

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  
\_\_\_\_\_  
**FOR THE YEAR ENDED**  
**AUGUST 31, 2018**

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR**  
**THE YEAR ENDED AUGUST 31, 2018**

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## **INTRODUCTORY SECTION**

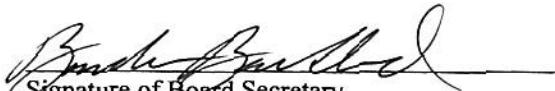
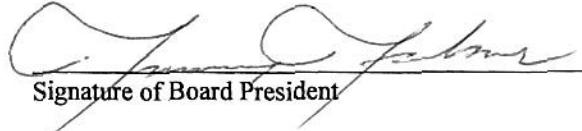
## CERTIFICATE OF BOARD

Highland Independent School District  
Name of School District

Nolan  
County

177-905  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) X approved \_\_\_\_\_ disapproved for the year ended August 31, 2018, at a meeting of the board of trustees of such school district on the 17th day of December, 2018.

  
Signature of Board Secretary  
Signature of Board President

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

## **FINANCIAL SECTION**

# Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303  
Abilene, TX 79601

## INDEPENDENT AUDITORS' REPORT

To the Board of Trustees  
Highland 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 Highland Independent School District (the District) as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **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 of material misstatement.

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

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

### **Opinions**

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

### **Emphasis of Matter**

As described in Note 18 to the financial statements, in 2018, the District adopted new accounting guidance, GASB No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Because GASB No. 75 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. Exhibit A-1 discloses the District's Net OPEB Liability and some deferred resource outflows and deferred resource inflows related to the District's plan. Exhibit B-1 discloses the adjustment to the District's beginning net position. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and required TRS schedules on pages 4 through 9 and 42 through 46 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 Highland Independent School District's basic financial statements. The introductory section, combining and nonmajor fund financial statements, and the TEA required schedules listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

The introductory section and the required TEA schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2018, on our consideration of Highland Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Highland Independent School District's internal control over financial reporting and compliance.



**MERRITT, MCLANE & HAMBY, P.C.**

Abilene, Texas  
November 9, 2018

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

**BOARD OF TRUSTEES**  
BRENT ALLEN, PRES  
BRAD THOMPSON, VP  
JIMMY JOHNS, SEC  
BRANDON BANKHEAD  
ALLEN HOELSCHER  
JIMMY JOHNS  
CODY MUNCY  
KEVIN GILLESPIE

# Highland I.S.D.

6625 FM 608  
ROSCOE, TEXAS 79545  
(325) 766-3652

DUANE HYDE  
SUPERINTENDENT  
KARRY OWENS  
SECONDARY PRINCIPAL  
DAVID ACEVEDO  
ELEMENTARY PRINCIPAL  
SHAHALAH HOELSCHER  
COUNSELOR

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial Report, we, the managers of Highland Independent School District (the "District"), discuss and analyze the District's financial performance for the twelve months ended August 31, 2018. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements.

### **FINANCIAL HIGHLIGHTS**

- The District's total combined net position was \$17,815,722 at August 31, 2018 which was an increase of 25.9% from the previous year, after the prior period adjustment to record the affect of GASB No. 75, which resulted in a restated beginning net position of \$14,146,752. (See Note 18).
- The District's expenses were \$3,561,714 versus revenue at \$7,230,684, for a net gain of \$3,668,970.
- The total cost of the District's programs decreased \$1,393,993 from last year.
- The general fund reported a fund balance this year of \$11,668,009.

### **USING THIS ANNUAL REPORT**

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

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

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by the Texas Education Agency (TEA). The sections labeled TEA Required Schedules and Other Information Required by GAO contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

### **Reporting the District as a Whole**

#### ***The Statement of Net Position and the Statement of Activities***

The analysis of the District's overall financial condition and operations begins with the Statement of Net Position (Exhibit A-1) and the Statement of Activities (Exhibit B-1). Its primary purpose is to show whether the District is in a better or worse position as a result of the year's activities. The Statement of Net Position includes all the District's assets, liabilities, and deferred inflows and outflows of resources at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition

received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or children from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

In the Statement of Net Position and the Statement of Activities, we have presented the District as one kind of activity (governmental activities).

Governmental activities – All of the District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, fees, state funding, and federal grants finance most of these activities.

### **Reporting the District's Most Significant Funds**

#### ***Fund Financial Statements***

The fund financial statements begin with the Governmental Funds Balance Sheet (Exhibit C-1) and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as federal grants received from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds (governmental and proprietary) use different accounting approaches.

