

Austin Independent School District

Basic Financial Statements With
Accompanying Supplemental Information
June 30, 2018

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Contents

Introductory Section	
Certificate of board	3
<hr/> Financial Section <hr/>	
Independent auditor's report	7-8
Management's discussion and analysis (required supplementary information)	9-19
Basic financial statements:	
Government-wide financial statements:	
Exhibit A-1 Statement of net position	22
Exhibit B-1 Statement of activities	23
Fund financial statements:	
Exhibit C-1 Balance sheet—governmental funds	24
Exhibit C-2 Reconciliation of governmental funds balance sheet to the statement of net position	25
Exhibit C-3 Statement of revenues, expenditures and changes in fund balances—governmental funds	26
Exhibit C-4 Reconciliation of the statement of revenues, expenditures and changes in fund balances—governmental funds to the statement of activities	27
Exhibit D-1 Statement of net position—proprietary funds	28
Exhibit D-2 Statement of revenues, expenses and changes in net position—proprietary funds	29
Exhibit D-3 Statement of cash flows—proprietary funds	30
Exhibit E-1 Statement of fiduciary assets and liabilities—fiduciary funds	31
Notes to basic financial statements	35-71
Required supplementary information:	
Exhibit G-1 Budgetary comparison schedule—general fund	74
Note to budgetary comparison schedule—general fund	75
Schedule of the District's proportionate share of the net pension liability	76
Schedule of District contributions—pension plan	77
Section of the District's proportionate share of the net OPEB liability	78
Schedule of District contributions—OPEB plan	79
Notes to required supplementary information	80
<hr/> Other Supplementary Information Section <hr/>	
Exhibit J-1 Schedule of delinquent taxes receivable	82
Exhibit J-4 Budgetary comparison schedule required by the Texas Education Agency—National School Breakfast and Lunch Programs	83
Exhibit J-5 Budgetary comparison schedule required by the Texas Education Agency—debt service fund	84
<hr/> Federal Awards Section <hr/>	
Independent auditor's report on:	
Internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i>	87-88
Compliance for each major federal program and report on over internal control over compliance as required by the Uniform Guidance	89-90
Schedule of findings and questioned costs	91-93
Summary schedule of prior audit findings	95-96
Exhibit K-1 Schedule of expenditures of federal awards	97-100
Notes to schedule of expenditures of federal awards	101

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Introductory Section

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Certificate of Board

Austin Independent School District
Name of School District

Travis
County

227-901-13
County District Number

We, the undersigned, certify that the attached annual financial report of the above-named school district was reviewed and (check one) _____ approved _____ disapproved for the year ended June 30, 2018, at a meeting of the Board of Trustees of such school district on the _____ day of _____, 2018.

Signature of Board Secretary

Signature of Board President

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

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Financial Section

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Independent Auditor's Report

To the Board of Trustees
Austin Independent School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Austin 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 District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Emphasis of Matter

As described in Note 3(C) to the financial statements, effective July 1, 2017, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions (OPEB)* (Statement No. 75). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information: Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule—General Fund, Schedules of the District's Proportionate Share of the Net Pension Liability and Net OPEB Liability, and Schedules of District Contributions for the Pension and OPEB plans, 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.

Other Information: Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Other Supplementary Information, as listed in the table of contents, and 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*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other 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 Other Supplementary Information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

RSM US LLP

Austin, Texas
November 15, 2018

Austin Independent School District

Management's Discussion and Analysis June 30, 2018

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

FINANCIAL HIGHLIGHTS

- The assets plus deferred outflows of resources of the District were exceeded by its liabilities plus deferred inflows of resources at the close of the year ended June 30, 2018. Net position was \$(12.6) million. Net investment in capital assets was \$64.3 million. The District's restricted net position was \$124.0 million. Unrestricted net position was \$(200.8) million.
- During the year, the District's expenses were \$126.9 million less than the \$1,434.6 million generated in taxes and other revenues for governmental activities. Expenditures totaled \$1,265.2 million after charges for services and operating grants and contributions (revenue). Total revenue from property taxes, state aid, unrestricted grants and contributions, investment income and miscellaneous revenues is \$1,392.2 million.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was \$266.2 million, or 20% of the total general fund expenditures.
- On November 7, 2017, the voters of the District passed bond propositions approving new bond issuance authority totaling \$1.05 billion that will be used to modernize 16 schools, support campus improvement projects and upgrades throughout the District. In addition, investments in technology, buses and updates for safety and security will be implemented.
- The District did not issue any bonds during the fiscal year 2017-2018, but did issue \$26.0 million in commercial paper; however, the District ended the year with no outstanding commercial paper.
- The District was required to adopt Governmental Accounting Standards Board Statement No. 75, *Accounting and Finance Reporting for Postemployment Benefits Other than Pensions* (Statement No. 75). The adoption resulted in a restatement of the beginning net position in 2018, the year in which the provisions of Statement No. 75 were adopted. The adoption decreased beginning net position by \$515,211,894. For more information on postemployment benefits other than pensions, refer to Note 12 of the notes to the basic financial statements.

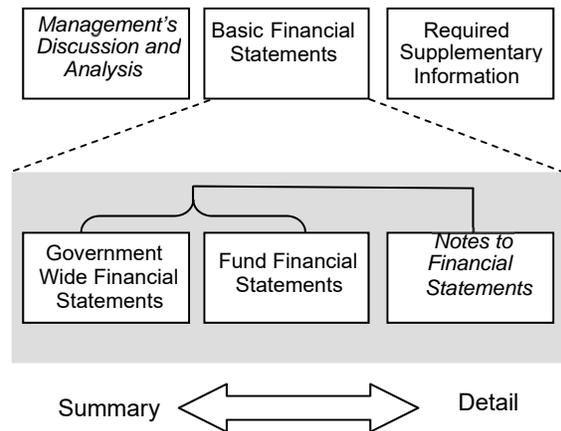
OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Figure A-1
Required Components of the
District's Annual Financial Report



Austin Independent School District

**Management’s Discussion and Analysis
June 30, 2018**

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

Figure A-2 Major Features of the District’s Government-Wide and Fund Financial Statements

Type of Statement	Government-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District’s government (except fiduciary funds)	The activities of the District that are not propriety or fiduciary	Instances in which the District is the trustee or agent for someone else’s resources
<i>Required Financial Statements</i>	<ul style="list-style-type: none"> • Statement of net position • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> • Statement of fiduciary net position
<i>Accounting Basis and Measurement Focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of Asset/Liability Information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included
<i>Type of Inflow/Outflow Information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter	Agency funds do not report revenue and expenditures

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

The two government-wide statements report the District’s net position and how they have changed. Net position, the difference between the District’s assets plus deferred outflows of resources and liabilities plus deferred inflows of resources, are one way to measure the District’s financial position.

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

Austin Independent School District

Management's Discussion and Analysis June 30, 2018

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

Fund financial statements: The fund financial statements provide more detailed information about the District's major funds, rather than the District as a whole. Funds are a governmental accounting tool the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage resources for specific purposes or to delineate the use of certain taxes and grants.

The District has three kinds of funds:

- **Governmental Funds:** Most of the District's basic services are included in Governmental Funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) on the balances left at year-end that are available for spending. Consequently, the Governmental Funds statements provide a detailed short-term view that helps determine the availability of financial resources to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the Governmental Funds statement, or on the subsequent page, that explains the relationship (or differences) between them. These include debt financing and capital projects.
- **Proprietary Funds:** Services for which the District charges internal departments a fee are generally reported in Proprietary Funds. Proprietary Funds, like the government-wide statements, provide both long and short-term financial information. In the District, internal service funds are used to report activities that provide supplies and services for the District's other programs and activities, such as the District's Self Insurance Fund.
- **Fiduciary Funds:** The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Required supplementary information: The basic financial statements are followed by a section of required supplementary information. This section includes a Budgetary Comparison Schedule—General Fund, Schedule of the District's Proportionate Share of the Net Position Liability and the Schedule of the District's Contributions. The Budgetary Comparison Schedule—General Fund provides detailed comparisons of expenditures and intra-agency transfers at the legal level of control. Comparisons can be made between the original budget, final budget and actual costs for the year. The Schedule of the District's Proportionate Share of the Net Position Liability and Schedule of the District's Contributions disclose covered payroll and related comparison information, as of June 30, 2018.

Austin Independent School District

**Management's Discussion and Analysis
June 30, 2018**

Financial Analysis of the District as a Whole

Net position: The District's combined net position was approximately \$(12.6) million at June 30, 2018. The following is a schedule of the District's net position:

Table A-1
The District's Net Position
(In Millions of Dollars)

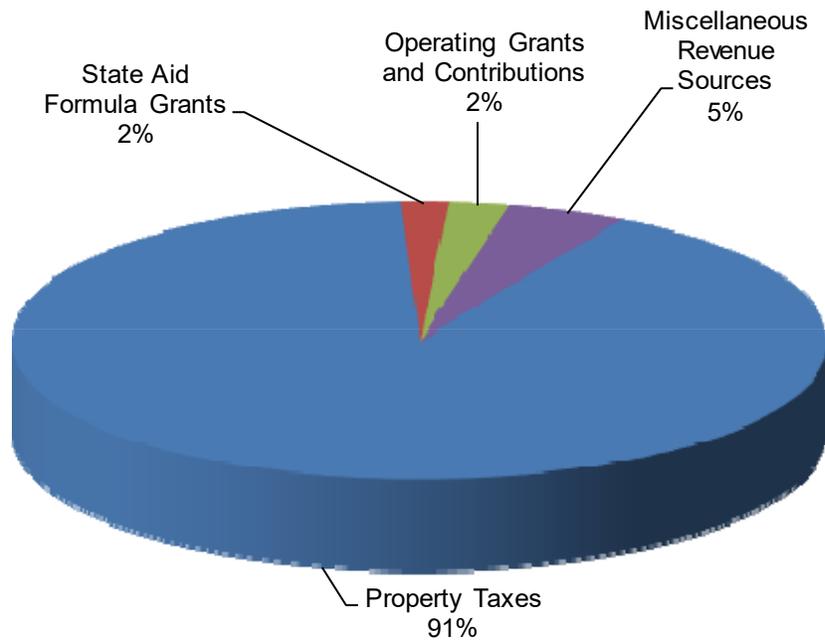
	Governmental Activities		Percentage Change
	2018	2017	
Current and other assets	\$ 798.0	\$ 882.4	(10%)
Capital assets	1,049.3	995.4	5%
Total assets	1,847.3	1,877.8	(2%)
Deferred loss on refunding	23.0	24.7	(7%)
Deferred outflow for TRS pension liability	14.4	31.3	(54%)
Deferred outflow for TRS OPEB liability	4.0	-	
Total deferred outflows of resources	41.5	56.0	(26%)
Current liabilities	319.4	288.3	11%
Long-term liabilities	1,421.9	1,223.6	16%
Total liabilities	1,741.3	1,511.9	15%
Deferred inflow for TRS pension liability	37.2	46.2	(20%)
Deferred inflow for TRS OPEB liability	122.8	-	
Total deferred inflows of resources	160.0	46.2	246%
Net position:			
Net investment in capital assets	64.3	25.9	148%
Restricted	124.0	133.5	(7%)
Unrestricted (deficit)	(200.8)	216.3	(193%)
Total net position	\$ (12.6)	\$ 375.7	(103%)

Austin Independent School District

**Management's Discussion and Analysis
June 30, 2018**

Changes in net position: The District's total revenues were \$1,434.6 million. A significant portion, 91%, of the District's revenue comes from taxes; 2% comes from state aid formula grants, while 2% is related to other operating grants and contributions; the remaining 5% comes from miscellaneous revenue sources.

**Figure A-3
Sources of Revenues for Fiscal Year 2018**



The total cost of all programs was \$1,307.7 million and \$1,418.0 million for the years ended June 30, 2018 and 2017, respectively. When adjusted for the \$544.0 million in expenses in 2018 and \$405.9 million in expenses in 2017 related to Chapter 41 and other pass-through costs, 68.7% and 69.5%, respectively, of these costs are for instructional and student services.

The total of all program and service costs for school leadership was 4.5% in 2018 and 5.6% in 2017, and 7.6% in 2018 and 7.4% in 2017 for plant maintenance and operations (including security services).

Austin Independent School District

**Management's Discussion and Analysis
June 30, 2018**

Table A-2
Changes in the District's Net Position
(In Millions of Dollars)

	Governmental Activities		Percentage Change
	2018	2017	
Revenues			
Program revenues:			
Charges for services	\$ 7.7	\$ 7.2	7%
Operating grants and contributions	34.7	185.0	(81%)
General revenues:			
Property taxes	1,304.3	1,177.1	11%
State aid—formula	27.4	38.5	(29%)
Investment earnings	11.6	4.3	168%
Other	48.8	51.6	(5%)
Total revenues	1,434.6	1,463.7	(2%)
Expenses			
Instruction and instructional related	376.7	518.7	(27%)
Instructional resources and media related	9.8	14.0	(30%)
Curriculum and staff development	14.2	25.6	(45%)
Instructional leadership	14.9	20.0	(25%)
School leadership	44.2	60.1	(27%)
Guidance, counseling and evaluation services	22.1	27.6	(20%)
Social work services	5.2	6.2	(16%)
Health services	12.7	6.4	100%
Student transportation	36.4	36.7	(1%)
Food services	29.1	50.3	(42%)
Extracurricular activities	18.5	17.6	5%
General administration	(10.8)	28.6	(138%)
Plant maintenance and operations	87.6	94.2	(7%)
Security and monitoring services	11.3	11.4	(1%)
Data processing services	36.8	22.1	67%
Community services	15.3	20.7	(26%)
Debt service	33.2	44.7	(26%)
Payments to fiscal agent/member districts—shared service	544.0	405.9	34%
Other governmental charges	6.5	6.0	9%
Depreciation—administrative, exclusive of functional amounts	-	1.4	(100%)
Total expenses	1,307.7	1,418.0	(8%)
Change in net position	126.9	45.7	178%
Net position at beginning of period, as previously reported	375.7	330.0	14%
Restatement required by GASB Statement No. 75 (Note 18)	(515.2)	-	
Net position at beginning of period, as restated	(139.5)	-	
Net position at end of period	\$ (12.6)	\$ 375.7	(103%)

Austin Independent School District

**Management’s Discussion and Analysis
June 30, 2018**

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

- The cost of all governmental activities in 2018 was \$1,307.7 and, in 2017 was \$1,418.0 million.
- However, the amount the District’s taxpayers paid for these activities through property taxes was only \$1,304.3 in 2018 and \$1,177.1 million in 2017.
- Those who directly benefited paid some costs of the programs (\$7.7 million in 2018 and \$7.2 million in 2017), with grants and contributions (\$34.7 million in 2018 and \$185.0 million in 2017) sharing the load.

Table A-3
Net Cost of Selected District Functions
(In Millions of Dollars)

	Total Cost of Services			Net Cost of Services		
	2018	2017	Percentage Change	2018	2017	Percentage Change
Instruction	\$ 400.7	\$ 558.3	(28%)	\$ 410.2	\$ 483.1	(15%)
School leadership	59.1	80.1	(26%)	61.3	70.6	(13%)
Plant maintenance and operations	87.6	94.2	(7%)	87.5	91.4	(4%)

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants and segregation for particular purposes.

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, the unassigned fund balance may serve as a useful measure of the District’s net resources available for spending at the end of a fiscal year.

At the end of the current fiscal year, the District’s Governmental Funds reported combined ending fund balances of \$523.8 million. Approximately 51% of this total amount (\$266.2 million) is available for spending at the government’s discretion (General Fund unassigned fund balance). The remainder of the fund balance is nonspendable, restricted, or assigned to indicate it is not available for new spending because it has already been committed for various purposes, including capital projects, repayment of debt, food service, wastewater plant and investment in inventories.

