use of bond proceeds for payment of costs of operations and administration of the District, including payroll costs, does not constitute a permissible use of bond proceeds. Any instances in which it is determined that bond proceeds have been expended for these purposes could have implications on the legal compliance of the bonds.

Recommendation

We recommend management and the Board review its policies and procedures relating to the administration and oversight of construction projects and related financial management, and develop a mechanism to ensure adherence to and enforcement of such policies and procedures. We also note that the District does not have a formalized local policy governing debt administration and the use and investment of bond proceeds and we recommend that the District develop and adopt such a policy reflective of best practices for the area.

We also recommend that the District management and Board diligently monitor the construction budgets and costs incurred with respect to the 2017 Bond construction projects, and assess whether the original planned and authorized projects remain feasible based on the remaining available funding.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

2018-004: PEIMS Reporting

Type of Finding: Noncompliance

Criteria

As permitted by the Texas Education Code, the District elected to change to a June 30 fiscal year end effective for the periods after the fiscal year ending August 31, 2016. The first fiscal period after implementation of the change was a ten-month period, from September 1, 2016 through June 30, 2017. However, the Texas Education Agency (TEA) requires school districts to report financial data through the Public Education Information Management System (PEIMS) on a twelve-month reporting basis for the purposes of the administration of state and federal regulatory activities, as well as state funding calculations under the Foundation School Program. Therefore, to meet the TEA requirements, in the first year of implementation of a change to a June 30 fiscal year end, the budget and actual financial data reported through PEIMS must be for the period beginning September 1 and ending August 31 (two months beyond the July 1 start date of the following fiscal year).

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

Condition

The actual financial data reported to the TEA through PEIMS by the District for the fiscal period beginning on September 1, 2016 was on a ten-month reporting basis, for the period beginning September 1, 2016 and ending June 30, 2017.

Cause

The District's annual financial report for the fiscal period ending June 30, 2017 was correctly presented on a ten-month basis. However, the District failed to adjust the ten-month data in its annual financial report to a twelve-month basis in order to submit the twelve months of data as required by the TEA.

Effect or Potential Effect

During the fiscal year ending June 30, 2018, the TEA notified the District that it was found to be noncompliant with the maintenance of effort requirements applicable to Elementary and Secondary Education Act Federal grant programs for the prior fiscal year ending June 30, 2017. This finding of noncompliance was attributable to the fact that the District failed to report a full twelve months of expenditures for that period. Additionally, the data reported through PEIMS affects the TEA's various other administrative activities, as well as the calculation of the state funding allocable to the District.

Recommendation

We recommend that the District review its procedures for PEIMS reporting and take action to rectify the incorrect PEIMS reporting of the prior period.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

2018-005: Budget Excess of Expenditures over Appropriations
Type of Finding: Noncompliance

Criteria

Legal requirements for school district budgets are formulated by the state (Texas Education Code), the TEA, and the local district.

In accordance with the requirements of the Texas Education Code and the TEA, no funds may be expended in any manner other than as provided for in the adopted budget. A school district must amend the official budget before exceeding a functional expenditure category.

Condition

Expenditures exceeded appropriations in the following functional expenditure categories for the year ended June 30, 2018:

Fund	Function	Final Budget	Actual	Variance
General fund	33 Health services	\$ 523,390	\$ 534,210	\$ (10,820)
General fund	36 Extracurricular activities	1,810,862	1,811,071	(209)
General fund	52 Security and monitoring services	528,049	554,130	(26,081)
General fund	71 Principal on long-term debt	486,655	535,000	(48,345)

Cause

The District's management authorized expenditures in excess of appropriations.

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

Effect or Potential Effect

Expenditures in excess of appropriations led to deterioration of the District's financial condition.

Recommendation

We recommend that the District implement policies and procedures to strengthen the oversight and monitoring of expenditures and budget appropriations.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

2018-006: Budget Adoption

Type of Finding: Noncompliance

Criteria

Texas Education Code requires that the Board of Trustees of a school district adopt an annual budget to cover all expenditures for the school district for the next succeeding fiscal year. The budget provides an important tool for the control and evaluation of a school district's sources and uses of resources.

Condition

The adopted budget for the general fund for the year ended June 30, 2018 authorized a plan to incur expenditures in excess of estimated revenues by a net amount of \$5.5 million, which exceeded the existing levels of available fund balance of the general fund at the time of the adoption of the budget. Furthermore, compared to actual revenues for the year, the adopted budget over-estimated revenues by \$3.6 million.