- Governmental funds – Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in a reconciliation schedule following each of the fund financial statements.
- Proprietary fund – The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds which the District does not have at present) are the business-type activities reported in the government-wide statements but contain more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the District's other programs and activities – the District does not have proprietary funds at present.

### **The District as Trustee**

#### ***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for money raised by student activities and prior student scholarship programs. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position (Exhibit E-1). We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The analysis below presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table A-1) and changes in net position (Table A-2) of the District's governmental activities.

Net position of the District's governmental activities increased from \$14,146,752, after the prior period adjustment, to \$17,815,722. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without

constraints established by debt covenants, enabling legislation, or other legal requirements was \$10,145,369 at August 31, 2018.

**Table A-1**  
**Highland Independent School District's Net Position**

	Governmental Activities		Percentage Change
	2018	2017	
Current and Other Assets	\$ 13,741,511	\$ 11,676,798	17.68%
Capital and Non-Current Assets	<u>15,478,001</u>	<u>15,557,487</u>	-0.51%
<b>Total Assets</b>	<u><u>29,219,512</u></u>	<u><u>27,234,285</u></u>	7.29%
<b>Deferred Outflows of Resources</b>	<u><u>221,791</u></u>	<u><u>263,004</u></u>	-15.67%
Current Liabilities	266,316	1,010,919	-73.66%
Long Term Liabilities	<u>10,913,596</u>	<u>10,707,281</u>	1.93%
<b>Total Liabilities</b>	<u><u>11,179,912</u></u>	<u><u>11,718,200</u></u>	-4.59%
<b>Deferred Inflows of Resources</b>	<u><u>445,669</u></u>	<u><u>26,601</u></u>	1575.38%
Net Position			
Net Investment in Capital Assets	5,888,156	3,165,195	86.03%
Restricted	1,782,197	2,452,726	-27.34%
Unrestricted	<u>10,145,369</u>	<u>10,134,567</u>	0.11%
<b>Total Net Position</b>	<u><u>\$ 17,815,722</u></u>	<u><u>\$ 15,752,488</u></u>	13.10%

At the end of the 2017-2018 school-year, the enrollment for the District was 232, a increase of 6 from the prior year. The average daily attendance was (ADA) was 220.000 which was an increase of 13.662 from the previous year.

The District's Maintenance & Operations (M&O) tax rate remained the same at \$1.16 per \$100 of valuation and the Debt Service (I&S) tax rate decreased to \$0.16.

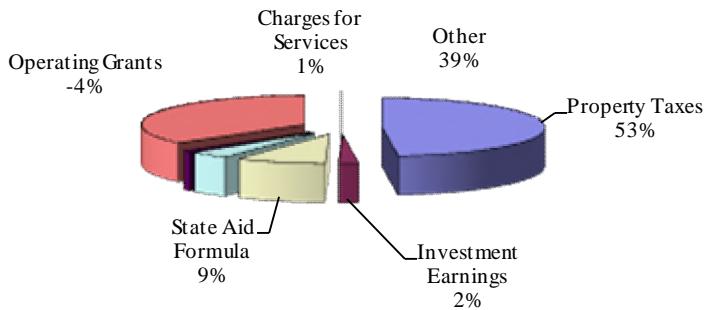
The cost of all governmental activities for the current fiscal year was \$3,561,714. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was \$3,801,055 which is \$234,199 more than last year's total of \$3,566,856. The District's total revenues were \$7,230,684. A significant portion, 53%, of the District's revenue comes from taxes. (See Figure A-3.) \$695,849 (9%) comes from state aid – formula, and -4% from operating grants, while 1% relates to charges for services.

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

	Governmental Activities		Total % Change
	2018	2017	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for services	\$ 64,438	53,985	19.36%
Operating grants and contributions	(307,744)	307,081	-200.22%
<u>General Revenues</u>			
Property taxes	3,801,055	3,566,856	6.57%
State aid - formula	695,849	506,174	37.47%
Investment earnings	153,362	107,913	42.12%
Other	<u>2,823,724</u>	<u>1,163,799</u>	142.63%
<b>Total Revenues</b>	<u><u>7,230,684</u></u>	<u><u>5,705,808</u></u>	