The General Fund is the primary operating fund of the District. At the end of the current fiscal year, the fund balance of the General Fund was \$284.4 million. Of this amount, \$18.0 million is assigned for various projects and \$0.2 million is nonspendable for investment in inventories. As a measure of the General Fund’s liquidity, it may be useful to compare total fund balance to total fund expenditures. The total General Fund balance represents approximately 20% of total fund expenditures. The fund balance decreased by \$17.1 million during the current fiscal year period.

Austin Independent School District

Management's Discussion and Analysis June 30, 2018

The Debt Service Fund had a decrease in fund balance of \$7.9 million during the current year to bring the year end fund balance to \$135.0 million. The decrease is primarily the result of current year bond principal and interest payments as well as commercial paper payments.

The Capital Projects Fund accounts for the construction of school buildings and improvements. At the end of the current fiscal year, the fund balance was \$95.7 million, resulting from \$26.0 million in transfers from the debt service fund used to retire \$26.0 million in commercial paper during the year, an additional \$17.4 million in sales of real property, as well as \$114.8 million related to construction costs.

General Fund Budgetary Highlights (See Exhibit G-1)

Over the course of the year, the District revised the General Fund annual revenue budget for changes in student counts, property tax assessed valuations adjustments, revised state formula funding amounts, and federal program revenues. The total change was \$46.7 million or less than 4% of total revenues. The expenditure budget was revised during the year to refine estimates after the year had started. Significant changes occurred to the following functional areas of spending: Transportation, Maintenance and Contracted Instructional Services between Schools (Recapture). The total change was \$25.9 million or less than 2% of total expenditures.

Revenues

An unfavorable variance in the revenues was primarily due to the following:

- Local property tax collections were approximately \$8.1 million less than anticipated due to lower projected collections.
- Other local revenues were approximately \$2.0 million less than anticipated projections.
- State revenues were approximately \$3.6 million less than anticipated projections.
- Federal revenues were approximately \$1.2 million higher than anticipated due to increased Federal School and Health Related Services

Expenditures

A favorable variance in the expenditures was primarily due to the following:

- Employee expenditures, including the related TRS on behalf payments, were \$10.3 million less than budgeted amounts primarily due to conservative budgeting practices where an allocated FTE is budgeted for the entire year and not reduced for vacancies in the position.
- Contracted instructional services between schools (Recapture) were \$4.9 million less than anticipated due to lower than anticipated tax collections.
- The District spent \$2.0 million less for utilities than budgeted.
- The District spent \$3.7 million less for other contracted services than budgeted.
- The District spent \$6.7 million less for supplies and materials than budgeted.
- The District spent \$0.8 million less for capital outlay than budgeted.

Austin Independent School District

**Management's Discussion and Analysis
June 30, 2018**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets: At June 30, 2018, the District had invested \$1,049.3 million in a broad range of capital assets, including land, equipment, buildings, vehicles and capital lease assets. (See Table A-4 below.)

Table A-4
District's Capital Assets
(In Millions of Dollars)

	Governmental Activities		Percentage Change
	2018	2017	
Land	\$ 87.8	\$ 71.1	23%
Buildings and improvements	934.2	895.2	4%
Furniture fixtures and equipment	27.3	29.1	(6%)
	<u>\$ 1,049.3</u>	<u>\$ 995.4</u>	5%

During the District's fiscal year 2017-2018, capital spending totaled \$119.9 million in building and improvements and capital equipment. At June 30, 2018, the District is committed under contracts in the amount of approximately \$112 million. The commitments are for remaining work on various construction projects. These commitments are payable from the Capital Projects Fund. For more detailed information on capital assets, refer to Note 7 of the notes to the basic financial statements.

Debt administration: At June 30, 2018, the District had \$1,106.2 million in long-term debt outstanding, as shown in Table A-5 (below). Additionally, the District is approved for the issuance of Austin Independent School District Commercial Paper Notes, Series A (Commercial Paper) in an aggregate principal amount not to exceed \$150,000,000 for the purpose of funding new construction and rehabilitation and renovation of existing facilities. The Commercial Paper notes mature in not more than 270 days from issuance and are supported by a standby letter of credit with Sumitomo Mitsui Banking Corporation, acting through its New York Branch. The Commercial Paper is secured by a pledge of the proceeds of future general obligation bonds or loans issued by the District to pay the principal of the Commercial Paper or proceeds from ad valorem property taxes. The District had no outstanding Commercial Paper as of June 30, 2018.

Table A-5
District's Long-Term Debt
(In Millions of Dollars)

	Governmental Activities		Percentage Change
	2018	2017	
Bonds payable	\$ 1,103.7	\$ 1,183.2	(7%)
Notes and leases payable	2.5	3.0	(14%)
	<u>\$ 1,106.2</u>	<u>\$ 1,186.1</u>	(7%)

For more information on long-term debt, refer to Note 8 of the notes to the basic financial statements.

Austin Independent School District

Management's Discussion and Analysis June 30, 2018

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Many factors were considered by the District's administration during the process of developing the fiscal year 2018-19 budget. Among them:

- Property tax assessed valuations increased by an estimated 10%
- Fiscal year 2018-19 fund balance carry forward of \$284.4 million
- District student enrollment estimated to be 79,800 students
- Employee salary increase of 1.5%
- Contracted instructional services between schools (Recapture) increased by \$129.3 million
- Expanded and new programs
 - Safety and security
 - Early literacy
 - Customer Service

Also considered in the development of the budget is the impact of local economy and inflation in the surrounding area.

Budgeted expenditures in the General Fund decreased by 2.4% to \$775.2 million in fiscal year 2018-19, net of recapture. Property taxes are expected to be the primary funding sources. The District's combined maintenance and operations tax rate and interest and sinking fund tax rate is \$1.192 per hundred dollars of assessed value for 2017-2018 and will remain the same for the 2018-2019 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Services Department.

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Basic Financial Statements

Austin Independent School District

**Exhibit A-1 Statement of Net Position
June 30, 2018**

Data Control Codes		Governmental Activities
Assets		
1110	Cash and cash equivalents	\$ 24,272,908
1120	Investments, including restricted amounts of \$10,805,994	705,300,801
1225	Property taxes receivable, net	20,038,727
1240	Due from other governments	41,306,463
1250	Accrued interest	613,319
1260	Receivables from external parties	1,107,704
1290	Other receivables, net	1,787,207
1310	Inventories	3,395,225
1410	Prepays and other assets	165,009
	Capital assets:	
1510	Land	87,796,782
1520	Buildings and improvements, net	904,805,325
1530	Furniture and equipment, net	27,268,646
1580	Construction in progress	29,398,369
1000	Total assets	1,847,256,485
Deferred Outflows of Resources		
1701	Deferred loss on refunding	23,033,131
1705	Deferred outflow for TRS pension liability	14,414,429
1705	Deferred outflow for TRS OPEB liability	4,039,114
	Total deferred outflows of resources	41,486,674
Liabilities		
2110	Accounts payable	24,200,303
2150	Payroll deductions and withholdings	2,202,030
2160	Accrued wages payable	36,695,628
2180	Due to other governments	158,335,283
2200	Accrued expenses	18,327,443
2300	Unearned revenues	2,433,117
	Noncurrent liabilities:	
2501	Due within one year	77,186,365
2502	Due in more than one year	1,042,602,951
2540	Net pension liability—District's share	85,792,166
2540	Net OPEB liability—District's share	293,543,676
2000	Total liabilities	1,741,318,962
Deferred Inflows of Resources		
2605	Deferred inflow for TRS pension liability	37,184,842
2605	Deferred inflow for TRS OPEB liability	122,789,874
	Total deferred inflows of resources	159,974,716
Net Position		
3200	Net investment in capital assets	64,280,425
3800	Restricted for:	
	Retirement of long-term debt	118,408,690
	Federal and state funds grants	5,595,116
3900	Unrestricted (deficit)	(200,834,750)
3000	Total net position	\$ (12,550,519)

See notes to basic financial statements.

Austin Independent School District

Exhibit B-1 Statement of Activities
Year Ended June 30, 2018

Data Control Codes	Functions/Programs	Program Revenues		Net (Expense) Revenue and Changes in Net Position Governmental Activities
		1 Expenses	3 Charges for Services	
	Government activities:			
11	Instruction	\$ 376,736,173	\$ 2,151,249	\$ (14,587,501) \$ (389,172,425)
12	Instructional resources and media services	9,754,234	-	(242,508) (9,996,742)
13	Curriculum and instructional staff development	14,174,773	-	3,188,294 (10,986,479)
21	Instructional leadership	14,914,135	-	694,809 (14,219,326)
23	School leadership	44,158,090	-	(2,896,332) (47,054,422)
31	Guidance, counseling and evaluation services	22,117,430	-	315,438 (21,801,992)
32	Social work services	5,249,765	-	359,495 (4,890,270)
33	Health services	12,734,811	-	30,358,909 17,624,098
34	Student (pupil) transportation	36,416,529	-	58,312 (36,358,217)
35	Food services	29,092,307	-	31,217,119 2,124,812
36	Curricular/extracurricular activities	18,461,072	749,000	(256,877) (17,968,949)
41	General administration	(10,787,791)	2,100,857	(17,069,758) (4,181,110)
51	Plant maintenance and operations	87,598,601	-	89,914 (87,508,687)
52	Security and monitoring services	11,269,310	-	53,527 (11,215,783)
53	Data processing services	36,787,650	-	226,470 (36,561,180)
61	Community services	15,315,790	2,662,216	3,239,842 (9,413,732)
71	Interest on long-term debt	33,154,337	-	- (33,154,337)
91	Contracted instructional services between schools	540,290,792	-	- (540,290,792)
93	Payments related to shared services arrangements	3,725,319	-	- (3,725,319)
99	Other intergovernmental charges	6,493,648	-	- (6,493,648)
TG	Total governmental activities	1,307,656,975	7,663,322	34,749,153 (1,265,244,500)
TP	Total primary government	\$ 1,307,656,975	\$ 7,663,322	\$ 34,749,153 (1,265,244,500)
	General revenues:			
MT	Property taxes—levied for general purposes			1,180,704,759
DT	Property taxes—levied for debt service			123,629,407
SF	State aid—formula grants			27,395,440
GC	Grants and contributions not restricted to specific programs			5,146,708
IE	Investment earnings			11,616,562
MI	Miscellaneous			26,786,837
SI	Special item—gain on disposition of capital assets			16,910,430
TG	Total general revenues and special items			1,392,190,143
CN	Change in net position			126,945,643
NB	Net position at beginning of period, as previously reported			375,715,732
PA	Restatement required by GASB Statement No. 75 (Note 18)			(515,211,894)
NB	Net position (deficit) at beginning of period, as restated			(139,496,162)
NE	Net position (deficit) at end of period			\$ (12,550,519)

See notes to basic financial statements.

Austin Independent School District

Exhibit C-1 Balance Sheet—Governmental Funds
June 30, 2018

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
1110	Cash and cash equivalents	\$ 23,938,271	\$ -	\$ 23,101	\$ 237,186	\$ 24,198,558
1120	Investments	388,160,802	134,504,622	143,214,618	2,791,173	668,671,215
1210	Property taxes—current	3,160,440	309,713	-	-	3,470,153
1220	Property taxes—delinquent	37,493,791	4,328,884	-	-	41,822,675
1230	Allowance for uncollectible taxes	(22,635,174)	(2,618,927)	-	-	(25,254,101)
1240	Due from other governments	5,402,578	42,868	-	35,861,017	41,306,463
1250	Accrued interest	613,319	-	-	-	613,319
1260	Due from other funds	70,999,303	467,172	45,795	91,348	71,603,618
1290	Other receivables	1,169,787	-	-	617,420	1,787,207
1300	Inventories	217,232	-	-	3,115,862	3,333,094
1000	Total assets	\$ 508,520,349	\$ 137,034,332	\$ 143,283,514	\$ 42,714,006	\$ 831,552,201
Liabilities						
2110	Accounts payable	\$ 21,226,912	\$ -	\$ 2,071,296	\$ 175,513	\$ 23,473,721
2150	Payroll deductions and withholdings	2,202,030	-	-	-	2,202,030
2160	Accrued wages payable	30,607,476	-	21,790	4,169,526	34,798,792
2170	Due to other funds	467,172	-	45,525,791	23,897,006	69,889,969
2180	Due to other governments	153,285,934	298,199	-	4,751,150	158,335,283
2300	Unearned revenues	1,423,284	-	-	1,009,833	2,433,117
2000	Total liabilities	209,212,808	298,199	47,618,877	34,003,028	291,132,912
Deferred inflows of Resources						
2600	Unavailable revenue—property taxes	14,858,617	1,709,957	-	-	16,568,574
	Total deferred inflows of resources	14,858,617	1,709,957	-	-	16,568,574
Fund Balances						
3410	Nonspendable	217,232	-	-	3,115,862	3,333,094
3490	Restricted	-	135,026,176	-	5,595,116	140,621,292
3500	Assigned	18,018,831	-	95,664,637	-	113,683,468
3600	Unassigned	266,212,861	-	-	-	266,212,861
3000	Total fund balances	284,448,924	135,026,176	95,664,637	8,710,978	523,850,715
4000	Total liabilities, deferred inflows of resources and fund balances	\$ 508,520,349	\$ 137,034,332	\$ 143,283,514	\$ 42,714,006	\$ 831,552,201

See notes to basic financial statements.

Austin Independent School District

**Exhibit C-2 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2018**

**Data
Control
Codes**

	Total fund balances—Governmental Funds balance sheet	\$ 523,850,715
<p>Amounts reported for governmental activities in the statement of net position (Exhibit A-1) are different because:</p>		
1	Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,049,269,122
2	Amount of interest on debt payable in August is required to be recognized in the statement of net position.	(18,327,443)
3	Revenue in governmental activities is recognized in the period earned.	16,568,574
4	Internal Service Funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of Internal Service Funds are included in governmental activities in the statement of net position.	22,022,481
5	Bonds and loans payable are not due and payable in the current period, and therefore, are not reported in the funds.	(1,106,233,639)
6	The accrual of vacation leave is not due and payable in the current period and, therefore, is not reported as expenditures in the governmental funds.	(1,876,445)
7	Unamortized loss on bond refunding in governmental activities, not reported in the governmental funds	23,033,131
8	Recognition of the District's proportionate share of the net pension liability required by GASB Statement No. 68 (\$85,792,166), a deferred inflow of resources (\$37,184,842), and a deferred outflow of resources (\$14,414,429).	(108,562,579)
9	Recognition of the District's proportionate share of the OPEB liability required by GASB Statement No. 75 (\$293,543,676), a deferred inflow of resources (\$122,789,874), and a deferred outflow of resources (\$4,039,114).	<u>(412,294,436)</u>
19	Net position (deficit) of governmental activities	<u><u>\$ (12,550,519)</u></u>

See notes to basic financial statements.