Cause

The adopted budget was inaccurate in terms of estimated revenue, and the District's management and Board failed to develop and implement a plan of spending through the adoption of a budget that included provisions for all of the District expenditures for the fiscal year.

Effect or Potential Effect

Expenditures in excess of available resources led to deterioration of the District's financial condition, ultimately leading to financial exigency.

Recommendation

We recommend the District improve its budgetary process as well as the quality of its budgetary estimates, and adhere to its plan of financial recovery to limit expenditures to the constraints of available resources.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

Section 3. Federal Award Findings and Questioned Costs

2018-007: Maintenance of Effort

Type of Finding: Material Weakness in Internal Control over Compliance

Criteria

As a condition of receiving Federal awards, non-Federal entities agree to comply with laws, regulations, and the provisions of grant agreements and contracts, and to maintain internal control to provide reasonable assurance of compliance with these requirements.

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

The Department of Education established a "maintenance of effort" (MOE) compliance requirement applicable to Elementary and Secondary Education Act (ESEA) programs which stipulates that a local education agency (LEA) may receive funds under an applicable program only if the state education agency (SEA) finds that the combined fiscal effort per student or the aggregate expenditures of the LEA from State and local funds for free public education for the preceding year was not less than 90 percent of the combined fiscal effort or aggregate expenditures for the second preceding year, unless specifically waived by the Department of Education.

The District's ESEA programs to which this requirement applies include CFDA's 84.010, 84.365, 84.367, and 84.424.

Condition

During the fiscal year ending June 30, 2018, the District did not have effective internal controls over compliance with the MOE requirement described above. As described under Finding 2018-004, the District was notified by the TEA that it was found to be noncompliant with the MOE requirements applicable to the ESEA programs for the prior fiscal year ending June 30, 2017. This finding of noncompliance was attributable to the fact that the District failed to report a full twelve months of expenditures for that period, and upon further investigation, the District's management determined that when measured against the full twelve months of expenditures, the District did in fact comply with this requirement. However, effective internal controls over compliance with the MOE requirement would have detected the error and prevented the inaccurate reporting. The fact that the District's self-reported data, while inaccurate, resulted in a finding of noncompliance, is an indication that actual noncompliance would likely not be detected or prevented by the District's internal controls over compliance.

Cause

The District did not have adequately-designed controls in place to ensure compliance with the MOE requirement.

Effect or Potential Effect

Noncompliance with the MOE requirement could occur and not be prevented, or detected and corrected, by the District's system of internal control over compliance, leading to potential loss of Federal award funding.

Identification as a Repeat Finding

N/A

Recommendation

We recommend that the District review its internal controls over compliance to ensure controls are suitably designed and are in place to prevent, or detect and correct, noncompliance with applicable compliance requirements.

Views of Responsible Officials and Planned Corrective Actions

See Corrective Action Plan

Crosby Independent School District
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2018

Prior Year Findings

None reported

Crosby Independent School District
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Crosby, TX 77532
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Views of Responsible Officials and Planned Corrective Actions

Finding 2018-001

The District Superintendent in office during the year ended June 30, 2017, resigned in January 2018, and the District CFO in office during the year ended June 30, 2017, resigned at the end of May 2018. An interim Superintendent was in place during the spring of 2018. The Board hired a new Superintendent on June 12, 2018, who officially took office on July 2, 2018. The new Superintendent provided consulting services on a part-time basis during the month of June 2018. The District hired a new CFO on June 18, 2018, who officially took office on July 2, 2018. The new CFO was in the District three days in late June to provide assistance before officially taking office on July 2, 2018. The key administrators in office during the above noted finding 2018-001 period are no longer employed by the District.

Upon arrival and after reviewing the District's Annual Financial Report and other financial records for the period ending June 30, 2017, new district management identified a potential misstatement regarding the payroll accrual for the period ending June 30, 2017. New district management immediately began investigating the matter, and upon reviewing the District's records related to the payroll accrual and teacher contract language, confirmed that a payroll accrual in the amount of \$3.9 million was in fact omitted from the financial records for the period ended June 30, 2017. New district management corrected the prior financial statements by restating the beginning balances in the June 30, 2018 financial statements.