<b>Expenses</b>			
Instruction and instructional related	1,488,512	2,082,631	-28.53%
Instructional and school leadership	149,465	222,239	-32.75%
Guidance, social work, health, transportation	118,169	182,075	-35.10%
Food Services	180,774	219,552	-17.66%
Extracurricular activities	169,617	183,429	-7.53%
General administration	282,603	341,383	-17.22%
Plant maintenance and operations	714,014	509,928	40.02%
Security and monitoring	35,391	47,240	-25.08%
Data processing service	36,329	63,462	-42.75%
Debt service	215,459	403,168	-46.56%
Intergovernmental	<u>171,381</u>	<u>700,600</u>	<u>-75.54%</u>
<b>Total Expenses</b>	<b>3,561,714</b>	<b>4,955,707</b>	
<b>Change in Net Position</b>	<b>3,668,970</b>	<b>750,101</b>	
<b>Beginning Net Position</b>	<b>15,752,488</b>	<b>15,002,387</b>	
<b>Prior Period Adjustment</b>	<b>(1,605,736)</b>		
<b>Ending Net Position</b>	<b>\$ 17,815,722</b>	<b>\$ 15,752,488</b>	

**Figure A-3 District Sources of Revenue for Fiscal Year 2018**



## THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$7,834,796, an increase of 38.3% from the preceding year. Local revenue increased \$1,988,181 as a result of increased property tax revenue and funds from a new Chapter 313 agreement. The state aid revenue increased approximately 27%. Federal revenues remained consistent with a slight increase of \$144 from the prior year.

### General Fund Budgetary Highlights

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 31, 2017). The second category includes changes that the Trustees made during the year to take into account the changes in operations. The third category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. With these adjustments, actual expenditures in the General Fund were \$445,770 under final budget amounts. The budget was amended, and decreased 3.2% for decreases in instruction, increases in curriculum and instructional staff development, school leadership, food services, security and monitoring services, data processing services, and contracted instructional services between schools.

Resources were \$2,921,271 over the final budget amount.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2018, the District had invested \$15,478,001 in a broad range of capital assets, including land, equipment, buildings, and vehicles, net of accumulated depreciation. (See Table A-4) This amount represents a net decrease (including additions, deletions and depreciation expense) of less than 1% over last year.

**Table A-4**  
**District's Capital Assets**

	<b>Governmental Activities</b>		<b>Total % Change</b>
	<b>2018</b>	<b>2017</b>	
Land	\$ 16,719	\$ 16,719	
Construction in progress	54,027		100.00%
Buildings and improvements	21,047,962	20,428,807	3.03%
Furniture and equipment	845,391	845,391	
Capital leases	169,443	169,443	
Total at historical cost	<u>22,133,542</u>	<u>21,460,360</u>	3.14%
Total accumulated depreciation	6,655,541	5,902,873	12.75%
Net capital assets	<u>\$ 15,478,001</u>	<u>\$ 15,557,487</u>	-0.51%

### Debt

At year-end, the District had \$9,589,845 in bonds and premium on bond. See Table A-5.

**Table A-5**  
**District's Long Term Debt**

	<b>2018</b>	<b>2017</b>
Unlimited Tax		
Refunding Bonds, Series 2011	\$ 2,100,000	\$ 2,535,000
School Building Bonds, Series 2016	6,565,000	6,665,000
Premium		
Series 2011	121,439	145,726
Series 2016	803,406	865,207
Capital Lease	<u>                </u>	<u>34,739</u>
Total	<u>\$ 9,589,845</u>	<u>\$ 10,245,672</u>

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2018-2019 budget preparation decreased \$11,005,354 or 3.9% from the previous year. The decrease in property values is expected to result in a decrease in property tax revenue.
- General operating fund spending per student decreased in the 2019 budget to \$16,680, a \$2,083 per student increase.

The district's 2019 refined average daily attendance is expected to be 220.

These indicators were taken into account when adopting the general fund budget for 2019. Property taxes will decrease with the decreasing property values. State revenue will remain the same and local revenue from Chapter 313 agreements will decrease.

Expenditures are budgeted at \$3,669,699, which is an increase of approximately 14.3% compared to prior year expenditures.

If these estimates are realized, the District's budgetary general fund fund balance is expected to increase by \$98,390 by the close of 2019.

## **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 business office, at Highland Independent School District, 6625 FM 608, Roscoe, Texas 79545, or by calling (325) 766-3652.