Austin Independent School District

Exhibit C-3 Statement of Revenues, Expenditures and Changes in Fund Balances—Governmental Funds
Year Ended June 30, 2018

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
5700	Local and intermediate sources	\$ 1,200,563,957	\$ 125,332,772	\$ 2,102,641	\$ 20,028,535	\$ 1,348,027,905
5800	State program revenues	63,602,481	592,081	-	7,575,160	71,769,722
5900	Federal program revenues	30,011,373	918,015	-	83,323,001	114,252,389
5020	Total revenues	1,294,177,811	126,842,868	2,102,641	110,926,696	1,534,050,016
Expenditures						
Current:						
0011	Instruction	426,632,434	-	-	31,150,377	457,782,811
0012	Instructional resources and media services	10,521,797	-	-	209,833	10,731,630
0013	Curriculum and instructional staff development	13,739,123	-	-	11,318,181	25,057,304
0021	Instructional leadership	14,652,145	-	-	2,216,826	16,868,971
0023	School leadership	52,590,423	-	-	2,698,503	55,288,926
0031	Guidance, counseling and evaluation services	24,083,182	-	-	3,142,855	27,226,037
0032	Social work services	5,025,371	-	-	845,281	5,870,652
0033	Health services	8,801,056	-	-	4,020,401	12,821,457
0034	Student (pupil) transportation	35,141,216	-	3,758,945	-	38,900,161
0035	Food services	664,893	-	-	39,792,380	40,457,273
0036	Curricular/extracurricular activities	18,979,211	-	-	195,967	19,175,178
0041	General administration	22,586,230	-	54,677	701,957	23,342,864
0051	Plant maintenance and operations	82,984,069	-	5,523,262	84,221	88,591,552
0052	Security and monitoring services	11,424,067	-	779,083	33,370	12,236,520
0053	Data processing services	23,061,640	-	13,907,822	745,128	37,714,590
0061	Community services	8,077,798	-	-	13,206,200	21,283,998
0071	Principal on long-term debt	406,968	65,497,633	-	-	65,904,601
0072	Interest on long-term debt	89,061	42,675,347	-	-	42,764,408
0073	Bond issuance costs and fees	-	570,425	-	-	570,425
0081	Capital outlay	1,485,313	-	114,821,435	182,535	116,489,283
0091	Contracted instructional services between schools	540,290,792	-	-	-	540,290,792
0093	Payments related to shared services arrangements	3,725,319	-	-	-	3,725,319
0099	Other intergovernmental charges	6,493,648	-	-	-	6,493,648
6030	Total expenditures	1,311,455,756	108,743,405	138,845,224	110,544,015	1,669,588,400
1100	Excess (deficiency) of revenues over (under) expenditures	(17,277,945)	18,099,463	(136,742,583)	382,681	(135,538,384)
Other Financing Sources and (Uses)						
7912	Sales of real or personal property	137,448	-	17,415,455	-	17,552,903
7915	Transfers in	-	-	26,000,000	-	26,000,000
8911	Transfers out	-	(26,000,000)	-	-	(26,000,000)
7080	Total other financing sources and (uses)	137,448	(26,000,000)	43,415,455	-	17,552,903
1200	Net change in fund balances	(17,140,497)	(7,900,537)	(93,327,128)	382,681	(117,985,481)
0100	Fund balances at beginning of period	301,589,421	142,926,713	188,991,765	8,328,297	641,836,196
3000	Fund balances at end of period	\$ 284,448,924	\$ 135,026,176	\$ 95,664,637	\$ 8,710,978	\$ 523,850,715

See notes to basic financial statements.

Austin Independent School District

**Exhibit C-4 Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances—Governmental Funds to the Statement of Activities
Year Ended June 30, 2018**

Net change in fund balances—total Governmental Funds	\$ (117,985,481)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$119,860,291) exceeded depreciation expense (\$65,268,909) and net asset removal (\$237,480) in the current period.	53,848,877
Bond and noncurrent loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and noncurrent loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments of principal and loan principal (\$65,904,601) exceeded debt and loan proceeds (\$0).	65,904,601
Governmental funds report the effect of premiums when the debt is first issued whereas these amounts are deferred and amortized over the life of the bonds in the statement of activities. This is the amount by which the current year bond premium (\$0) was exceeded by amortization (\$13,978,372) and defeasance of bond premiums (\$0).	13,978,372
The amount of interest which is accrued, but not yet paid, for bond payments due in August is not recognized in the governmental funds. This is the net change in amount of interest payable.	(2,183,746)
Losses on refundings are not reported in the governmental funds, but are amortized over the life of the debt in the statement of activities. This is the amount of net change in the deferred loss on refunding between 2018 and 2017.	(1,614,131)
Delinquent property taxes do not provide current financial resources in the funds, and as such, are recognized as unearned revenue in the governmental funds. This is the net change between 2018 and 2017.	719,926
The revenues and expenses of the Internal Service Fund are distributed in the statement of activities and are not considered a governmental fund. The difference is the amount of net income (\$5,791,257), plus transfers in (\$0).	5,791,257
Costs associated with the accrual of vacation and sick leave are recognized as expenditures in the governmental funds when matured. This is the amount of net change in the vacation accrual between 2018 and 2017.	(399,611)
GASB Statement No. 68 requires that certain expenditures be recorded as deferred resources. This is the amount by which pension expense (\$8,046,957) and amortization of prior year deferred inflows and outflows of resources (\$13,162,628) exceeded the prior year contributions (\$8,793,747) and additional deferred items recognized in the current year (\$7,941,297).	5,968,121
The adoption of GASB Statement No. 75 required certain expenditures be recorded as deferred resources. This is the amount by which a reduction in OPEB expense (\$98,407,130) and amortization of prior year deferred inflows and outflows of resources (\$122,776,257) exceeded the prior year contributions (\$3,509,470) and additional deferred items recognized in the current year (\$121,775,399)	102,917,458
Change in net position of governmental activities—statement of activities	\$ 126,945,643

See notes to basic financial statements.

Austin Independent School District

Exhibit D-1 Statement of Net Position—Proprietary Funds
June 30, 2018

Data Control Codes		Governmental Activities— Internal Service Fund
	Assets	
	Current assets:	
	Cash and cash equivalents	\$ 74,350
	Investments	36,629,586
	Due from other funds	52,464
	Inventories	62,131
	Other assets	165,009
	Total current assets	<u>36,983,540</u>
1000	Total assets	<u>36,983,540</u>
	Liabilities	
	Current liabilities:	
	Accounts payable	726,582
	Accrued expenditures	20,391
	Due to other funds	658,409
	Claims payable—due within one year	9,889,000
	Total current liabilities	<u>11,294,382</u>
	Noncurrent liabilities:	
	Claims payable—due in more than one year	<u>3,666,677</u>
2000	Total liabilities	<u>14,961,059</u>
	Unrestricted net position	<u>22,022,481</u>
3000	Total net position	<u>\$ 22,022,481</u>

See notes to basic financial statements.

Austin Independent School District

Exhibit D-2 Statement of Revenues, Expenses and Changes in Net Position—Proprietary Funds
Year Ended June 30, 2018

Data Control Codes		Governmental Activities— Internal Service Fund
	Operating Revenues	
5700	Charges for services	\$ 90,860,224
	Total operating revenues	<u>90,860,224</u>
	Operating Expenses	
6100	Payroll costs	1,348,259
6200	Professional and contracted services	5,893,617
6300	Supplies and materials	88,420
6400	Insurance claims and expenses	75,427,765
6400	Other operating expenses	2,645,515
6030	Total operating expenses	<u>85,403,576</u>
	Operating income	5,456,648
	Nonoperating Revenues	
5742	Earnings from temporary deposits and investments	334,609
	Total nonoperating revenues	<u>334,609</u>
	Change in net position	<u>5,791,257</u>
0100	Net position at beginning of period	<u>16,231,224</u>
3300	Net position at end of period	<u>\$ 22,022,481</u>

See notes to basic financial statements.

Austin Independent School District

Exhibit D-3 Statement of Cash Flows—Proprietary Funds
Year Ended June 30, 2018

	Governmental Activities— Internal Service Fund
Cash flows from operating activities:	
Payments to suppliers	\$ (7,149,805)
Payments to employee salaries and benefits	(1,348,259)
Payments from other funds	90,860,224
Claims paid	(76,070,203)
Net cash provided by operating activities	<u>6,291,957</u>
Cash flows from noncapital financing:	
Interfund transactions	(22,655,364)
Net cash used in noncapital financing	<u>(22,655,364)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	163,009,988
Outlays for purchase of investments	(148,112,590)
Interest income	334,609
Net cash provided by investing activities	<u>15,232,007</u>
Net decrease in cash and cash equivalents	(1,131,400)
Cash and cash equivalents at beginning of period	<u>1,205,750</u>
Cash and cash equivalents at end of period	<u><u>\$ 74,350</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 5,456,648
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in:	
Increase in inventory	(1,258)
Decrease in other assets	38,836
Increase in accounts payable and accrued expenditures	1,440,169
Decrease in claims payable	(642,438)
Net cash provided by operating activities	<u><u>\$ 6,291,957</u></u>

See notes to basic financial statements.

Austin Independent School District

**Exhibit E-1 Statement of Fiduciary Assets and Liabilities—Fiduciary Funds
June 30, 2018**

Data Control Codes		Agency Funds
	Assets	
1110	Cash and cash equivalents	\$ 8,674,381
	Investments	6,525,393
	Other receivables	<u>86,627</u>
1000	Total assets	<u><u>\$ 15,286,401</u></u>
	Liabilities	
	Accounts payable	\$ 57,165
	Due to other governments	4,146,396
	Due to other funds	1,107,704
2190	Due to student groups	9,769,957
	Other liabilities	<u>205,179</u>
2000	Total liabilities	<u><u>\$ 15,286,401</u></u>

See notes to basic financial statements.

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Notes to Basic Financial Statements

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Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 1. Reporting Entity

This report includes the financial statements of the funds required to account for those activities, organizations, and functions which are related to the Austin Independent School District (the District) and which are controlled by or dependent upon the District's governing body, the Board of Trustees (the Board). The Board, a nine-member group as a body corporate, has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties of the Board.

The District receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity," as defined by the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations, and primary accountability for fiscal matters. There are no component units reported within the reporting entity. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115.

Note 2. Government-Wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all nonfiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues, and grants and contributions used for capital requirements for a given function. As of June 30, 2018, the District did not receive any grants or contributions for capital for a given function. Program revenues include charges to customers, grants and contributions used for operational requirements. There are no capital grants. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

Direct expenses are those that are clearly identifiable with a specific function. All capital asset depreciation is reported as a direct expense of the functional program that benefits from the use of the capital assets. 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 and (2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The fund financial statements provide information about the District's funds, with separate statements for Governmental Funds, Proprietary Funds and Fiduciary Funds even though the latter are excluded from the government-wide financial statements. Major individual Governmental Funds are reported as separate columns in the fund financial statements.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 3. Summary of Significant Accounting Policies

The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to governmental units in conjunction with TEA's *Financial Accountability System Resource Guide* (FAR). GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

A. Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements.

Governmental fund types: The District reports the following major Governmental Funds:

The General Fund is the fund that accounts for financial resources in use for general types of operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a budgeted fund, and any fund balances are considered as resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

The Debt Service Fund is the fund that accounts for the use of debt service taxes and other revenues collected for the purposes of retiring bond principal and paying interest on long-term general obligation debt and other long-term debt for which a tax has been dedicated. This is a budgeted fund.

The Capital Projects Fund is the fund that accounts for proceeds from sales of bonds and other revenues to be used for Board-authorized acquisition, construction, or renovations, as well as furnishing and equipping major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal. This fund is budgeted on a project basis.

Additionally, the District reports the following nonmajor funds:

The Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods. This fund type also includes the following funds which are allowed to maintain a fund balance: food service operations, State Textbook Fund, High School Allotment, Campus Activity Fund, Permanent Fund, child care operations and scholarships. The Food Service Fund is the only Special Revenue Fund that is required to be budgeted and balances are to be used exclusively for allowable child nutrition program purposes. For all other funds in this fund-type, project accounting is employed to maintain integrity for the various sources of funds.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 3. Summary of Significant Accounting Policies (Continued)

Proprietary fund types: The Internal Service Fund, an unbudgeted fund, is the fund that accounts for the District's self-funding of workers' compensation claims, Campus Police, Print Shop, Laundry Services and Health and Dental Services. Revenues are generated in the Internal Service Fund through charges to various funds of the District. The majority of expenses, approximately \$78.0 million or 91% of total operating expenses, result from the administration and funding of District workers' compensation and health and dental claims and other activities of Internal Service Funds. Internal Service Funds inherently create redundancy because their expenses are recorded a second time in the funds that are billed for the services they provide. Therefore, on the government-wide financial statements, the operations of the Internal Service Funds are consolidated and interfund transactions are eliminated.

Fiduciary fund types: Agency Funds, unbudgeted funds, are the funds that account for activities of student groups and other types of activities requiring clearing accounts. An Agency Fund is also used to account for the District's activities as successor-in-interest of the Travis County Education District. This fund type has no equity, assets are equal to liabilities, and do not include revenues and expenditures for general operations of the District.

B. Measurement Focus

The government-wide financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, as are the proprietary and fiduciary fund type financial statements. All Governmental Funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance of Governmental Funds is considered a measure of "available spendable resources." The Fiduciary Fund financial statement does not have a measurement focus.

C. Basis of Accounting

The government-wide financial statements and Proprietary Fund and Fiduciary Fund type financial statements follow 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 state aid are recognized as revenues as soon as all eligibility requirements imposed by the provider are met and qualifying expenditures have been incurred. School Health and Related Services are recorded as revenue as the related services are rendered, and other local revenues such as fees and activity charges are recorded as revenue when cash is received.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (i.e., both available and measurable). Revenues other than grants are considered to be available when they are expected to be collected during the current budgetary period, or within 60 days thereafter, to pay liabilities outstanding at the close of the budgetary period. Revenues from state and federal grants are recognized as earned when they are expected to be collected within the current budgetary period, or within 60 days thereafter, and all eligibility requirements have been met. Funds received, but unearned, are reflected as unearned revenues, and funds expended, but not yet received, are shown as receivables. Interest revenue and building rentals are recorded when earned, since they are measurable and available. Other revenues such as fees, tuition, activity fees and miscellaneous revenues are recognized when measurable and available.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 3. Summary of Significant Accounting Policies (Continued)

The District maintains a stabilization arrangement sufficiently adequate for fiscal cash liquidity purposes that will provide for sufficient cash flow to minimize the potential of short-term tax anticipation borrowing. This amount shall be equal to not less than 20% of the combined budgeted expenditures, net of recapture function 91 expenditures, of the District's General Fund.

The stabilization arrangement balance represents balances available for appropriation at the discretion of the District's Board. However, the Board shall make every reasonable effort to use these unassigned funds for the following purposes, listed in order of priority:

1. To increase committed fund balances, as deemed necessary.
2. To increase assigned fund balances, as deemed necessary.
3. To use as beginning cash balance in support of the annual budget.

The District's Board recognizes that any such funds should be appropriated for nonrecurring expenditures, as they represent prior year surpluses that may or may not materialize in subsequent fiscal years.

When the District incurs an expenditure in governmental funds for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then from less restrictive classifications; committed and assigned, then unassigned fund balance, unless the District's Board has provided otherwise in its assignment actions.

Expenditures are recognized in the accounting period in which the fund liability is incurred, except expenditures for debt service, including unmatured interest on long-term debt and compensated absences. Expenditures for principal and interest on long-term debt and compensated absences are recognized when matured.

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

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Proprietary Fund's principal ongoing operations. The principal operating revenues of the District's Internal Service Funds are health, dental and workers' compensation insurance premiums to participate in the District's self-insured health and workers' compensation programs. The principal operating expenses for the Internal Service Funds include the cost of health, dental and workers' compensation claims and administrative charges. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Effective July 1, 2017, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (Statement No. 75). Statement No. 75 addresses the accounting and financial reporting for postemployment benefits other than pensions (OPEB). Upon adoption, OPEB liability, deferred inflows and outflows and OPEB expense are now reflected in the financial statements in accordance with the guidance provided for within the standard. The implementation resulted in a restatement of the beginning net position in 2018, the year in which the provisions of Statement No. 75 were adopted. The adoption decreased beginning net position by \$515,211,894.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 3. Summary of Significant Accounting Policies (Continued)

D. Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents include cash on hand, bank deposit accounts, investments in local government investment pools, and non-participating certificates of deposit (CDs) owned with original stated maturities of three months or less.