The fact that new district management identified the missed payroll accrual and pursued the proper recording of the accrual indicates that new district management will indeed take all steps necessary to ensure controls are in place to identify and record all transactions in the correct period. Current internal control procedures over financial reporting are under review and new controls are already being put in place to ensure the identification and recording of all transactions in the correct period. The finance department is being reorganized to ensure accurate and complete financial records while maintaining effective internal control over financial reporting. Finance department staff qualifications are being reviewed and addressed. New district management is committed to the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting.

Responsible Parties: Scott W. Davis, Superintendent and Lesa Jones, Chief Financial Officer
Anticipated Completion Date: June 30, 2019

Finding 2018-002

The District Superintendent in office during the year ended June 30, 2017, resigned in January 2018, and the District CFO in office during the year ended June 30, 2017, resigned at the end of May 2018. An interim Superintendent was in place during the spring of 2018. The Board hired a new Superintendent on June 12, 2018, who officially took office on July 2, 2018. The new Superintendent provided consulting services on a part-time basis during the month of June 2018. The District hired a new CFO on June 18, 2018, who officially took office on July 2, 2018. The new CFO was in the District three days in late June to provide assistance before officially taking office on July 2, 2018. The key administrators in office during the above noted finding 2018-002 period are no longer employed by the District.

Upon arrival and after reviewing the District's Annual Financial Report and other financial records for the period ending June 30, 2017, new district management questioned the construction expenditures and the construction payables for the period ending June 30, 2017. New district management questioned whether the amounts had been recorded correctly, and began efforts to further investigate the matter. Answers from several sources to the questions asked by new district management regarding construction payables at June 30, 2017, and the reimbursement component of the 2017 bond program led new management to believe that all parties questioned were aware of the \$7.2 million in questioned expenses that would have been recorded as payable at June 30, 2017, and that all expenses and related payables had been properly recorded. Additional work performed by the auditors during the audit for the year ended June 30, 2018, provided information resulting in the recording of the questioned expenses as payable at June 30, 2017.

The fact that new District management questioned the construction payables at June 30, 2017, indicates that new District management will indeed take all steps necessary to ensure controls are in place to identify and record all transactions in the correct period. Current internal control procedures over financial reporting are under review and new controls are already being put in place to ensure the identification and recording of all transactions in the correct period. The finance department is being reorganized to ensure accurate and complete financial records while maintaining effective internal control over financial reporting. Finance department staff qualifications are being reviewed and addressed. New district management is committed to the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting.

New district management will establish and maintain effective internal control processes to provide reasonable assurance about the achievement of the entity's objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

New district management will work closely with the Board of Trustees to ensure the Board can effectively oversee management and monitor the District's finances.

Responsible Parties: Scott W. Davis, Superintendent and Lesa Jones, Chief Financial Officer
Anticipated Completion Date: June 30, 2019

Finding 2018-003

District management in place during the administration of the 2013 bond program and the passage, initial issuance, and beginning of the 2017 bond program are no longer employed by the District. The District Superintendent in office during this time period resigned in January 2018, and the District CFO in office during this time period resigned at the end of May 2018. An interim Superintendent was in place during the spring of 2018. The Board hired a new Superintendent on June 12, 2018, who officially took office on July 2, 2018. The new Superintendent provided consulting services on a part-time basis during the month of June 2018. The District hired a new CFO on June 18, 2018, who officially took office on July 2, 2018. The new CFO was in the District three days in late June to provide assistance before officially taking office on July 2, 2018. The key administrators in office during the above noted finding 2018-003 period are no longer employed by the District.

Upon arriving in the District, the new CFO determined that available District cash was insufficient to meet its July 11, 2018, payroll requirements and no revenues were scheduled for receipt in the interim. In the best interest of the district, the decision was made to interfund borrow \$1,990,000 from the Capital Projects Fund to meet the July 11, 2018, payroll requirements with the intent to repay the funds as soon as possible. Upon completion of a cash flow projection, the interfund borrowing was scheduled to be repaid by the end of November 2018. The Board was informed of the interfund borrowing and the plan to repay the Capital Projects Fund by the end of November 2018 at its regular Board meeting on August 20, 2018, and again at its regular Board meeting on September 17, 2018. The \$1,990,000 has been repaid in full with \$1,000,000 repaid on September 28, 2018, and \$990,000 repaid on October 26, 2018.

The balance of interfund borrowing due to the Capital Projects Fund at June 30, 2018 in the amount of \$3,589,119 has also been repaid in full with \$1,000,000 repaid on November 27, 2018, and \$2,589,119 repaid on December 18, 2018.