## **BASIC FINANCIAL STATEMENTS**

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

## STATEMENT OF NET POSITION

AUGUST 31, 2018

10

Data Control Codes	Governmental Activities
<b>ASSETS</b>	
1110 Cash and cash equivalents	\$ 2,558,846
1120 Investments - current	9,249,673
1220 Property taxes receivable (delinquent)	34,004
1230 Allowance for uncollectible taxes	(9,015)
1240 Due from other governments	4,021
Capital assets:	
1510 Land	16,719
1520 Buildings, net	15,199,760
1530 Furniture and equipment, net	114,302
1550 Leased property under capital lease, net	93,193
1580 Construction in progress	54,027
1800 Restricted assets	1,903,982
1000       Total Assets	<u>29,219,512</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1703 Deferred outflow related to TRS OPEB	15,029
1705 Deferred outflow related to TRS pension	<u>206,762</u>
1700       Total Deferred Outflow of Resources	<u>221,791</u>
<b>LIABILITIES</b>	
2110 Accounts payable	112,157
2140 Interest payable	12,217
2150 Payroll deductions and withholdings	(2,578)
2160 Accrued wages payable	100,154
2200 Accrued expenses	2,257
2300 Unearned revenue	42,109
Noncurrent liabilities:	
2501 Due within one year	550,000
2502 Due in more than one year	9,039,845
2540 Net pension liability (District's share)	407,188
2545 Net OPEB liability (District's share)	916,563
2000       Total Liabilities	<u>11,179,912</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2603 Deferred inflow related to TRS OPEB	383,400
2605 Deferred inflow related to TRS pension	62,269
2600       Total Deferred Inflows of Resources	<u>445,669</u>
<b>NET POSITION</b>	
3800 Net investments in capital assets	5,888,156
3850 Restricted for debt service	279,449
3860 Restricted for capital projects	1,502,748
3900 Unrestricted	10,145,369
3000       Total Net Position	<u>\$ 17,815,722</u>

*The accompanying notes are an integral part of this statement.*

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT B-1

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes	Functions/Programs	1	3	4	6
		Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Government Activities:</b>					
11	Instruction	\$ 1,471,716	\$ (203,206)	\$ (1,674,922)	
12	Instructional Resources & Media Services	13,037			(13,037)
13	Curriculum and Staff Development	3,759			(3,759)
23	School Leadership	149,465		(40,740)	(190,205)
31	Guidance, Counseling, & Evaluation Services	41,136		(11,535)	(52,671)
33	Health Services	8,725			(8,725)
34	Student (Pupil) Transportation	68,308		(2,632)	(70,940)
35	Food Service	180,774	55,968	38,737	(86,069)
36	Extracurricular Activities	169,617	8,470	(5,877)	(167,024)
41	General Administration	282,603		(23,815)	(306,418)
51	Plant Maintenance & Operations	714,014		(41,223)	(755,237)
52	Security & monitoring services	35,391		(11,892)	(47,283)
53	Data Processing Services	36,329		(5,561)	(41,890)
72	Debt Service - Interest on Long-Term Debt	213,847			(213,847)
73	Debt Service - Bond Issuance Cost & Fees	1,612			(1,612)
91	Contracted Instructional Services between Schools	148,031			(148,031)
93	Pmts Related to Shared Service Arrangement	23,350			(23,350)
TG	Total Governmental Activities	<u>3,561,714</u>	<u>64,438</u>	<u>(307,744)</u>	<u>(3,805,020)</u>
TP	Total Primary Government	<u>\$ 3,561,714</u>	<u>\$ 64,438</u>	<u>\$ (307,744)</u>	<u>(3,805,020)</u>
<b>General Revenues:</b>					
MT	Property Taxes. Levied for General Purposes				2,976,002
DT	Property Taxes, Levied for Debt Service				825,053
SF	State Aid-formula Grants				695,849
GC	Grants and contributions not restricted				285
IE	Investment Earnings				153,362
MI	Miscellaneous				<u>2,823,439</u>
TR	Total General Revenues and Transfers				<u>7,473,990</u>
CN	<b>Change in Net Position</b>				3,668,970
NB	Net Position - Beginning				15,752,488
PA	Prior Period Adjustment				<u>(1,605,736)</u>
NE	Net Position - Ending				<u>\$ 17,815,722</u>

The accompanying notes are an integral part of this statement.