E. Investments

State statutes and Board policy authorize the District to invest any and all of its funds in fully collateralized CDs, direct debt securities of the United States of America or the state of Texas, other obligations the principal and interest of which are unconditionally guaranteed by the state of Texas or the United States, fully collateralized direct repurchase agreements, bankers' acceptances, local government investment pools, money market mutual funds, and other investments specifically allowed by Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) and Sections 23.80 and 20.42 of the Texas Education Code. The District participates in several local government investment pools, and has investments primarily in U.S. Treasuries, corporate commercial paper, U.S. agency securities, savings accounts and certificates of deposit. The District accrues interest on local government investment pools, savings accounts and non-participating certificates of deposit based on the terms and interest rates of the specific investments. The District's policy is to report local government investment pools that meet the criteria of GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* (Statement No. 79), at the pool's net asset value (NAV) which is based on amortized cost. Non-participating certificates of deposit are reported at amortized cost plus accrued interest.

The District carries investments in debt securities and local government investment pools that do not meet the criteria of GASB Statement No. 79 at fair value using other observable significant inputs including but not limited to quoted prices for similar securities, interest rates, and fixed-income pricing models. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date.

F. Due From (To) Other Funds

Interfund receivables and payables arise from interfund receipts or disbursements of cash and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations.

G. Inventories

Inventory of materials and supplies are carried on the basis of the last invoice cost, which approximates first-in, first-out cost, and are subsequently charged to budgetary expenditures when consumed. Inventories include plant maintenance and operating supplies, as well as instructional materials. These inventories are offset at year-end by a nonspendable fund balance, which indicates they do not represent "available spendable resources."

Donated commodities in inventory at June 30, 2018, totaled \$210,949.

Austin Independent School District

Notes to Basic Financial Statements

June 30, 2018

Note 3. Summary of Significant Accounting Policies (Continued)

H. Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, and construction in progress, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year. Such assets are recorded at historical cost. Donated capital assets are recorded at estimated acquisition value at the date of the donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Buildings and furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives
Buildings and improvements	30 years
Furniture and equipment	5-10 years
Vehicles	5-7 years
Property under capital leases	10 years
Buses	8-10 years
Computer software and equipment	3-7 years
Portable buildings	10 years

I. Compensated Absences

The state of Texas has created a minimum sick leave program consisting of five days of personal leave per year that may be used for illness or discretionary personal leave with no limit on accumulation and transferability among districts for every eligible employee regularly employed in Texas public schools.

Each district's local board of education is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum. The District's policy provides six to eight additional sick leave days per year depending on the number of duty days scheduled to work during the school year.

Accumulated state leave at the end of the year remains in the employee's state personal leave account. Additional sick leave days provided by the District do not vest; therefore, at fiscal year-end, no liability exists.

Teachers do not receive paid vacation, but are paid only for the number of days they are required to work each year. All regular employees are entitled to an annual vacation. In the government-wide financial statements, the District has a liability for unused vacation and sick leave pay for regular employees for all vacation and state sick leave earned as of June 30, 2018. The District allows unused vacation days to carry over through December 31, then it is lost.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 3. Summary of Significant Accounting Policies (Continued)

A summary of changes in compensated absences for the year ended June 30, 2018, is as follows:

June 30, 2017 balance	\$ 1,476,834
Increases	2,590,788
Decreases	(2,191,177)
June 30, 2018 balance	<u>\$ 1,876,445</u>
Amount due within one year	<u>\$ 1,876,445</u>

The balance at June 30, 2018 is included in Accrued Wages Payable in the government wide statement of net position.

J. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The District participates in the Texas Association of School Boards Modified Self-Funded program for its vehicle liability insurance. The District has commercial insurance for all other risks of loss, except vehicle liability insurance, workers' compensation, employee health benefits, employee life, dental and accident insurance.

During fiscal year 2018, employees of the District were covered by a self-funded health insurance plan provided by Aetna. District employees were offered a choice of three PPO plans with two networks (Seton only, Open Access and HSA Seton). Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding \$650,000 per claim.

K. Encumbrances

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

Outstanding encumbrances at June 30, 2018, that were subsequently provided for in the 2019 budget as July through September amendments for Board approval totaled \$3,914,006 in the General Fund. The Debt Service Fund, Capital Projects Fund and Nonmajor Fund had no outstanding encumbrances at June 30, 2018.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 3. Summary of Significant Accounting Policies (Continued)

L. Fund Balance and Net Position

The District reports the following types of Governmental Fund balances: committed, nonspendable, restricted, assigned and unassigned.

- Nonspendable fund balances are those that are not in a spendable form.
- Restricted fund balances are those that have constraints placed on the use of their resources. These constraints can be: (a) externally imposed by creditors (i.e., debt covenants), grantors, contributors or laws/regulations of other governments or (b) imposed by law through constitutional provision or enabling legislation. Both constraints are legally enforceable by an external party.
- The committed fund balance consists of funds that may be used only for a specific purpose, pursuant to constraints imposed by a formal action of the District's Board. The purpose for the funds can be changed only by formal action of the District's Board.
- Assigned fund balances are those that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances do not require District Board formal action and may be specified as "intent" simply through the budgeting process that the resources from these funds be spent for specific purposes within the fund. By Board policy, the assigned fund balance may be designated by the Board or by the Board's designees, the Superintendent, or the Chief Financial Officer.
- Unassigned fund balances are those within the General Fund and represent fund balances that have not been restricted, committed or assigned.

In the Governmental Fund financial statements, unassigned fund balances indicate available amounts for the budgeting of future operations. Restricted and assigned fund balances are that portion of fund balance which is not available for appropriation, or which has been legally separated for specific purposes. Designations of fund balance as nonspendable, restricted, committed, assigned, or unassigned are the representations of management for the utilization of financial resources in future periods.

In the Government Wide financial statements, net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent bond proceeds. Net position is reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws through constitutional provision or enabling legislation.

M. Data Control Totals

Data control codes refer to the account code structure prescribed by TEA in the FAR. TEA requires school districts to display these codes in the financial statements filed with the agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 3. Summary of Significant Accounting Policies (Continued)

N. Unearned Revenue

The unearned revenue on the balance sheet of the General Fund, Debt Service Fund and the nonmajor Governmental Funds primarily relates to, donated commodity inventory, pre-payments for school lunch tickets in the child nutrition program special revenue fund, and unearned cost reimbursement grant revenues related to the vocational education, child care, and other grants that support student academic success. These funds were received before all eligibility requirements have been met.

O. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses 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.

P. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the District's management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Q. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the Statement of Net Position includes separate sections for deferred outflows/inflows of resources. These separate financial statement elements represent a consumption/acquisition of net position that applies to a future period(s) and will not be recognized as an outflow/inflow of resources (expense/revenue) until that time. Governments are only permitted to report deferred outflows/inflows of resources in circumstances specifically authorized by the GASB. Typical deferred outflows/inflows of resources for the District relate to pensions, OPEB and deferred charges on refunded debt. The deferred inflows of resources on the balance sheet of the General Fund and Debt Service Fund primarily relates to unavailable uncollected property taxes, less the allowance for doubtful accounts.

R. Pensions

The fiduciary net position of the Teachers 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.

S. Accrued Wages Payable

Depending on the district calendar and timing of the end of the school year, the actual number of days most employees work in June is less than 30. In order for these employees' pay streams to be unaffected, most of which are teachers, they are still paid one-twelfth of their yearly contract amount in June.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 3. Summary of Significant Accounting Policies (Continued)

T. Other Post-Employment Benefits

The fiduciary net position of the 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 in the plan as this is a pay-as-you-go plan; however, there are assets accumulated in a trust which are primarily cash and receivables.

Note 4. Deposits and Investments

Deposits: Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the District will not be able to recover its deposits or will not be able to recover its collateral securities that are in the possession of an outside party. The District's policies and state law require the District's funds to be deposited under the terms of a depository contract, the terms of which are set out in depository contract law. The depository bank may either place approved pledged securities for safekeeping with the District's agent or file a corporate surety bond in an amount greater than or equal to the District's deposits. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) coverage.

At June 30, 2018, all District deposits were with the contracted depository bank in accounts which were partially secured at the balance sheet date by FDIC coverage and by pledged securities, as approved by the School Depository Act, held by the District's agent, Wells Fargo Bank, N.A., in the name of the District, as described below.

At June 30, 2018, including student activity fund balances of \$8,674,381, the District had a general ledger balance of \$32,781,156, while the total of bank balances equaled \$54,094,070. Of the bank balances, \$500,000 is covered by federal depository insurance, and an additional amount was covered by \$20,566,186 of collateral pledged in the District's name. As of June 30, 2018, the District had a deficit of collateral value versus required collateral of \$33,027,884. The deficit of collateral was cleared by the next business day.

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

1. Name of bank: Wells Fargo Bank, N.A.
2. The amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$20,566,186.
3. The largest deposit combined account balance amounted to \$54,094,070 and occurred during the month of June 2018.
4. Total amount of FDIC coverage at the time of the largest combined balance was \$500,000.

Investments: The District categorizes its fair value measurement disclosures within the fair value hierarchy established by generally accepted accounting principles. The hierarchy prioritizes valuation inputs used to measure the fair value of the asset or liability in three broad categories. Levels 1, 2 and 3 (lowest priority level) of the fair value hierarchy are defined as follows.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 4. Deposits and Investments (Continued)

Level 1: Inputs using unadjusted quoted prices in active markets or exchanges in identical assets or liabilities.

Level 2: Significant other observable inputs, which may include, quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in non-active markets; and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Valuations for which one or more significant inputs are unobservable and may include situations where there is minimal, if any, market activity for the asset or liability.

If the fair value is measured using inputs from different levels in the fair value hierarchy, the measurement should be categorized based on the lowest priority level input that is significant to the valuation. The District's assessment of significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment. Investments measured at fair value using NAV per share (or equivalent) as a practical expedient to fair value are not classified in the fair value hierarchy.

The District's investments, including restricted assets, at June 30, 2018, are as follows:

	June 30, 2018	Level 1	Level 2	Level 3
Investments by fair value level:				
Debt securities:				
U.S. Treasuries	\$ 240,087,718	\$ -	\$ 240,087,718	\$ -
Corporate Commercial Paper	44,732,983	-	44,732,983	-
Federal Home Loan Mortgage Corporation	7,204,599	-	7,204,599	-
Government National Mortgage Association	4,405,054	-	4,405,054	-
Federal National Mortgage Association	1,281,012	-	1,281,012	-
Small Business Administration	355,812	-	355,812	-
Total debt securities	298,067,178	-	298,067,178	-
External investment pool:				
Texas CLASS	58,976,783	-	58,976,783	-
TexStar	3,601,580	-	3,601,580	-
Total investment pool	62,578,363	-	62,578,363	-
Total investments by fair value level	360,645,541	\$ -	\$ 360,645,541	\$ -
Investments measured at NAV based on amortized cost:				
LoneStar	122,173,077			
Texas Term	14,925,512			
TexPool	212,430,289			
Total investments measured at NAV	349,528,878			
Investments measured at amortized cost:				
Savings accounts	944,833			
Total investments	\$ 711,119,252			

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 4. Deposits and Investments (Continued)

Debt securities and external investment pools classified as Level 2 of the fair value hierarchy are valued using other observable significant inputs based on third party fixed-income pricing models. Investments in local government investment pools that meet the criteria of GASB Statement No. 79 are measured at each pool's published NAV per share which is based on amortized cost.

Investment objectives: The primary objective of the District's investment activity is to provide the highest reasonable market return with the maximum security, while meeting daily cash flow requirements and conforming to all applicable state laws.

The District's investment policy contains investment strategies for each accounting fund of the District. The investment portfolio shall be diversified to eliminate the risk of loss resulting from over-concentration of assets in a specific maturity, a specific issue, a specific class of securities, or a specific institution.

Credit risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations to the District. To help mitigate credit risk, the District's investment officer is to monitor changes in investment ratings and to liquidate investments that do not maintain satisfactory ratings. As of June 30, 2018, the District held \$412,107,241 in external investment pools, all of which were rated AAA by Standard & Poor's. In addition, as of June 30, 2018, the District held \$7,204,599 in Federal Home Loan Mortgage Corporation securities, and \$1,281,012 in Federal National Mortgage Association securities, all of which were rated AA+ by Standard & Poor's. Investments in commercial paper of \$14,919,223 with the Toyota Motor Credit Company were rated AA by Standard & Poor's while JP Morgan Securities commercial paper of \$29,813,760 were rated A.

Custodial credit risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside third party. Investment securities are exposed to custodial risk if the securities are uninsured, are not registered in the name of the District and are held by the counterparty, its trust or agent, but not in the District's name. The District's investment securities are not exposed to custodial credit risk because all securities held by the District's custodial banks are in the District's name.

Concentration of credit risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy requires the investment portfolio be diversified in terms of investment instruments, maturities and financial institutions to reduce the risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity or specific issuer. For those investments subject to concentration of credit risk, as of June 30, 2018, the District had none that exceeded 5.0%.

Interest rate risk: Interest rate risk is the risk that the changes in interest rates will adversely affect the fair value of an investment. As a means of limiting the exposure to fair value losses that could occur from rising interest rates, the District's investment policy limits the maturity of investments to no longer than one year, except for the Capital Projects Fund, which is one and one-half years.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 4. Deposits and Investments (Continued)

As of June 30, 2018, the District's investments in debt securities mature as follows:

Investment Type	Investment Maturities (in Days)				Fair Value
	90 Days or Less	91 to 180 Days	181 to 365 Days	Greater Than 365 Days	
U.S. Treasuries	\$ 164,764,998	\$ 74,727,599	\$ -	\$ 595,121	\$ 240,087,718
Corporate Commercial Paper	14,919,223	29,813,760	-	-	44,732,983
Federal Home Loan Mortgage Corporation	-	4,657,898	-	2,546,701	7,204,599
Government National Mortgage Association	-	-	-	4,405,054	4,405,054
Federal National Mortgage Association	-	-	154,430	1,126,582	1,281,012
Small Business Administration	-	-	-	355,812	355,812
Total debt securities	<u>\$ 179,684,221</u>	<u>\$ 109,199,257</u>	<u>\$ 154,430</u>	<u>\$ 9,029,270</u>	<u>\$ 298,067,178</u>

Texas Local Government Investment Pool: Texas Local Government Investment Pool (TexPool) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's and has a weighted average maturity of 27 days.

TexPool meets the requirements of GASB Statement No. 79, and as such, measures its investments at amortized cost.

Lone Star Investment Pool: The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is managed by an 11-member board of trustees and, pursuant to the investment agreement, the board of trustees is authorized and directed to adopt and maintain bylaws consistent with the bylaws of the Texas School Cash Management Program. Pursuant to Section 2256.016(g) of the Public Funds Investment Act, Lone Star has established an advisory board. The purpose of the advisory board is to gather and exchange information from participants and nonparticipants relating to Lone Star's operations. The Board has entered into an agreement with the Texas Association of School Boards (TASB), a Texas nonprofit corporation, pursuant to which TASB serves as administrator of Lone Star's operations. Standard & Poor's rates money market funds and has rated Lone Star as AAA. The District participates in the Government Overnight Fund and the Corporate Overnight Fund offered by Lone Star. The Government Overnight Fund and the Corporate Overnight Fund have a weighted average maturity of 25 days and 44 days, respectively.