Interfund borrowings utilizing bond funds are legally permissible with scheduled, timely repayment plans, but are not considered best practice. (See FASRG, Module 1, Financial Accounting and Reporting (FAR) Section 1.1.7.) New District management is currently working with the District financial advisor and bond counsel to obtain external financing to address the District's cash flow needs over the next three to five years in order to avoid interfund borrowings utilizing bond funds if at all possible. The District has implemented a financial recovery plan that included a declaration of financial exigency on October 8, 2018, allowing for a mid-year reduction in force, and other cost savings measures to work toward financial solvency and stability. As the District's financial condition improves, the District's cash position will improve.

As part of the financial recovery plan, new district management worked closely with the District's financial advisor and bond counsel and identified \$2,060,881 of 2017-2018 capital expenditures paid from the General Fund that were legally permissible to be paid with bond funds. The interfund payable to the Capital Projects Fund was reduced by this amount. Since these expenditures were not included in the initial assumptions, approximations, estimates, and projections used to develop the 2017 bond package, cost savings measures are being applied to projects of the 2017 bond package in order to fully deliver all planned projects. The Board was informed of the identification of these capital expenditures, the reduction of the interfund payable to the Capital Projects Fund, and the efforts to apply cost savings measures to construction projects in an effort to fully deliver all planned projects of the 2017 bond program at its regular Board meeting on August 20, 2018, and again at its regular Board meeting on September 17, 2018.

In the above finding, under "Effect or Potential Effect", reference is made to \$2,337,486 in expenditures (which includes the above referenced \$2,060,881 in expenditures) from the 2017 bond program budget that are not anticipated to be reimbursed to the Capital Projects fund. Every bond program has contingency and is based on assumptions, estimates, and projections. Variance in actual construction cost is expected and accommodated. In addition, and as stated above, District administration is evaluating the requisite scope and timing of delivery of capital projects under the 2017 bond program. Prior to determining that reimbursement of capital items paid from the 2017 bond program would not be reimbursed, District administration evaluated the program and determined that, after applying cost saving measures, the program would nevertheless remain funded at levels sufficient to deliver the scope of projects necessary to accommodate District capital needs in accordance with its short and interim term capital program (which was the time period of planning for program establishment) and in compliance with the representations made to the public prior to receipt of voter approval of this bond program in November 2017.

In the above finding, under "Condition", reference is made to a \$10,848,826 "M&O Reimbursement" to the General Fund that was a part of the 2017 bond program. "Reimbursement" was a generalization used to describe General Fund obligation relief, as the amount consisted of obligations that had actually been incurred and paid from the General Fund in the amount of \$3,919,142 (and then were legally reimbursed with the issuance of the first series of bonds under the 2017 bond program, which occurred on February 15, 2018) and the balance representing financial obligations incurred by the District but that were at such time unpaid (and then were legally paid with the issuance of the first series of bonds under the 2017 bond program, which occurred on February 15, 2018).

After the actual financial condition of the District was identified and exposed by new school district management, the new Superintendent slowed the 2017 bond program. The 2017 bond program continues to be studied and reviewed in relation to the needs of the District. Policies and procedures relating to the administration and oversight of construction projects and related financial management will be reviewed for effectiveness and proper controls, and adjustments will be made as appropriate. The District will develop and adopt a policy governing debt administration and the use and investment of bond proceeds. As the 2017 program proceeds, the Superintendent will ensure adherence to and enforcement of such policies and procedures.

Responsible Parties: Scott W. Davis, Superintendent and Lesa Jones, Chief Financial Officer
Anticipated Completion Date: June 30, 2019

Finding 2018-004

The District Superintendent in office during the year ended June 30, 2017, resigned in January 2018, and the District CFO in office during the year ended June 30, 2017, resigned at the end of May 2018. An interim Superintendent was in place during the spring of 2018. The Board hired a new Superintendent on June 12, 2018, who officially took office on July 2, 2018. The new Superintendent provided consulting services on a part-time basis during the month of June 2018. The District hired a new CFO on June 18, 2018, who officially took office on July 2, 2018. The new CFO was in the District three days in late June to provide assistance before officially taking office on July 2, 2018. Actual financial data for 2016-2017 was reported to TEA through the Mid-Year PEIMS submission in January 2018 with a resubmission deadline in February 2018. The key administrators in office during the above noted finding 2018-004 period are no longer employed by the District.