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

## BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2018

Data Control Codes	10	50	60
	General Fund	Debt Service Fund	Capital Projects Fund
<b>ASSETS</b>			
1110 Cash and cash equivalents	\$ 2,552,862	\$	\$
1120 Investments - current	9,249,673		
1220 Taxes receivable (delinquent)	30,365	3,639	
1230 Allowance for uncollectible taxes	(8,050)	(965)	
1240 Receivable from other governments	1,074	(200)	
1260 Due from other funds	251		
1800 Restricted assets		291,866	1,612,116
1000      Total Assets	<u>\$ 11,826,175</u>	<u>\$ 294,340</u>	<u>\$ 1,612,116</u>
<b>LIABILITIES</b>			
2110 Accounts payable	\$ 2,775	\$	\$ 109,368
2150 Payroll deductions and withholdings payable	(2,578)		
2160 Accrued wages payable	91,668		
2170 Due to other funds		1,877	
2200 Accrued expenditures		42,109	
2300 Unearned revenues			
2000      Total Liabilities	<u>135,851</u>		<u>109,368</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable revenue - property taxes	\$ 22,315	\$ 2,674	\$
2600      Total Deferred Inflows of Resources	<u>22,315</u>	<u>2,674</u>	<u>      </u>
<b>FUND BALANCES</b>			
Restricted for:			
3470 Capital acquisition and contractual obligation			1,502,748
3480 Retirement of long-term debt			291,666
Committed:			
3510 Construction	3,700,000		
3600 Unassigned fund balance	<u>7,968,009</u>		
3000      Total Fund Balance	<u>11,668,009</u>	<u>291,666</u>	<u>1,502,748</u>
4000 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 11,826,175</u>	<u>\$ 294,340</u>	<u>\$ 1,612,116</u>

*The accompanying notes are an integral part of this statement.*

Nonmajor Governmental Funds	Total Governmental Funds
\$ 5,984	\$ 2,558,846
	9,249,673
	34,004
	(9,015)
3,147	4,021
	251
	1,903,982
<u>\$ 9,131</u>	<u>\$ 13,741,762</u>
\$ 14	\$ 112,157
	(2,578)
8,486	100,154
251	251
380	2,257
	42,109
<u>9,131</u>	<u>\$ 254,350</u>
\$ _____	\$ 24,989
<u>_____</u>	<u>24,989</u>
	1,502,748
	291,666
	3,700,000
<u>_____</u>	<u>7,968,009</u>
<u>_____</u>	<u>13,462,423</u>
<u>\$ 9,131</u>	<u>\$ 13,741,762</u>

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

EXHIBIT C-2

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
AUGUST 31, 2018**

Total fund balances - governmental funds balance sheet (from C-1)	\$ 13,462,423
 Amounts reported for governmental activities in the statement of net position (SNP) are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets were \$21,460,360 and the accumulated depreciation was \$5,902,873.	15,557,487
Capital asset additions are expenditures in the fund financial statements but an increase to capital assets in the SNP.	673,182
Depreciation expense decreases net position in SNP.	(752,668)
Long-term liabilities, including bonds payable of \$9,200,000, are not due and payable in the current period and therefore, are not reported as liabilities in the funds.	(10,245,672)
Payments on debt are expenditures in the fund financial statements and reduce liabilities in the SNP.	569,739
Bond premiums must be amortized over the life of the bond. The bond amortization is recorded in the SNP.	86,088
Interest payable is recorded in SNP.	(12,217)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$206,762, a deferred resource inflow in the amount of \$62,269, and a net pension liability in the amount of \$407,188. This resulted in a decrease in net position.	(262,695)
Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$15,029, a deferred resource inflow in the amount of \$383,400, and a net OPEB liability in the amount of \$916,563. This resulted in a decrease in net position.	(1,284,934)
Various other reclassifications including eliminating unavailable revenue for property taxes from the government-wide financial statements as revenue is recognized. This increases net position in the government-wide financial statements.	24,989
Net position of governmental activities - statement of net position (see A-1)	\$ 17,815,722