The two Lone Star funds the District participates in both meet the requirements of GASB Statement No. 79, and as such, the District measures its investments at amortized cost.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 4. Deposits and Investments (Continued)

TexasTERM (TexasDAILY) Investment Pool: TexasDAILY is a public funds investment pool established by the TexasTERM Local Government Investment Pool (TexasTERM) advisory board, pursuant to provisions of the TexasTERM Common Investment Contract that established the TexasTERM Local Government Investment Pool and the series known as TexasDAILY. TexasDAILY was organized in conformity with the Interlocal Cooperation Act, Chapter 791, Texas Government Code and the Public Funds Investment Act, Chapter 2256, Texas Government Code. An advisory board, composed of participants and nonparticipant members elected by the participant shareholders of TexasTERM, is responsible for the overall management of TexasTERM, including formulation and implementation of its investment and operating policies. In addition, the advisory board members select and oversee the activities of the investment advisor and custodian of TexasTERM and monitor investment performance and the method of valuing the shares. The investment advisor and administrator for TexasDAILY is PFM Asset Management, LLC. TexasTERM and TexasDAILY are rated AAAM by Standard & Poor's. TexasDAILY has a weighted average maturity of 38 days.

TexasTERM meets the requirements of GASB Statement No. 79, and as such, measures its investments at amortized cost.

TexSTAR Investment Pool: TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256, of the Texas Government Code. The pool was created through a contract among its participating governmental units, and is governed by a board of directors to provide for the joint investment of participants' public funds and funds under their control. TexSTAR is managed by J.P. Morgan Investment Management, Inc., an affiliate of JPMorgan Chase Bank, N.A. a national banking association, and First Southwest Asset Management, Inc., an affiliate of Texas based First Southwest Company. TexSTAR's investment manager will maintain the dollar-weighted average maturity of 60 days or less, and the maximum stated maturity for any obligation of the United States, its agencies or instrumentalities is limited to 397 days for fixed rate securities and 24 months for variable rate notes. TexSTAR is rated AAAM by Standard and Poor's. TexSTAR has a weighted average maturity of 26 days.

TexSTAR does not meet the requirements of GASB Statement No. 79, and as such, measures its investments at fair value. The District, as a participant in TexSTAR, measures its investment in the pool at fair value determined by the pool.

Texas CLASS Investment Pool: The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) was created as a local government investment pool pursuant to Section 2256.016 of the Public Funds Investment Act, Texas Government Code. Per state code, entities may pool any of their funds, or funds under their control, to preserve principal, maintain the liquidity of the funds, and maximize yield. The Texas CLASS Trust Agreement is an agreement of indefinite term regarding the investment, reinvestment and withdrawal of local government funds. The parties to the Trust Agreement are Texas local government entities that choose to participate in the Trust (the Participants), Public Trust Advisors, LLC (Public Trust) as Program Administrator, and Wells Fargo Bank Texas, N.A. as Custodian.

Texas CLASS is overseen by the Texas CLASS Board of Trustees, comprised of active members of the pool and elected by the Participants, guided by the Advisory Board. The Board is responsible for selecting the Administrator and Investment Advisor.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 4. Deposits and Investments (Continued)

Texas CLASS is rated AAAM by Standard and Poor's and has a weighted average maturity of 50 days.

Texas CLASS does not meet the requirements of GASB Statement No. 79, and as such, measures its investments at fair value. The District, as a participant in Texas CLASS, measures its investment in the pool at fair value determined by the pool.

Note 5. Property Taxes

In accordance with Texas statutes, the Board of the District approves a tax rate and order to levy taxes in August of each year. Property taxes are billed by the county tax assessor collector as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are payable on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of the year following the District's order to levy taxes (the assessment date), a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. The assessment date represents the date on which an enforceable legal claim arises and attaches as a lien on the assessed property. In the government-wide financial statements, property tax revenue is recognized as earned, net of an allowance for uncollectible taxes. In the Governmental Fund financial statements, property tax revenues are considered available when they become due and receivable within the current period, or within 60 days of year-end.

The final assessed value at January 1, 2017, upon which the October 2017 levy was based, was \$110,113,759,732. The tax rates assessed for the fiscal year ended June 30, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.079 and \$0.113 per \$100 valuation, respectively, for a total of \$1.192 per \$100 of assessed valuation.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written-off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

As of June 30, 2018, property taxes receivable, net of estimated uncollectible taxes, totaled \$14,858,617 and \$1,709,957 for the General and Debt Service Funds, respectively.

Note 6. Receivables From Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2018 for the District's major fund and nonmajor funds are summarized below. All federal grants shown below are passed through TEA and are reported in the basic financial statements as receivable from other governments.

Fund	Local Entities	State Grants and Other	Federal Grants	Total
General Fund	\$ 405,385	\$ 4,664,667	\$ 332,526	\$ 5,402,578
Debt Service Fund	42,868	-	-	42,868
Nonmajor fund	1,607,159	32,313,387	1,940,471	35,861,017
	<u>\$ 2,055,412</u>	<u>\$ 36,978,054</u>	<u>\$ 2,272,997</u>	<u>\$ 41,306,463</u>

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 7. Changes in Capital Assets

The following summarizes the change in capital assets for the fiscal year ended June 30, 2018:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 71,120,154	\$ 17,181,653	\$ (505,025)	\$ 87,796,782
Construction in progress	43,442,785	96,868,326	(110,912,742)	29,398,369
Total capital assets not being depreciated	<u>114,562,939</u>	<u>114,049,979</u>	<u>(111,417,767)</u>	<u>117,195,151</u>
Capital assets being depreciated:				
Buildings and improvements	1,644,298,372	110,912,742	-	1,755,211,114
Furniture and equipment	109,842,488	5,810,312	(5,187,976)	110,464,824
Total capital assets being depreciated	<u>1,754,140,860</u>	<u>116,723,054</u>	<u>(5,187,976)</u>	<u>1,865,675,938</u>
Less accumulated depreciation for:				
Buildings and improvements	(792,543,930)	(57,861,859)	-	(850,405,789)
Furniture and equipment	(80,739,624)	(7,407,050)	4,950,496	(83,196,178)
Total accumulated depreciation	<u>(873,283,554)</u>	<u>(65,268,909)</u>	<u>4,950,496</u>	<u>(933,601,967)</u>
Total capital assets being depreciated, net	<u>880,857,306</u>	<u>51,454,145</u>	<u>(237,480)</u>	<u>932,073,971</u>
Governmental activities capital assets, net	<u>\$ 995,420,245</u>	<u>\$ 165,504,124</u>	<u>\$ (111,655,247)</u>	<u>\$ 1,049,269,122</u>

Depreciation expense for the fiscal year ended June 30, 2018, was charged to functions/programs of primary government activities as follows:

Instruction	\$ 38,531,393
Instructional resources and media services	857,805
Curriculum and instructional staff development	1,680,897
Instructional leadership	1,304,465
School leadership	4,832,511
Guidance, counseling and evaluation services	2,291,175
Social work services	488,794
Health services	89,481
Student (pupil) transportation	2,665,205
Food services	1,960,230
Curricular/extracurricular activities	1,266,449
General administration	1,516,330
Plant maintenance and operations	4,165,953
Security and monitoring services	970,007
Data processing services	1,311,418
Community services	1,336,796
	<u>\$ 65,268,909</u>

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 8. Long-Term Obligations

Long-term obligations include par bonds and loans, self-insurance claims payable, net pension liability and net OPEB liability. At June 30, 2018, the District's debt limitation under local policies, which represents 10.0% of the District's total assessed property value for school tax purposes, is \$110,113,759,732, and the District's legal debt margin is 1.00%.

The following is a summary of changes in long-term obligations (including general obligation bonds, loans, self-insurance claims payable, net pension liability and net OPEB liability) for the fiscal year ended June 30, 2018:

	Bonds Payable	Loans Payable	Self-Insurance Claims Payable	Net Pension Liability	Net OPEB Liability
Balance at June 30, 2017	\$ 1,183,162,470	\$ 2,954,142	\$ 14,198,115	\$ 99,701,584	\$ 518,236,533
Additions—bond premium	-	-	-	-	-
Current year claims and/or changes in estimates	-	-	75,399,375	-	-
Bond issuances	-	-	-	-	-
Retirements	(65,497,633)	(406,968)	-	-	-
Claim payments	-	-	(76,041,813)	-	-
Amortized bond premium	(13,978,372)	-	-	-	-
Additions, net pension/OPEB expense	-	-	-	8,046,957	(98,407,130)
Reductions, net deferred resources	-	-	-	(13,162,628)	(122,776,257)
Reductions—prior-year contributions	-	-	-	(8,793,747)	(3,509,470)
Balance at June 30, 2018	<u>\$ 1,103,686,465</u>	<u>\$ 2,547,174</u>	<u>\$ 13,555,677</u>	<u>\$ 85,792,166</u>	<u>\$ 293,543,676</u>
Amount due within one year	<u>\$ 66,897,633</u>	<u>\$ 399,732</u>	<u>\$ 9,889,000</u>	<u>\$ -</u>	<u>\$ -</u>

The District primarily liquidates debt through the Debt Service Fund. Self-insurance liabilities are liquidated through the Internal Service Fund. The net pension liability and net OPEB liability will be liquidated in future years by the General Fund.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 8. Long-Term Obligations (Continued)

The following is a summary of the interest rates and original issue amounts for the District's long-term debt as of June 30, 2018:

Description	Interest Rate Payable	Amounts Original Issue
Bonded indebtedness:		
2005B Unlimited Tax School Qualified Zone Academy Bonds	3.01%	\$ 4,491,923
2006 Unlimited Tax School Qualified Zone Academy Bonds	2.69%	6,408,071
2008 Unlimited Tax School Qualified Zone Academy Bonds	0.00%	2,442,131
2008 Unlimited Tax Refunding Bonds	4.00-5.25%	100,000,000
2009 Unlimited Tax Refunding Bonds	2.00-5.00%	99,495,000
2010A Unlimited Tax Refunding Bonds	2.50-5.00%	25,165,000
2010B Unlimited Tax Refunding Bonds	3.68-5.24%	58,315,000
2011 Unlimited Tax Refunding Bonds	2.00-5.00%	91,625,000
2013A Unlimited Tax Refunding Bonds	1.50-5.50%	101,100,000
2013B Unlimited Tax Refunding Bonds	0.443-2.333%	8,555,000
2014A Unlimited Tax Refunding Bonds	2.00-5.00%	54,815,000
2014B Unlimited Tax Refunding Bonds	5.00%	89,595,000
2015A Unlimited Tax Refunding Bonds	3.15-5.00%	63,110,000
2015B Unlimited Tax Refunding Bonds	5.00%	87,295,000
2015 Unlimited Tax Qualified School Construction Bonds	4.85%	24,078,000
2016A Unlimited Tax Refunding	4.00-5.00%	100,230,000
2016B Unlimited Tax Refunding	4.00-5.00%	180,395,000
2016C Unlimited Tax Refunding	5.00%	43,620,000
2017 Unlimited Tax Refunding	2.50-5.00%	218,960,000
		<u>\$ 1,359,695,125</u>

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 8. Long-Term Obligations (Continued)

Description	Amounts Outstanding June 30, 2017	Additions Current Year	Retired Current Year	Amounts Outstanding June 30, 2018
Bonded indebtedness:				
Building bonds:				
2004 Unlimited Tax Refunding	\$ 9,410,000	\$ -	\$ (9,410,000)	\$ -
2005B Unlimited Tax School Qualified Zone Academy	4,491,923	-	-	4,491,923
2006 Unlimited Tax School Qualified Zone Academy	6,408,071	-	-	6,408,071
2007 Unlimited Tax Refunding	5,150,000	-	(5,150,000)	-
2008 Unlimited Tax School Qualified Zone Academy	1,068,434	-	(152,633)	915,801
2008 Unlimited Tax Refunding	6,675,000	-	(3,265,000)	3,410,000
2009 Unlimited Tax Refunding	9,200,000	-	(2,945,000)	6,255,000
2010 Unlimited Tax Refunding	66,580,000	-	(4,265,000)	62,315,000
2011 Unlimited Tax Refunding	10,575,000	-	(2,470,000)	8,105,000
2013A Unlimited Tax Refunding	62,685,000	-	(3,225,000)	59,460,000
2013B Unlimited Tax Refunding	6,080,000	-	(1,420,000)	4,660,000
2014A Unlimited Tax Refunding	49,965,000	-	(1,930,000)	48,035,000
2014B Unlimited Tax Refunding	89,595,000	-	(2,940,000)	86,655,000
2015A Unlimited Tax Refunding	63,110,000	-	(2,135,000)	60,975,000
2015B Unlimited Tax Refunding	87,295,000	-	-	87,295,000
2015 Unlimited Tax Qualified School Construction Bonds	24,078,000	-	-	24,078,000
2016A Unlimited Tax Refunding	100,230,000	-	(17,825,000)	82,405,000
2016B Unlimited Tax Refunding	180,395,000	-	(8,365,000)	172,030,000
2016C Unlimited Tax Refunding	43,620,000	-	-	43,620,000
2017 Unlimited Tax Refunding	218,960,000	-	-	218,960,000
Bond premium	137,591,042	-	(13,978,372)	123,612,670
Total bond indebtedness	<u>\$ 1,183,162,470</u>	<u>\$ -</u>	<u>\$ (79,476,005)</u>	<u>\$ 1,103,686,465</u>

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 8. Long-Term Obligations (Continued)

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

	Principal	Interest	Total
Years ending June 30:			
2019	\$ 66,897,633	\$ 43,117,290	\$ 110,014,923
2020	84,479,556	39,841,475	124,321,031
2021	59,030,704	36,641,077	95,671,781
2022	38,682,633	34,406,704	73,089,337
2023	40,497,633	32,495,941	72,993,574
2024-2028	226,747,636	130,897,740	357,645,376
2029-2033	284,973,000	69,702,445	354,675,445
2034-2038	172,095,000	17,955,065	190,050,065
2039-2041	6,670,000	161,750	6,831,750
	<u>\$ 980,073,795</u>	<u>\$ 405,219,487</u>	<u>\$ 1,385,293,282</u>

There are a number of limitations and restrictions contained in the District's general obligation bond indenture. Management of the District believes it is in compliance with all significant limitations and restrictions at June 30, 2018.

The District entered into a loan agreement in March 2012 with the State Energy Conservation Office—General Services Commission. The District will repay the loan amount, plus interest at 2%. The loan will be repaid as follows:

Fiscal Years	Principal	Interest	Total
2019	\$ 16,450	\$ 132	\$ 16,582
	<u>\$ 16,450</u>	<u>\$ 132</u>	<u>\$ 16,582</u>

The District entered into a loan agreement in April 2012 with the State Energy Conservation Office—General Services Commission. The District will repay the loan amount, plus interest at 3%. The loan will be repaid as follows:

Fiscal Years	Principal	Interest	Total
2019	\$ 383,282	\$ 76,982	\$ 460,264
2020	394,910	65,354	460,264
2021	406,891	53,372	460,263
2022	419,236	41,028	460,264
2023	431,955	28,308	460,263
2024-2025	494,450	16,910	511,360
	<u>\$ 2,530,724</u>	<u>\$ 281,954</u>	<u>\$ 2,812,678</u>

During fiscal year 2018, interest expense and cash paid for interest totaled \$42,764,408.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 9. Interfund Receivables and Payables

Interfund balances occur when one fund pays or receives resources for another fund. Interfund balances at June 30, 2018, consisted of the following fund receivables and payables:

	Due From	Due To
Major Fund—General:		
Debt Service	\$ -	\$ 467,172
Capital Projects	45,525,641	-
Nonmajor	23,814,616	-
Internal Service	658,409	-
Fiduciary	1,000,637	-
Total General Fund	<u>70,999,303</u>	<u>467,172</u>
Major Fund—Debt Service:		
General	467,172	-
Total Debt Service Fund	<u>467,172</u>	<u>-</u>
Major Fund—Capital Projects:		
General	-	45,525,641
Nonmajor	45,795	-
Internal Service	-	150
Total Capital Projects Fund	<u>45,795</u>	<u>45,525,791</u>
Nonmajor Funds:		
General	-	23,814,616
Capital Projects	-	45,795
Internal Service	-	36,595
Fiduciary	91,348	-
Total Nonmajor Funds	<u>91,348</u>	<u>23,897,006</u>
Internal Service Fund:		
General	-	658,409
Capital Projects	150	-
Nonmajor	36,595	-
Fiduciary	15,719	-
Total Internal Service Fund	<u>52,464</u>	<u>658,409</u>
Fiduciary Funds:		
General	-	1,000,637
Nonmajor	-	91,348
Internal Service	-	15,719
Total Fiduciary Funds	<u>-</u>	<u>1,107,704</u>
Total all funds	<u>\$ 71,656,082</u>	<u>\$ 71,656,082</u>

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 9. Interfund Receivables and Payables (Continued)

During the year, the Debt Service Fund transferred \$26,000,000 to the Capital Projects Fund to retire commercial paper that originated and matured in the current fiscal year. See Note 15 for more information.