Upon arriving in the district, new district management was presented with TEA notice of noncompliance with the maintenance of effort requirements of the Every Student Succeeds Act. It was determined that noncompliance was due to the fact that only ten months of data was submitted to TEA during the Mid-Year PEIMS submission in error. TEA was contacted regarding this error, but District management was informed that TEA does not allow the correction of PEIMS data after the PEIMS resubmission deadline has passed. TEA gave the option of using the Five-Year Flexibility Rule since the district was in compliance in the preceding five years. The other option was to submit a waiver request to the United States Department of Education. This process was started, but due to the unavailability of complete data, the process has not been completed. District management will pursue the completion of this waiver request.

Current internal control procedures over PEIMS reporting are under review to ensure accurate reporting of financial data. The finance department is being reorganized to ensure accurate and complete financial records while maintaining effective internal control over financial reporting. Finance department staff qualifications are being reviewed and addressed. New district management is committed to the accuracy and completeness of all financial records and related information and for establishing and maintaining effective internal control over financial reporting.

Responsible Parties: Scott W. Davis, Superintendent and Lesa Jones, Chief Financial Officer
Anticipated Completion Date: June 30, 2019

Finding 2018-005

The District Superintendent in office during the year ended June 30, 2018, resigned in January 2018, and the District CFO in office during the year ended June 30, 2018, resigned at the end of May 2018. An interim Superintendent was in place during the spring of 2018. The Board hired a new Superintendent on June 12, 2018, who officially took office on July 2, 2018. The new Superintendent provided consulting services on a part-time basis during the month of June 2018. The District hired a new CFO on June 18, 2018, who officially took office on July 2, 2018. The new CFO was in the District three days in late June to provide assistance before officially taking office on July 2, 2018. The key administrators in office during the above noted finding 2018-005 period are no longer employed by the District.

Current internal control procedures over financial reporting are under review and new controls are already being put in place to ensure proper oversight and monitoring of expenditures and budget appropriations. The Board received training on October 15, 2018, on the monthly board report provided to oversee and monitor expenditures and budget appropriations. The finance department is being reorganized to ensure proper oversight and monitoring of expenditures and budget appropriations while maintaining effective internal control. Finance department staff qualifications are being reviewed and addressed. New school district management is committed to the proper oversight and monitoring of expenditures and budget appropriations and for establishing and maintaining effective internal control over financial reporting.

Responsible Parties: Scott W. Davis, Superintendent and Lesa Jones, Chief Financial Officer
Anticipated Completion Date: June 30, 2019

Finding 2018-006

The District Superintendent in office during the year ended June 30, 2018, resigned in January 2018, and the District CFO in office during the year ended June 30, 2018, resigned at the end of May 2018. An interim Superintendent was in place during the spring of 2018. The Board hired a new Superintendent on June 12, 2018, who officially took office on July 2, 2018. The new Superintendent provided consulting services on a part-time basis during the month of June 2018. The District hired a new CFO on June 18, 2018, who officially took office on July 2, 2018. The new CFO was in the District three days in late June to provide assistance before officially taking office on July 2, 2018. The key administrators in office during the above noted finding 2018-006 period are no longer employed by the District.

On November 12, 2018, new district management proposed an amendment to the original adopted budget prepared by prior management for the year ended June 30, 2019, using more accurate revenue budgetary estimates. Cost savings measures, including a declaration of financial exigency allowing for a mid-year reduction in force, were put in place to allow for a reduction in expenditures and a proposed balanced budget based on recalculated revenues. The Board of Trustees approved the proposed budget amendment. New district management is committed to the financial recovery of the district, and expenditures will be limited to available resources.

Responsible Parties: Scott W. Davis, Superintendent and Lesa Jones, Chief Financial Officer
Anticipated Completion Date: June 30, 2019

Finding 2018-007

The District Superintendent in office during the year ended June 30, 2018, resigned in January 2018, and the District CFO in office during the year ended June 30, 2018, resigned at the end of May 2018. An interim Superintendent was in place during the spring of 2018. The Board hired a new Superintendent on June 12, 2018, who officially took office on July 2, 2018. The new Superintendent provided consulting services on a part-time basis during the month of June 2018. The District hired a new CFO on June 18, 2018, who officially took office on July 2, 2018. The new CFO was in the District three days in late June to provide assistance before officially taking office on July 2, 2018. The key administrators in office during the above noted finding 2018-007 period are no longer employed by the District.