*The accompanying notes are an integral part of this statement.*

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects Fund
<b>REVENUES</b>				
5700	Local and intermediate sources	\$ 5,965,980	\$ 837,045	\$ 6,945
5800	State program revenues	849,132	915	
5900	Federal program revenues			
5020	Total Revenues	<u>6,815,112</u>	<u>837,960</u>	<u>6,945</u>
<b>EXPENDITURES</b>				
Current:				
0011	Instruction	1,563,390		
0012	Instructional resources & media services	13,037		
0013	Curriculum & instructional staff development	3,759		
0023	School Leadership	236,333		
0031	Guidance, counseling, & evaluation services	65,752		
0033	Health services	8,849		
0034	Student (Pupil) transportation	42,553		
0035	Food service	7,584		
0036	Extracurricular activities	116,035		
0041	General administration	338,682		
0051	Facilities maintenance & operations	503,233		
0052	Security & monitoring services	56,686		
0053	Data processing services	48,451		
Debt service				
0071	Principal on long term debt	34,741	535,000	
0072	Interest on long term debt	831	299,638	
0073	Bond issuance cost and fees		1,612	
Capital outlay				
;0081	Facilities acquisition and construction			673,289
Intergovernmental				
0091	Contracted instructional services btwn schools	148,031		
0093	Pmts to fiscal agent/member districts of SSA	23,350		
6030	Total Expenditures	<u>3,211,297</u>	<u>836,250</u>	<u>673,289</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,603,815</u>	<u>1,710</u>	<u>(666,344)</u>
<b>OTHER FINANCING SOURCES AND (USES)</b>				
7915	Transfers in			
8911	Transfers out	(100,326)		
7080	Total Other Financing Sources and (Uses)	<u>(100,326)</u>		
1200	Net Change in Fund Balances	3,503,489	1,710	(666,344)
0100	Fund Balance - Beginning	<u>8,164,520</u>	<u>289,956</u>	<u>2,169,092</u>
3000	Fund Balance - Ending	<u>\$ 11,668,009</u>	<u>\$ 291,666</u>	<u>\$ 1,502,748</u>

*The accompanying notes are an integral part of this statement.*

Nonmajor Governmental Funds	Total Governmental Funds	98
\$ 55,968	\$ 6,865,938	
6,594	856,641	
112,217	112,217	
<u>174,779</u>	<u>7,834,796</u>	

55,394	1,618,784	
	13,037	
	3,759	
	236,333	
	65,752	
	8,849	
	42,553	
226,142	233,726	
	116,035	
	338,682	
	503,233	
	56,686	
	48,451	
	569,741	
	300,469	
	1,612	
	673,289	
	148,031	
	23,350	
<u>281,536</u>	<u>5,002,372</u>	
<u>(106,757)</u>	<u>2,832,424</u>	
100,326	100,326	
	(100,326)	
<u>100,326</u>	<u></u>	
(6,431)	2,832,424	
	6,431	
	<u>10,629,999</u>	
\$ <u><u></u></u>	\$ <u><u>13,462,423</u></u>	

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

EXHIBIT C-4

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2018**

Total change in fund balances - total governmental funds (from C-3)	\$ 2,832,424
Amounts reported for governmental activities in the statement of activities (SOA) are different because:	
Capital asset additions are expenditures in the fund financial statements but an increase to capital assets in the SNP.	673,182
The depreciation of capital assets used in governmental activities is not reported in the funds.	(752,668)
Long-term debt principal payments are expenditures in the fund financial statements but are shown as reductions in long-term debt in the government-wide financial statements.	569,739
Premiums increase the liability in the SNP. The premium must be amortized over the life of the bond.	86,088
Interest payable is recorded in SNP.	536
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in the ending net position to increase by \$38,204. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$51,685. The proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$24,008. The net result is to decrease the change in net position.	(37,489)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in the ending net position to increase by \$14,885. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$12,410. The proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$318,327. The net result is to increase the change in net position.	320,802
Various other reclassifications and eliminations including recognizing unearned revenue as revenue and adjusting current year revenue to show the revenue earned from the current year's tax levy.	<u>(23,644)</u>
Change in Net Position of governmental activities	<u>\$ 3,668,970</u>

*The accompanying notes are an integral part of this statement.*

**FIDUCIARY FUND FINANCIAL STATEMENTS**

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

EXHIBIT E-1

**STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS**

AUGUST 31, 2018

	Agency Fund
Cash and cash equivalents	\$ 112,549
Total Assets	<u>112,549</u>
Due to Student Groups	112,549
Total Liabilities	<u>112,549</u>

*The accompanying notes are an integral part of this statement.*

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Highland Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in accordance with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “FASRG”) and the requirements of contracts and grants of agencies from which it receives funds.

**Pensions:** The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS’ 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.

**Other Post Employment Benefits:** The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resource 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 benefit, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care’s fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

#### **Reporting Entity**

The Board of School Trustees has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the executive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (“TEA”) or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental “reporting entity” as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District’s basic financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District’s reporting entity is set forth in Section 2100 of GASB’s Codification of Governmental Accounting and Financial Reporting Standards. Based on the criteria, Highland Independent School District has no component units.

#### **Basis of Presentation**

The statement of net position and the statement of activities are government-wide financial statements and report information on all of the nonfiduciary activities of the District. The effect of interfund activity within the governmental activities columns has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues.

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

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

##### **Fund Financial Statements**

The District segregates transactions related to certain functions or activities in separate, self-balancing funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column. Governmental funds are those funds through which most governmental functions typically are financed. The District has presented the following major governmental funds:

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

*Debt Service Fund* accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of the governmental funds.