Note 10. Commitments and Contingencies

At June 30, 2018, the District is committed under contracts in the amount of approximately \$112 million. The commitments are for remaining work on various construction projects. These commitments are payable from the Capital Projects Fund.

The District participates in a number of federal financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments and Subpart F of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* through June 30, 2018, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District leases certain building facilities and equipment on a year-to-year basis. Total rent expenditures for the year ended June 30, 2018, was \$4,495,193. These leases are considered for accounting purposes to be operating leases.

The District has been named in several civil lawsuits. The outcome of these pending cases cannot presently be determined; however, the District plans to vigorously contest each action. In the opinion of management, disposition of these lawsuits will have no material adverse effect on the financial position of the District.

The Travis County Central Appraisal District is a defendant in various lawsuits involving the property values assigned to property located within the District's boundaries on which the District assesses property taxes. The District could be required to refund property taxes paid on values which were greater than the ultimate final assessed valuation assigned by the court. Such lawsuits could continue several years into the future. The District believes any refunds of taxes associated with contested property values would not be material to the financial statements.

Austin Independent School District

Notes to Basic Financial Statements June 30, 2018

Note 11. Defined Benefit Pension Plan

A. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by 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.

B. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information. That report may be obtained by calling (512) 542-6592, on the Internet at http://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf; or by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698.

C. Benefits Provided

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

D. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 11. Defined Benefit Pension Plan (Continued)

Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act established the employer contribution rates for TRS' fiscal years 2017 and 2018.

	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Nonemployer Contributing Entity (State) (NECE)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2017 employer contributions		\$ 8,793,747
District's 2017 member contributions		\$ 33,819,853
District's 2017 NECE contributions		\$ 28,101,740

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

As the nonemployer 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.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 11. Defined Benefit Pension Plan (Continued)

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

- When employing a retiree of the TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance 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.

E. Actuarial Assumptions

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.00%
Long-Term Expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

F. Discount Rate

The discount rate used to measure the total pension liability was 8%. 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 nonemployer 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%. 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.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 11. Defined Benefit Pension Plan (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity:			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value:			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return:			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity:			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	0%	0.0%	2.2%
Alpha	0%	0.0%	1.0%
Total	100%		8.7%

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

G. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
District's proportionate share of the net pension liability	\$ 144,628,642	\$ 85,792,166	\$ 36,801,251

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 11. Defined Benefit Pension Plan (Continued)

H. 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 \$85,792,166 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for state pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 85,792,166
State's proportionate share that is associated with the District	274,738,156
Total	<u>\$ 360,530,322</u>

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

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.268313% which was an increase of 1.70% 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 affect measurement of the total pension liability during the measurement period.

During the measurement period ended August 31, 2017, the District recognized pension expense of \$20,955,933 and revenue of \$20,955,933 for on-behalf payments provided by the state.

As of the measurement date of August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ 1,255,178	\$ 4,626,659
Changes in actuarial assumptions	3,907,969	2,237,221
Difference between projected and actual investment earnings	-	6,252,346
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,299,497	24,068,616
Contributions paid to TRS subsequent to the measurement date	7,951,785	-
Total	<u>\$ 14,414,429</u>	<u>\$ 37,184,842</u>

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 11. Defined Benefit Pension Plan (Continued)

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

	<u>Pension Expense Amount</u>
Years ending June 30:	
2019	\$ (8,150,854)
2020	(2,674,518)
2021	(8,571,481)
2022	(9,587,859)
2023	(1,826,760)
Thereafter	89,274
	<u>\$ (30,722,198)</u>

The deferred outflows and deferred inflows resulting from the difference between projected and actual earnings on pension plan investments will be recognized as a reduction of pension expense over five years. The other deferred inflows and outflows will be recognized in pension expense using the average expected remaining service lives of all members.

Note 12. Defined Other Post-Employment Benefit Plan

A. 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 OPEB plan that has a special funding situation. The plan is administered through a trust by the TRS Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

B. OPEB Plan Fiduciary Net Position

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

C. 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 depends 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.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

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 Sept. 1, 2016-Dec. 31, 2017			
	TRS-Care 1	TRS-Care 2	TRS-Care 3
	Basic Plan	Optional Plan	Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

* or surviving spouse

D. 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.

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.

	<u>Contribution Rates</u>	
	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/private Funding remitted by Employers	1.00%	1.25%
District's 2017 employer contributions		\$3,509,470
District's 2017 member contributions		\$3,310,190
District's 2017 NECE contributions		\$4,941,670

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.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

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

E. Actuarial Assumptions

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

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate *	3.42% *
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases including inflation	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.

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

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

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

F. Discount Rate

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

G. Discount Rate Sensitivity Analysis

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
District’s proportionate share of the net OPEB liability	\$ 346,454,411	\$ 293,543,676	\$ 251,015,375

H. 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 \$293,543,676 for its proportionate share of the TRS’s net OPEB liability. This liability reflects a reduction for state OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support and the total portion of the net OPEB liability that was associated with the District were as follows:

District’s proportionate share of the collective net pension liability	\$ 293,543,676
State’s proportionate share that is associated with the District	413,337,609
Total	<u>\$ 706,881,285</u>

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

At August 31, 2017, the employer’s proportion of the collective Plan’s net OPEB liability was 0.6750264397% which was the same proportion measured as of August 31, 2016.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

Changes since the prior actuarial valuation: The following assumptions and other inputs which are specific to TRS-Care were updated from the prior year's report:

1. Significant plan changes were adopted during 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.

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

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

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

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

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

During the measurement period ended August 31, 2017, the District recognized OPEB expense of (\$138,313,755) and revenue of (\$138,313,755) for on-behalf payments provided by the state.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 12. Defined Other Post-Employment Benefit Plan (Continued)

As of the measurement date of August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ -	\$ 6,127,947
Changes in actuarial assumptions	-	116,661,927
Difference between projected and actual investment earnings	44,590	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,355	-
Contributions paid to TRS subsequent to the measurement date	3,993,169	-
Total	<u>\$ 4,039,114</u>	<u>\$ 122,789,874</u>

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

	OPEB Expense Amount
Years ending June 30:	
2019	\$ (16,196,204)
2020	(16,196,204)
2021	(16,196,204)
2022	(16,196,204)
2023	(16,207,352)
Thereafter	(41,751,761)
	<u>\$ (122,743,929)</u>

Note 13. Health Care Coverage

A. Health Insurance Plan

During fiscal year 2018, employees of the District were covered by a self-funded health insurance plan provided by Aetna. District employees were offered a choice of three PPO plans with two networks (Seton Only, Open Access and HSA Seton). Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding \$650,000 per claim.

Under Aetna, the District contributed \$545 per month, per employee to the plans. In addition, a salary banded rate was implemented in fiscal year 2018 for the Seton Only plan. All contributions were paid to licensed insurers. The contracts between the District and the licensed insurer provide terms of coverage and contribution costs.

The latest financial statements for the insurance company, available for the year ended December 31, 2017, are filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 13. Health Care Coverage (Continued)

B. Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which became effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. These payments totaled \$1,691,460, \$1,714,194 and \$2,145,399 for fiscal years 2018, 2017 and 2016, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor.

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first-come, first-served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program. These funds are allocated to reporting agencies using the same basis as the Medicare Part D—On Behalf Payments. The temporary program was not available to TRS for the fiscal years ended June 30, 2018 and 2017; therefore, there was no allocation required.

Note 14. Self-Insurance

The District participates in the Texas Association of School Boards Modified Self-Funded Program for its vehicle liability insurance. In connection therewith, stop-loss insurance for bodily injury over \$100,000 per person, \$300,000 per occurrence, and \$100,000 for personal property is maintained. The District is responsible for claims up to these amounts.

The District is self-insured for workers' compensation coverage. The District contributes amounts to the Internal Service Fund based on an estimate of the ultimate cost of claims expected to be incurred each year and changes in amounts estimated in prior years. The District's retention under this program is limited to \$600,000 per occurrence (all claims relating to an event are considered an occurrence). Through the Texas Association of School Boards Risk Management Fund, the District has contracted with Safety National Casualty Corporation, a commercial insurer licensed in the state of Texas, to provide the coverage per occurrence in excess of \$600,000 up to the statutory limit, as described by state law.

During fiscal year 2018, employees of the District were covered by a self-funded health insurance plan provided by Aetna. District employees were offered a choice of three PPO plans with two networks (Seton Only, Open Access and HSA Seton). Claims administration is contracted from a third-party administrator. Health benefit consultant services are contracted from an outside entity. The District maintains individual stop-loss coverage for catastrophic losses exceeding \$650,000 per claim.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 14. Self-Insurance (Continued)

Changes in workers' compensation and health insurance claims liability amounts are as follows:

	2018		2017	
	Workers' Compensation	Health Insurance	Workers' Compensation	Health Insurance
Beginning of the year liability	\$ 6,739,115	\$ 7,459,000	\$ 6,561,100	\$ 7,512,872
Current year claims	3,217,500	73,536,157	2,966,933	75,927,126
Changes in estimates	35,144	(1,389,426)	178,015	(53,872)
Claim payments	(3,025,082)	(73,016,731)	(2,966,933)	(75,927,126)
End of the year liability	<u>\$ 6,966,677</u>	<u>\$ 6,589,000</u>	<u>\$ 6,739,115</u>	<u>\$ 7,459,000</u>

The end of the year liability includes claims incurred and reported and estimated claims incurred, but not reported based on historical activity. Due to the types of risk self-insured, the ultimate amount to be paid out may be more or less than the amount accrued at June 30, 2018. The District has a contingent liability in the event the insurer is unable to fulfill its responsibility under the contract or the incurred claims exceed the amounts covered by stop-loss coverage. There have been no claim settlements exceeding the District's retention limits in the last three years.

Note 15. Short-Term Debt

In June 2005, the Board approved the issuance of Austin Independent School District Commercial Paper Notes, Series A (Commercial Paper) in an aggregate principal amount not to exceed \$150,000,000 for the purpose of funding new construction and rehabilitation and renovation of existing facilities. The Commercial Paper notes mature in not more than 270 days from issuance and are supported by a standby letter of credit with Sumitomo Mitsui Banking Corporation, acting through its New York Branch. The Commercial Paper is secured by a pledge of the proceeds of future general obligation bonds or loans issued by the District to pay the principal of the Commercial Paper or proceeds from ad valorem property taxes. As of June 30, 2018, the District had no outstanding Commercial Paper. Since the beginning of the Commercial Paper Program, the District has issued approximately \$971 million in bonds, using a portion of the proceeds from each of the bond issuances to partially refinance the Commercial Paper. As of June 30, 2018, \$981 million of bond proceeds have been used to refinance the Commercial Paper.

Changes in the Commercial Paper are as follows:

	June 30	
	2018	2017
Beginning of the period liability	\$ -	\$ 100,000,000
Bonds issued	-	(140,000,000)
Transfers in to retire commercial paper	(26,000,000)	-
Commercial paper issuances	26,000,000	40,000,000
End of the period liability	<u>\$ -</u>	<u>\$ -</u>

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 16. Fund Balance

Governmental fund balance as of June 30, 2018, were as follows:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
Fund balances:					
Nonspendable:					
Inventories	\$ 217,232	\$ -	\$ -	\$ 3,115,862	\$ 3,333,094
Restricted:					
Retirement of long-term debt	-	135,026,176	-	-	135,026,176
Federal and state funds grants	-	-	-	5,595,116	5,595,116
Assigned:					
Economic stabilization reserve	5,000,000	-	-	-	5,000,000
ERP stabilization	1,000,000	-	-	-	1,000,000
Facilities improvements	-	-	95,664,637	-	95,664,637
Instructional and school leadership	666,349	-	-	-	666,349
Instructional related	800,000	-	-	-	800,000
Instructional related campus needs	1,600,000	-	-	-	1,600,000
Professional pathways for teachers	5,460,013	-	-	-	5,460,013
School safety facility emergency needs	2,000,000	-	-	-	2,000,000
Special projects (e-rate reimbursements)	1,492,469	-	-	-	1,492,469
Unassigned	266,212,861	-	-	-	266,212,861
Total fund balances	<u>\$ 284,448,924</u>	<u>\$ 135,026,176</u>	<u>\$ 95,664,637</u>	<u>\$ 8,710,978</u>	<u>\$ 523,850,715</u>

Note 17. Shared Services Arrangements

The District is the fiscal agent for one shared services arrangement (SSA) which provides deaf education services to member districts whose students are enrolled in the Regional Day School Program for the Deaf. In addition to the District, other member districts in this SSA include the Del Valle ISD.

The District, acting as the fiscal agent, receives monies from the granting agencies and administers the programs. The fiscal agent is responsible for employment of personnel, budgeting, accounting, and reporting. According to guidance provided in TEA's FAR, the District has accounted for the activities of the SSA in the appropriate Special Revenue Funds. Additionally, the SSA's are accounted for using the "Accounting and Reporting Treatment Guidance Section" of FAR.

According to the SSA agreements, costs incurred by the SSA's shall be divided among the member districts in proportion to the number of students each member district has attending the Regional Day School Program and/or receiving services through the Indian Education Formula Grant Consortium.

Austin Independent School District

**Notes to Basic Financial Statements
June 30, 2018**

Note 17. Shared Services Arrangements (Continued)

Expenditures allocated to the SSA members as of June 30, 2018, are summarized below by program:

Regional Day School for the Deaf	All Districts	Austin ISD	Del Valle ISD
Number of Students	58	51	7
Fund Year			
315.7	\$ 16,878	\$ 14,841	\$ 2,037
315.8	88,597	77,904	10,693
Discretionary Deaf	105,475	92,745	12,730
340.7	131	115	16
340.8	3,221	2,832	389
Early Intervention	3,352	2,947	405
435.7	87,614	77,040	10,574
435.8	311,752	274,127	37,625
State Deaf	399,366	351,167	48,199
Total	\$ 508,193	\$ 446,859	\$ 61,334

Note 18. Restatement

Effective July 1, 2017, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (Statement No. 75). Statement No. 75 addresses the accounting and financial reporting for postemployment benefits other than pensions (OPEB). Upon adoption, OPEB liability, deferred inflows and outflows and OPEB expense are now reflected in the financial statements in accordance with the guidance provided for within the standard. The implementation resulted in a restatement of the beginning net position in 2018, the year in which the provisions of Statement 75 were adopted. The adoption decreased beginning net position by \$515,211,894.

	Total
Net position at end of year—as previously reported	\$ 375,715,732
Implementation of GASB Statement No. 75	(515,211,894)
Net position at beginning of year—as restated	<u>\$ (139,496,162)</u>

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by GASB, but not considered a part of the basic financial statements.