Current internal control procedures over compliance with all local, state, and federal requirements are under review and new controls are already being put in place to ensure the prevention or detection and possible correction of noncompliance with applicable requirements. The finance department is being reorganized to ensure effective internal control over compliance with all local, state, and federal requirements. Finance department staff qualifications are being reviewed and addressed. New school district management is committed to the compliance with all local, state, and federal requirements. However, due to the recent declaration of financial exigency and cost savings measures implemented, the district could be noncompliant with the maintenance of effort requirement, but effective internal controls will be in place to detect, and work toward correction, of the noncompliance, if presented.

Responsible Parties: Scott W. Davis, Superintendent and Lesa Jones, Chief Financial Officer
Anticipated Completion Date: June 30, 2019

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

Exhibit K-1

Federal Grantor/ Pass-Through Grantor/ Program Title	(1)	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION				
Passed Through State Department of Education:				
ESEA Title I, Part A-Improving Basic Programs		84.010A	17610101101906	\$ 165,902
ESEA Title I, Part A-Improving Basic Programs		84.010A	18610101101906	651,968
ESEA Title I, School Improvement		84.010A	18610123101906	64,050
Total ESEA Title I				881,920
Special Education Cluster (IDEA):				
IDEA-B Formula		84.027A	176600011019066000	169,892
IDEA-B Formula		84.027A	186600011019066600	953,966
IDEA-B High Cost Risk Pool		84.027A	66001715	51,002
IDEA-B Preschool		84.173A	186610011019066610	17,525
Total Special Education Cluster (IDEA)				1,192,385
Career and Technical-Basic Grant				
Career and Technical-Basic Grant		84.048A	17420006101906	534
Career and Technical-Basic Grant		84.048A	18420006101906	22,434
Total Career and Technical-Basic Grant				22,968
Title III, Part A-English Language Acquisition and Language Enhancement				
Title III, Part A-English Language Acquisition and Language Enhancement		84.365A	17671001101906	14,881
Title III, Part A-English Language Acquisition and Language Enhancement		84.365A	18671001101906	61,661
Total Title III, Part A-English Language Acquisition and Language Enhancement				76,542
ESEA Title II, Part A-Teacher and Principal Training and Recruiting				
ESEA Title II, Part A-Teacher and Principal Training and Recruiting		84.367A	17694501101906	17,489
ESEA Title II, Part A-Teacher and Principal Training and Recruiting		84.367A	18694501101906	96,276
Total ESEA Title II, Part A-Teacher and Principal Training and Recruiting				113,765
Project Serve Hurricane Recovery Grant				
Project Serve Hurricane Recovery Grant		84.938G	18510701101906	11,016
ESEA Title IV, Part A-Subpart I				
ESEA Title IV, Part A-Subpart I		84.424A	18680101101906	15,578
Summer School, LEP				
Summer School, LEP		84.369A	69551702	4,749
TOTAL U.S. DEPARTMENT OF EDUCATION				2,318,923
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Medical Assistance Program				
Medical Assistance Program		93.778	529	14,088
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				14,088
U.S. DEPARTMENT OF AGRICULTURE				
Child Nutrition Cluster:				
Passed Through State Department of Agriculture - Non-Cash Assistance:				
National School Lunch Program		10.555	00516	150,890
Passed Through State Department of Education - Cash Assistance:				
National School Breakfast Program		10.553	71401801	438,214
National School Lunch Program		10.555	71301801	1,464,918
Total Child Nutrition Cluster				2,054,022
TOTAL U.S. DEPARTMENT OF AGRICULTURE				2,054,022
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 4,387,033

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

Crosby Independent School District

Notes to the Schedule of Expenditures of Federal Awards

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Crosby Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. National School Lunch Program noncash commodities are recorded at their estimated market value at the time of donation. The District has elected not to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance. Presented below is a reconciliation of federal revenues:

Total expenditures of federal awards per Exhibit K-1	\$ 4,387,033
Additional federal revenues reported in general fund:	
SHARS	747,162
Interest subsidy on qualified school construction bonds	388,606
E-Rate	495,043
ROTC	62,143
	<hr/>
Total federal revenues per exhibit C-2	\$ 6,079,987

Crosby Independent School District
 Schedule of Required Responses to Selected
 School FIRST Indicators (Unaudited)
 For the Fiscal Year Ended June 30, 2018

Exhibit L-1

<u>Data Control Codes</u>	<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any 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? Yes
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? Yes
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? \$ 971,549
SF11	Net Pension Assets (1920) at fiscal year-end. \$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end. \$ 11,953,552