The *Capital Projects Fund* accounts for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisition.

In addition, the District reports the following fund types:

*Special Revenue Funds* accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

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

##### **Measurement Focus, Basis of Accounting**

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do internal service fund financial statements and fiduciary fund financial statements. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the statement of activities presents increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to be used to pay liabilities in the current period. The property taxes received after the end of the year are recorded as revenue and receivables. A one-year availability period is used for recognition of all other governmental fund revenue. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues.

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as unearned revenues, expenditures incurred but not yet reimbursed are shown as receivables. Funds received before time requirements are met but after all other eligibility requirements have been met will be reported as a deferred inflow of resources.

In accordance with the FASRG, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FASRG.

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

#### **Budgetary Control**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FASRG, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20<sup>th</sup> the District prepares a budget for the next succeeding fiscal year beginning September 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1<sup>st</sup>, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end.

The District had the following negative budget variances:

#### **General Fund**

School leadership	\$	776
Health services		1,049
Food service		4,584

#### **Child Nutrition Program**

Food services	8,705
---------------	-------

#### **Cash and cash equivalent**

The District considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

#### **Investments**

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

#### **Inventory**

The costs of inventory are recorded as expenditures when purchased (purchase method).

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

##### **Interfund Receivables and Payables**

Short-term amounts owed between funds are classified as “Due to/from other funds”.

##### **Capital Assets**

Capital assets, which include land, buildings, furniture, and equipment, are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects as they are constructed.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	30
Furniture and equipment	5-15

##### **Deferred Outflows/Inflows of Resources**

Deferred outflows of resources refer to the consumption of net assets that are applicable to a future reporting period. Deferred outflows of resources have a positive effect on net position, similar to assets. The District has no amounts recorded as deferred outflows of resources in the governmental fund financial statements and \$221,791 recognized as deferred outflow of resources in the government-wide financial statements.

Deferred inflows of resources refer to the acquisition of net assets that are applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Specifically for the current period, the difference in delinquent taxes receivable and the associated allowance for uncollectible taxes of \$24,989 is considered a deferred inflow of resources in the governmental financial statements while \$445,669 of deferred inflows related to TRS is considered deferred inflow of resources in the government-wide financial statements.

##### **Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

*Nonspendable* – This classification includes amounts that cannot be spent because they are either a) not in spendable form or b) are legally or contractually required to be maintained intact. The District has no funds classified as nonspendable at August 31, 2018.

*Restricted* – This classification includes amounts for which constraints have been placed on the use of the resources either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or b) imposed by law through constitutional provisions or enabling legislation. The District has \$291,666 restricted for debt service, and \$1,502,748 for capital projects fund at August 31, 2018.

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

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued**

contractual obligations to the extent that existing resources have been officially committed for use in satisfying those contractual requirements. The District has \$3,700,000 committed for construction at August 31, 2018.

*Assigned* – This classification includes amounts that are constrained by the District’s intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or through the Board delegating this responsibility to the Superintendent through the budgetary process. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has no funds assigned at August 31, 2018.

*Unassigned* – This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

The District would typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

#### **Long-term Obligations**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the current period.

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

#### **Data Control Codes**

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

#### **Estimates**

The preparation of financial statements in conformity with GAAP required the use of management’s estimates. Accordingly, actual results could differ from those estimates.

#### **Receivables and Payables**

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

#### **NOTE 2: DEPOSITS AND INVESTMENTS**

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

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 2: DEPOSITS AND INVESTMENTS - *continued***

##### **Cash Deposits**

At August 31, 2018, the carrying amount of the District's deposits (cash and interest-bearing accounts) was \$6,044,377 and the bank balance was \$6,087,150. The District's cash deposits at August 31, 2018 and during the year ended August 31, 2018, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

##### **Investments**

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform procedures related to investment practices as provided by the Act.

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

##### **Fair Value**

Generally accepted accounting principles require the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

A fair value hierarchy exists for valuation inputs that give the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (for example: interest rates, volatilities, prepayment speeds, loss severities, credit risks and default rates) or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 2: DEPOSITS AND INVESTMENTS - continued**

Level 3 – Significant unobservable inputs that reflect an entity’s own assumptions that market participants would use in pricing the assets or liabilities.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

In general, fair value is based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally-developed models that primarily use, as inputs, observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value.

While management believes the District’s valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

For all assets and liabilities other than investments carrying value approximates fair value.