Austin Independent School District

**Exhibit G-1 Budgetary Comparison Schedule—General Fund
Year Ended June 30, 2018**

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget
		Original	Final		
Revenues					
5700	Local and intermediate sources	\$ 1,180,817,342	\$ 1,210,706,266	\$ 1,200,563,957	\$ (10,142,309)
5800	State program revenues	53,864,264	67,289,219	63,602,481	(3,686,738)
5900	Federal program revenues	25,450,890	28,831,862	30,011,373	1,179,511
5020	Total revenues	1,260,132,496	1,306,827,347	1,294,177,811	(12,649,536)
Expenditures					
Current:					
0011	Instruction	443,905,597	436,834,310	426,632,434	10,201,876
0012	Instructional resources and media services	10,863,367	11,721,180	10,521,797	1,199,383
0013	Curriculum and instructional staff development	13,259,149	15,320,044	13,739,123	1,580,921
0021	Instructional leadership	17,758,437	15,410,261	14,652,145	758,116
0023	School leadership	54,231,527	53,686,271	52,590,423	1,095,848
0031	Guidance, counseling and evaluation services	22,448,916	24,322,862	24,083,182	239,680
0032	Social work services	5,716,677	5,080,309	5,025,371	54,938
0033	Health services	8,926,781	8,909,335	8,801,056	108,279
0034	Student (pupil) transportation	30,711,368	35,267,147	35,141,216	125,931
0035	Food service	-	-	664,893	(664,893)
0036	Curricular/extracurricular activities	16,030,124	16,897,768	18,979,211	(2,081,443)
0041	General administration	22,070,550	24,239,106	22,586,230	1,652,876
0051	Plant maintenance and operations	80,622,727	85,344,717	82,984,069	2,360,648
0052	Security and monitoring services	12,347,094	11,159,846	11,424,067	(264,221)
0053	Data processing services	22,737,800	29,686,222	23,061,640	6,624,582
0061	Community services	6,688,926	8,403,299	8,077,798	325,501
0071	Principal on long-term debt	496,029	496,029	406,968	89,061
0072	Interest on long-term debt	-	-	89,061	(89,061)
0081	Capital outlay	1,115,000	3,198,169	1,485,313	1,712,856
0091	Contracted instructional services between schools	533,874,730	545,238,333	540,290,792	4,947,541
0093	Payments related to shared services arrangements	3,460,176	3,725,319	3,725,319	-
0099	Other intergovernmental charges	6,748,530	6,790,859	6,493,648	297,211
6030	Total expenditures	1,314,013,505	1,341,731,386	1,311,455,756	30,275,630
1100	Excess (deficiency) of revenues over expenditures	(53,881,009)	(34,904,039)	(17,277,945)	17,626,094
Other Financing Sources (Uses)					
7912	Sale of real or personal property	51,000	130,769	137,448	6,679
8949	Other uses	(325,000)	(276,565)	-	276,565
7080	Total other financing sources (uses)	(274,000)	(145,796)	137,448	283,244
1200	Net change in fund balance	(54,155,009)	(35,049,835)	(17,140,497)	17,909,338
0100	Fund balance at beginning of period	301,589,421	301,589,421	301,589,421	-
3000	Fund balance at end of period	\$ 247,434,412	\$ 266,539,586	\$ 284,448,924	\$ 17,909,338

See note to budgetary comparison schedule

Austin Independent School District

**Note to Budgetary Comparison Schedule—General Fund
Year Ended June 30, 2018**

Note 1. Budgetary Data

The legal level of control (i.e., the level at which expenditures cannot legally exceed the appropriated amount) for budgeted expenditures is the function level. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned. Formal budgetary accounting is employed for the General Fund, as outlined in TEA's FAR. The budgetary comparison schedule is presented on the modified accrual basis of accounting consistent with GAAP.

The official school budget is prepared for adoption for required Governmental Fund types prior to June 19 of the preceding fiscal year for the subsequent fiscal year beginning July 1. The budget is formally adopted by the Board at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis generally consistent with GAAP for the General Fund, Debt Service Fund and the Food Service Special Revenue Fund. The remaining Special Revenue Funds and the Capital Projects Fund adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget for these funds is presented on the modified accrual basis of accounting, which is consistent with GAAP. The Board amended the budget throughout the year. Such amendments are before the fact and are reflected in the official minutes of the Board.

During 2018, the District had unfavorable variances in the following functions: curricular/extracurricular activities (FN0036) and security and monitoring services (FN 0052), due to timings between budget entries and accrued expenditures posting. Food service (FN 0035) had an unfavorable variance due to delinquent student balances which were written off in the current year as reimbursement will not be sought from students. Interest on long-term debt (FN 0072) had an unfavorable variance as amount was included in budget of principal payments (FN 0071).

Austin Independent School District

**Schedule of the District's Proportionate Share of the Net Pension Liability
Last Four Fiscal Years**

	2018	2017	2016	2015
District's proportion of the collective Plan net pension liability	0.2683134%	0.2638410%	0.3081257%	0.3830850%
District's proportionate share of collective Plan net pension liability	\$ 85,792,166	\$ 99,701,584	\$ 108,918,334	\$ 102,327,301
State's proportionate share of the collective Plan net pension liability associated with the district	274,738,156	335,457,622	329,898,170	280,740,695
Total	\$ 360,530,322	\$ 435,159,206	\$ 438,816,504	\$ 383,067,996
District's covered-employee payroll	\$ 543,121,481	\$ 501,048,279	\$ 540,891,491	\$ 530,498,281
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	15.80%	19.90%	20.14%	19.29%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceding fiscal year.

Data is presented in accordance with GASB Statement No. 68, Paragraph 138. The information for all periods for the 10-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See notes to required supplementary information.

Austin Independent School District

Schedule of District Contributions—Pension Plan Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 7,951,785	\$ 7,509,317	\$ 6,820,214	\$ 9,712,268	\$ 9,745,383	\$ 9,343,460	\$ 7,536,787	\$ 8,334,614	\$ 8,369,054	\$ 7,915,395
Contribution in relation to the contractually required contribution	(7,951,785)	(7,509,317)	(6,820,214)	(9,712,268)	(9,745,383)	(9,343,460)	(7,536,787)	(8,334,614)	(8,369,054)	(7,915,395)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 561,217,297	\$ 543,121,481	\$ 501,048,279	\$ 540,891,491	\$ 530,498,281	\$ 528,140,495	\$ 496,406,416	\$ 524,103,783	\$ 523,273,810	\$ 503,718,150
Contributions as a percentage of covered-employee payroll	1.42%	1.38%	1.36%	1.80%	1.84%	1.77%	1.52%	1.59%	1.60%	1.57%

The information disclosed for each fiscal year is reported as of the District's fiscal year-end date (June 30, 2018, 2017 and 2016, and August 31, 2015 through August 31, 2009).

See notes to required supplementary information.

Austin Independent School District

**Schedule of the District's Proportionate Share of the Net OPEB Liability
Year Ended June 30, 2018**

	2018
District's proportion of the collective Plan net OPEB liability	0.6750264%
District's proportionate share of the collective Plan net OPEB liability	\$ 293,543,676
State's proportionate share of the collective Plan net OPEB liability associated with the district	<u>413,337,609</u>
Total	<u><u>\$ 706,881,285</u></u>
District's covered-employee payroll	\$ 543,121,481
District's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	54.05%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceding fiscal year.

Data is presented in accordance with GASB Statement No. 75. The information for all periods for the 10-year schedules that are required to be presented as required supplementary information is not available. During this transition period, the information will be presented for as many years as are available.

See notes to required supplementary information.

Austin Independent School District

Schedule of District Contributions—OPEB Plan Last Ten Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	\$ 3,993,169	\$ 2,870,552	\$ 2,829,312	\$ 3,476,876	\$ 3,501,771	\$ 3,207,060	\$ 3,242,507	\$ 3,392,694	\$ 3,395,454	\$ 3,215,554
Contribution in relation to the contractually required contribution	(3,993,169)	(2,870,552)	(2,829,312)	(3,476,876)	(3,501,771)	(3,207,060)	(3,242,507)	(3,392,694)	(3,395,454)	(3,215,554)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered-employee payroll	\$ 561,217,297	\$ 543,121,481	\$ 501,048,279	\$ 540,891,491	\$ 530,498,281	\$ 528,140,495	\$ 496,406,416	\$ 524,103,783	\$ 523,273,810	\$ 503,718,150
Contributions as a percentage of covered-employee payroll	0.71%	1.38%	0.56%	0.64%	0.66%	0.61%	0.65%	0.65%	0.65%	0.64%

The information disclosed for each fiscal year is reported as of the District's fiscal year-end date (June 30, 2018, 2017 and 2016, and August 31, 2015 through August 31, 2009).

See notes to required supplementary information.

Austin Independent School District

Notes to Required Supplementary Information June 30, 2018

Note 1. Pension Plan Changes to Benefit Terms

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

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

Note 2. OPEB Plan Changes to Benefit Terms

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

The following actuarial assumptions and other inputs that affected measurement of the total OPEB liability since the prior measurement period are as follows:

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

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

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

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

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

Other Supplementary Information Section

This section includes financial information and disclosures not required by GASB and is not considered a part of the basic financial statements. It may, however, include information that is required by other entities.

Austin Independent School District

Exhibit J-1 Schedule of Delinquent Taxes Receivable
Year Ended June 30, 2018

Years Ended June 30:	1		3	10	20	30	30a	40	50
	Tax Rates		Assessed/ Appraised Value for School Tax Purposes	Beginning Balance at July 1, 2017	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance at June 30, 2018
2009 and prior years	Various	Various	Various	\$ 19,155,957	\$ -	\$ 93,399	\$ 10,644	\$ (152,033)	\$ 18,899,881
2010	1.0790	0.1230	\$ 58,836,304,076	1,314,108	-	(75,964)	(8,657)	(135,416)	1,263,313
2011	1.0790	0.1480	61,630,025,136	1,258,338	-	(32,426)	(4,447)	(123,318)	1,171,893
2012	1.0790	0.1630	59,795,510,706	1,244,919	-	20,464	3,090	(111,737)	1,109,628
2013	1.0790	0.1630	60,510,010,799	1,322,403	-	121,027	18,277	(22,132)	1,160,967
2014	1.0790	0.1630	62,672,946,147	1,607,884	-	190,743	28,805	(5,256)	1,383,080
2015	1.0790	0.1430	67,349,173,527	1,961,478	-	124,523	16,500	(260,454)	1,560,001
2016	1.0790	0.1230	75,479,270,096	2,948,870	-	(470,132)	(53,575)	(1,469,526)	2,003,051
2017	1.0790	0.1130	99,261,337,738	9,078,144	-	1,477,871	154,775	(4,253,278)	3,192,220
2018 (school year under audit)	1.0790	0.1130	110,113,759,732	-	1,312,556,016	1,170,710,129	122,604,490	(9,162,756)	10,078,641
1000 Totals				<u>\$ 39,892,101</u>	<u>\$ 1,312,556,016</u>	<u>\$ 1,172,159,634</u>	<u>\$ 122,769,902</u>	<u>\$ (15,695,906)</u>	<u>\$ 41,822,675</u>

Austin Independent School District

Exhibit J-4 Budgetary Comparison Schedule Required By the Texas Education Agency—National School Breakfast and Lunch Programs
Year Ended June 30, 2018

Data Control Codes	1		2	3	Variance With Final Budget
	Budgeted Amounts		Final		
	Original	Final		Actual	
Revenues					
5700	Local and intermediate sources	\$ 7,239,264	\$ 7,693,314	\$ 7,848,216	\$ 154,902
5800	State program revenues	1,163,398	1,754,188	1,209,216	(544,972)
5900	Federal program revenues	31,674,452	30,353,655	28,865,972	(1,487,683)
5020	Total revenues	40,077,114	39,801,157	37,923,404	(1,877,753)
Expenditures					
Current:					
0035	Food service	39,927,142	39,651,185	38,264,598	1,386,587
6030	Total expenditures	39,927,142	39,651,185	38,264,598	1,386,587
1100	Excess (deficiency) of revenues over expenditures	149,972	149,972	(341,194)	(491,166)
1200	Net change in fund balance	149,972	149,972	(341,194)	(491,166)
0100	Fund balance at beginning of period	5,210,646	5,210,646	5,210,646	-
3000	Fund balance at end of period	\$ 5,360,618	\$ 5,360,618	\$ 4,869,452	\$ (491,166)

Austin Independent School District

Exhibit J-5 Budgetary Comparison Schedule Required By the Texas Education
Agency—Debt Service Fund
Year Ended June 30, 2018

Data Control Codes	1		2	3	Variance With Final Budget
	Budgeted Amounts				
	Original	Final		Actual	
Revenues					
5700	Local and intermediate sources	\$ 123,613,946	\$ 125,036,859	\$ 125,332,772	\$ 295,913
5800	State program revenues	-	794,728	592,081	(202,647)
5900	Federal program revenues	984,466	1,050,917	918,015	(132,902)
5020	Total revenues	<u>124,598,412</u>	<u>126,882,504</u>	<u>126,842,868</u>	<u>(39,636)</u>
Expenditures					
0071	Principal and interest on long-term debt	105,295,049	135,825,653	108,743,405	27,082,248
6030	Total expenditures	<u>105,295,049</u>	<u>135,825,653</u>	<u>108,743,405</u>	<u>27,082,248</u>
1100	Excess (deficiency) of revenues over expenditures	<u>19,303,363</u>	<u>(8,943,149)</u>	<u>18,099,463</u>	<u>27,042,612</u>
Other Financing Sources (Uses)					
8911	Transfers out	-	-	(26,000,000)	(26,000,000)
7080	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(26,000,000)</u>	<u>(26,000,000)</u>
1200	Net change in fund balance	<u>19,303,363</u>	<u>(8,943,149)</u>	<u>(7,900,537)</u>	<u>1,042,612</u>
0100	Fund balance at beginning of period	<u>142,926,713</u>	<u>142,926,713</u>	<u>142,926,713</u>	<u>-</u>
3000	Fund balance at end of period	<u>\$ 162,230,076</u>	<u>\$ 133,983,564</u>	<u>\$ 135,026,176</u>	<u>\$ 1,042,612</u>

Federal Awards Section

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**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***

Independent Auditor's Report

To the Board of Trustees
Austin Independent School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Austin Independent School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 15, 2018. Our report was modified to include a reference to the restatement of beginning net position due to the adoption of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*.

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

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

Compliance and Other Matters

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

Purpose of This Report

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

RSM US LLP

Austin, Texas
November 15, 2018

**Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance as Required
by the Uniform Guidance**

Independent Auditor's Report

To the Board of Trustees
Austin Independent School District

Report on Compliance for Each Major Federal Program

We have audited Austin 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 the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs, as item 2018-001 that we consider to be a significant deficiency.

The District's response to the internal control over compliance finding identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of 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.

RSM US LLP

Austin, Texas
November 15, 2018

Austin Independent School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

Section I—Summary of Auditor’s Results

1. Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	_____	Yes	<u> X </u>	None Reported
Noncompliance material to financial statements noted?	_____	Yes	<u> X </u>	No

2. Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?	_____	Yes	<u> X </u>	No
Significant deficiency(ies) identified?	<u> X </u>	Yes	_____	None Reported

Type of auditor’s report issued on compliance for major federal programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

<u> X </u>	Yes	_____	No
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Identification of major federal programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
	Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Commodities Supplemental Food Program
10.555	After-School Snacks Program
10.555	Seamless Summer Feeding Option
	Special Education Cluster:
84.027A	IDEA, Part B
84.173A	IDEA, Part B, Preschool
16.575	Victims of Crime Act
84.365A	Title III, Part A—LEP

Austin Independent School District

**Schedule of Findings and Questioned Costs
Year Ended June 30, 2018**

**Section I—Summary of Auditor’s Results
(Continued)**

Dollar threshold used to distinguish between
type A and type B programs:

\$2,603,733

Auditee qualified as low-risk auditee?

 Yes X No

Section II—Financial Statement Findings

No matters were reported.

Section III—Federal Award Findings and Questioned Costs

Finding 2018-001

CFDA # 10.553 and 10.555, Nutrition Cluster

Award Numbers: 71301801, 71401801

Award Year: 2018

Federal Agency: United States Department of Agriculture

Pass Through Entity: Texas Department of Agriculture

Type of Finding: Significant Deficiency in Internal Control

Criteria: Uniform Guidance 2 CFR Part 200 establishes principles and standards for determining allowable direct and indirect costs for federal awards and requires that non-federal entities receiving federal awards establish and maintain internal control to provide reasonable assurance of compliance with federal statutes, regulations and the terms and conditions of the federal award. Additionally, grantees must have procedures for determining that costs for federal awards are accurate and complete.

Condition: In our program income sample of 25 nutrition program deposit tickets, we found that 19 of them were not properly completed with approvals, as required by the District’s policies. All of the items in the sample were verified during the audit process and were found to be in compliance with program income requirements.

Context: The District’s Policy for Cash Handling, Counting and Verification of Cash on Hand (CH 2.2) states that, “Both the manager and cashier will verify that the money count is correct. The bank deposit slip must be completed and signed (full and legible signature) by both manager and cashier.” The Policy for Business Support, End of Day—Report Review (AM 3.9), in the District’s Nutrition and Food Services Department states that, “Managers are accountable for the detailed review of end of day reports on a daily basis. Reports must be reviewed by the manager each day and signed in Blue Ink to verify that all is correct and/or supporting documentation is attached.” Our interviews with District staff found that review procedures were being performed, but not documented as required by existing policy.

Questioned costs: None

Austin Independent School District

Schedule of Findings and Questioned Costs (Continued)
Year Ended June 30, 2018

Effect: Deposits were being made, but internal control documentation surrounding signatures evidencing completion and approval of deposits by the cashier and manager was not always present.

Cause: The District's written policies and procedures were not being followed due to oversight by campus cashiers.

Recommendation: We recommend the District's employees adhere to the policies and procedures that require review and approval by a Food Services Department manager and cashier for all funds received by the Nutrition program.

View of responsible officials: The District agrees with this finding.

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Austin Independent School District



Financial Services Department

David Edgar

Executive Director

1111 West 6th Street – Suite A380
Austin, Texas 78703

512-414-9919

512-414-9923 (fax)

October 11, 2018

Austin Independent School District

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

Finding 2017-001

Condition:

Personnel costs for substitute teachers and supplemental pay for a short period of time during fiscal year 2017 were delayed in being processed through the state and federal expenditure compliance review and approval procedures for the Title III, Part A program. All such costs were ultimately processed through the District's compliance review and approval procedures.

Current status:

The finding has been corrected.

Finding 2017-002

Condition:

Expenditures for compensation and benefits for individuals were incorrectly charged to the Title III, Part A federal program and not approved by the Director of State and Federal Programs. Personnel costs for this program of \$31,274 were unallowable.

Current status:

The finding has been corrected.

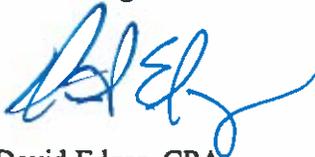
Finding 2017-003

Condition:

Costs were submitted on Requests for Advance or Reimbursement forms (SF-270) periodically during the fiscal year using the costs for the program reported in the accounting system. During fiscal year 2017, the District's program and financial management identified certain employee compensation costs that were being recorded or classified incorrectly, and that allowable indirect cost charges were also not being recorded or classified correctly. The financial information supporting the SF-270 forms during the year were updated subsequent to year-end. In total, the costs charged to the IDEA Part B program did not change, but the cost types did require reclassification to some of the amounts previously reported during the year.

Current status:

The finding has been corrected.

A handwritten signature in blue ink, appearing to read "D. Edgar", is positioned above the printed name and title.

David Edgar, CPA
Executive Director

Austin Independent School District

**Exhibit K-1 Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018**

(1) Project Number	Data Control Codes	Federal Grantor/Pass-Through Grantor/Program Title	(2) Federal CFDA Number	Passed Through Subrecipients	(3) Expenditures Indirect Costs and Refunds
<u>U.S. DEPARTMENT OF EDUCATION</u>					
<u>Direct Program:</u>					
N/A	244	CTE Makeover Challenge-Reagan High School	84.048	\$ -	\$ 4,461
N/A	244	CTE Makeover Challenge-Travis High School	84.048	-	866
		Subtotal, CTE Makeover Challenge		-	<u>5,327</u>
S060A170771	289	Indian Education - Grants to Local Educational Agencies	84.060A	-	19,395
P334A170083	274	GEAR UP	84.334A	-	816,658
U351C140069	289	Project Creative Learning	84.351C	-	124,779
U411C170017	289	Education, Innovation, and Research	84.411C	-	<u>72,331</u>
		Total Direct Programs		-	<u>1,038,490</u>
<u>Passed Through the Texas Education Agency:</u>					
17610101-227901	211	ESEA, Title I, Part A - Improving Basic Programs	84.010A	-	1,460,807
18610101-227901	211	ESEA, Title I, Part A - Improving Basic Programs	84.010A	-	21,591,818
		Subtotal, ESEA Title I Part A - Improving Basic Programs		-	<u>23,052,625</u>
186101217110001	211	Transformation Zone Planning Grant	84.010A	-	256,067
17610103-227901	211	ESEA Title I Part D, Subpart 2 - Delinquent Programs	84.010A	-	50,823
18610103-227901	211	ESEA Title I Part D, Subpart 2 - Delinquent Programs	84.010A	-	409,432
		Subtotal, ESEA Title I Part D, Subpart 2 - Delinquent Programs		-	<u>460,255</u>
17610112-227901	211	Title I 1003(A) Priority and Focus School Grants	84.010A	-	479,288
18610123-227901	211	Title I 1003 School Improvement	84.010A	-	455,181
<u>Special Education Cluster:</u>					
17660001-227901-6600	224	IDEA - Part B, Formula	84.027A	-	655,670
18660001-227901-6600	224	IDEA - Part B, Formula	84.027A	-	12,311,699
		Subtotal, IDEA - Part B, Formula		-	<u>12,967,369</u>
17660002-227901-6674	226	IDEA-B Discretionary	84.027A	-	5,509
66001806	226	IDEA B - High Cost	84.027A	-	755,863
17660011-227901	315	IDEA - Part B, Discretionary Deaf	84.027A	-	20,182
18660011-227901-6673	315	IDEA - Part B, Discretionary (Deaf)	84.027A	-	92,221
		Subtotal, IDEA B, Discretionary		-	<u>112,403</u>
17661001-227901-6610	225	IDEA - Part B, Preschool	84.173A	-	16,805
18661001-227901-6610	225	IDEA - Part B, Preschool	84.173A	-	497,354
		Subtotal, IDEA - Part B, Preschool		-	<u>514,159</u>
		Subtotal, Special Education Cluster		-	<u>14,355,303</u>
18420006-227901	244	Carl D. Perkins Basic Formula Grant	84.048A	-	837,193
184200557110004	244	2017-2018 Perkins Career Clusters	84.048A	-	8,458

(Continued)

Austin Independent School District

**Exhibit K-1 Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2018**

(1) Project Number	Data Control Codes	Federal Grantor/Pass-Through Grantor/Program Title	(2) Federal CFDA Number	Passed Through Subrecipients	(3) Expenditures Indirect Costs and Refunds
17391101-227901-3911	340	IDEA - C Early Childhood Intervention	84.181A	\$ -	\$ 131
18391101-227901-3911	340	IDEA - C Early Childhood Intervention	84.181A	-	3,221
		Subtotal, IDEA - C Early Childhood Intervention		-	3,352
176950197110003	265	21st Century Community Learning Centers CY 8 Yr 4	84.287C	-	184,196
176950247110001	265	21st Century Community Learning Centers CY 9 Yr 1	84.287C	-	233,241
186950197110003	265	21st Century Community Learning Centers CY 8 Yr 5	84.287C	-	1,988,143
186950247110001	265	21st Century Community Learning Centers CY 9 Yr 2	84.287C	-	1,423,724
		Subtotal, Texas 21st Century Community Learning Centers		-	3,829,304
17671001-227901	263	Title III, Part A - LEP	84.365A	-	7,202
18671001-227901	263	Title III, Part A - ELA	84.365A	-	2,526,759
		Subtotal, IDEA - Title III, Part A - LEP & ELA		-	2,533,961
17671003-227901	263	Title III, Part A - Immigrant	84.365A	-	10,096
18671003-227901	263	Title III, Part A - Immigrant	84.365A	-	547,253
		Subtotal, IDEA - Title III, Part A - Immigrant		-	557,349
17694501-227901	255	ESEA Title II, Part A Teacher and Principal Training and Recruiting	84.367A	-	172,135
18694501-227901	255	ESEA Title II, Part A Supporting Effective Instruction	84.367A	-	2,057,023
		Subtotal, ESEA Title II, Part A		-	2,229,158
69551502	289	LEP Summer School	84.369A	-	83,709
69551602	289	LEP Summer School	84.369A	-	76,262
		Subtotal, LEP Summer School		-	159,971
18680101-227901	289	Title IV, Part A, Subpart 1	84.424A	-	434,908
51271901	289	Emergency Impact Aid to LEAs	84.938C	-	536,482
		Total Pass-Through the Texas Education Agency		-	50,188,855
		<u>Passed Through the Education Service Center, Region 10:</u>			
17-034	206	McKinney-Vento Homeless Education/TEXSHEP	84.196A	-	25,288
18-049	206	McKinney-Vento Homeless Education/TEXSHEP	84.196A	-	149,336
		Total Pass-Through the Education Service Center, Region 10		-	174,624
		<u>Passed Through the Education Service Center, Region 13:</u>			
18-042	206	McKinney-Vento Homeless Education	84.196A	-	10
		<u>Passed Through Austin Community College</u>			
1416AEL006	220	Texas Adult Education and Literacy Programs - Federal Funds	84.002A	-	35,735
1416AEL006	220	Texas Adult Education and Literacy Programs - Federal Funds	84.002A	-	158,758
		Subtotal, Texas Adult Education and Literacy Programs - Federal Funds		-	194,493
1414AEL000	220	Adult Education / Federal	84.004A	-	14,597
		Total Pass-Through the Austin Community College		-	209,090
		<u>Passed Through the University of Texas at Austin:</u>			
N/A	199	Federal Work-Study Program	84.033	-	6,029
N/A	199	Federal Work-Study Program	84.033	-	11,998
		Total Pass-Through the University of Texas at Austin		-	18,027
		TOTAL U.S. DEPARTMENT OF EDUCATION		-	51,629,096

(Continued)

Austin Independent School District

**Exhibit K-1 Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2018**

(1) Project Number	Data Control Codes	Federal Grantor/Pass-Through Grantor/Program Title	(2) Federal CFDA Number	Passed Through Subrecipients	(3) Expenditures Indirect Costs and Refunds
<u>U.S. DEPARTMENT OF AGRICULTURE</u>					
<u>Passed Through the Texas Department of Agriculture:</u>					
<u>Child Nutrition Cluster:</u>					
71401801	240	School Breakfast Program	10.553	\$ -	\$ 7,239,298
71301801	240	National School Lunch Program	10.555	-	18,180,059
227003A	240	Commodities Supplemental Food Program (non-cash)	10.555	-	1,608,895
71301801	240	After-School Snacks Program	10.555	-	88,718
71301801	242	Seamless Summer Feeding Option	10.555	-	517,658
		Subtotal, Child Nutrition Cluster		-	27,634,628
N/A	240	Child and Adult Care Food Program	10.558	-	2,353,297
TOTAL U.S. DEPARTMENT OF AGRICULTURE					29,987,925
<u>U.S. DEPARTMENT OF DEFENSE</u>					
N/A	199	R.O.T.C.*	12.000	-	189,553
TOTAL U.S. DEPARTMENT OF DEFENSE					189,553
<u>DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>					
<u>Passed Through the City of Austin</u>					
NG170000025	289	CDBG Teen Parent Services	14.218	-	50,205
NG170000025 Amendment 2	289	CDBG Teen Parent Services	14.218	-	119,164
TOTAL DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT					169,369
<u>DEPARTMENT OF JUSTICE</u>					
<u>Passed Through the Governor's Criminal Justice Division</u>					
3329701	289	VA-Victims of Crime Act Formula Grant Program	16.575	-	3,347,558
TOTAL DEPARTMENT OF JUSTICE					3,347,558
<u>U.S. DEPARTMENT OF LABOR</u>					
<u>Passed Through the Texas Education Agency</u>					
<u>2016-2018 Industry Cluster</u>					
173918017110004	289	2016-2018 Industry Cluster TWC Adult-Reagan	17.258	-	117,697
173918017110003	289	2016-2018 Industry Cluster TWC Adult-LBJ	17.258	-	122,818
173920017110004	289	2016-2018 Industry Cluster TWC Dislocated-Reagan	17.278	-	32,770
173920017110003	289	2016-2018 Industry Cluster TWC Dislocated-LBJ	17.278	-	53,842
		Subtotal, 2016-2018 Industry Cluster		-	327,127
TOTAL U.S. DEPARTMENT OF LABOR					327,127

(Continued)

Austin Independent School District

**Exhibit K-1 Schedule of Expenditures of Federal Awards (Continued)
Year Ended June 30, 2018**

(1) Project Number	Data Control Codes	Federal Grantor/Pass-Through Grantor/Program Title	(2) Federal CFDA Number	Passed Through Subrecipients	(3) Expenditures Indirect Costs and Refunds
<u>NATIONAL ENDOWMENT FOR THE ARTS</u>					
16-5100-7127	289	Austin Digital Media for All	45.024	\$ -	\$ 2,852
17-5100-7158	289	Austin Digital Media for All	45.024	-	63,550
				-	66,402
<u>U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES</u>					
<u>Passed Through the Austin Community College</u>					
1416AEL006	223	Texas Adult Education and Literacy Programs / Federal TANF Funds	93.558	-	38,575
1416AEL006	223	Texas Adult Education and Literacy Programs / Federal TANF Funds	93.558	-	87,331
				-	125,906
<u>Passed Through the United States Conference of Catholic Bishops</u>					
1702TXRSOC	289	Refugee School Impact Discretionary Grant	93.566	-	63,805
1802TXRSOC	289	Refugee School Impact Discretionary Grant	93.566	-	663
				-	64,468
<u>Passed Through the Texas Education Agency</u>					
173921017110004	203	Pre-K Partnership Planning Grants	93.575	-	153,365
<u>Passed Through the Texas Department of State Health Services</u>					
529-07-0157-00112	272	Medicaid Administration	93.778	-	458,595
				-	802,334
<u>U.S. Department of Homeland Security</u>					
<u>Passed Through the Texas Department of Public Safety</u>					
N/A	199	Disaster Grants-Public Assistance	97.036	-	271,760
				-	271,760
TOTAL FEDERAL ASSISTANCE				\$ -	\$ 86,791,124

See notes to Schedule of Expenditure of Federal Awards.

*Grants awarded before December 26, 2014 and subject to Circular A-133.

Austin Independent School District

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

Note 1. General

The accompanying Schedule of Expenditures of Federal Awards (Schedule) includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets or cash flows of the District.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported using the current financial resources measurement focus basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Noncash Federal Awards

The District received noncash awards in the form of food commodities totaling \$1,608,895 for the year ended June 30, 2018.

Note 4. Indirect Costs

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

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