Investments are reported at fair value utilizing Level 1 inputs for investments at LoneStar, Texas Term, and Texas Daily and Level II inputs for the CDs at Texas Term Investment Pool.

As of August 31, 2018, Highland Independent School District has the following investments:

	Cost	Book Value	Weighted Average Maturity	Rating
Investments				
Certificates of deposit maturities < 1 year	\$ 1,469,000	\$ 1,469,000	111 Days	
LoneStar	4,743,750	4,743,750	20 Days	AAA
Texas Daily	72,589	72,589		AAA
Texas Term	2,964,334	2,964,334		AAAm
Total investments	\$ 9,249,673	\$ 9,249,673		

#### **Analysis of Specific Deposit and Investment Risks**

##### *Custodial Credit Risk*

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

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

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

##### *Credit Risk*

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

##### *Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District’s investment policy limits its investment portfolio to maturities of one year or less as a means of limiting its exposure to fair value losses arising from fluctuating interest rates.

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

### **NOTE 2: DEPOSITS AND INVESTMENTS - continued**

#### *Foreign Currency Risk*

Foreign currency risk is the risk that exchange rates will adversely affect fair value of an investment. At August 31, 2018, the District was not exposed to foreign currency risk.

#### *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 (i.e., lack of diversification). The District's investment policy is to reduce the risk of loss resulting from over concentration of assets in a specific class of investments; however, the District's policy places no specific limit on the amount which the District may invest in any one issuer.

### **NOTE 3: CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><u>Governmental activities:</u></b>				
Capital assets not being depreciated:				
Land	\$ 16,719	\$ 54,027	\$	16,719
Construction in progress				54,027
Total capital assets not being depreciated	<u>16,719</u>	<u>54,027</u>		<u>70,746</u>
Capital assets being depreciated				
Buildings and improvements	20,428,807	619,155		21,047,962
Furniture and equipment	845,391			845,391
Capital leases	169,443			169,443
Total capital assets being depreciated	<u>21,443,641</u>	<u>619,155</u>		<u>22,062,796</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,137,161)	(711,041)		(5,848,202)
Furniture and equipment	(706,407)	(24,682)		(731,089)
Capital leases	(59,305)	(16,945)		(76,250)
Total accumulated depreciation	<u>(5,902,873)</u>	<u>(752,668)</u>		<u>(6,655,541)</u>
Total capital assets being depreciated, net	<u>15,540,768</u>	<u>(133,513)</u>		<u>15,407,255</u>
Governmental activities capital assets, net	<u>\$ 15,557,487</u>	<u>\$ (79,486)</u>	<u>\$</u>	<u>15,478,001</u>
Depreciation was charged to functions as follows:				
Instruction	\$ 360,065			
Student (Pupil) Transportation	30,505			
Cocurricular/Extracurricular activities	65,687			
General Administration	6,399			
Plant Maintenance and Operations	290,012			
Total depreciation expense - governmental activities	<u>\$ 752,668</u>			

### **NOTE 4: LONG-TERM DEBT**

In December 2011, the District issued \$4,514,993 in Unlimited Tax Refunding Bonds, Series 2011. The bonds refunded \$4,515,000 of General Obligation Bonds, Series 2008. The rates on the Series 2011 bonds range from 2.0% to 3.5%. Current requirements for principle and interest expenditures are accounted for in the Debt Service Fund. The bonds mature on February 15, 2023.

On August 8, 2016, the District issued \$6,745,000 in Unlimited Tax School Building Bonds, Series 2016. The proceeds from the sale of the Bonds will be used for the purposes of 1) construction, renovation, acquisition of school buildings and equipment, and the purchase of necessary sites therefore, and 2) paying the costs of the

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

**NOTE 4: LONG-TERM DEBT - continued**

issuance of the Bonds. Interest on the Bonds will be payable on February 15 and August 15 of each year at interest rates ranging from 2.0% to 4.0%. The Bonds mature on February 15, 2031.

During 2014, the District entered a lease agreement with payments totaling \$35,572 annually through 2018 for the purchase of a bus. The note was paid off during the year ended August 31, 2018.

A summary of the changes in bonds payable for the year ended August 31, 2018 is as follows:

Description	Balance September 1, 2017		Issued	Retired	Balance August 31, 2018		Due Within One Year
	\$				\$		
Unlimited Tax							
Refunding Bonds, Series 2011	\$ 2,535,000		\$ 435,000	\$ 2,100,000	\$ 395,000		
School Building Bonds, Series 2016	6,665,000		100,000	6,565,000	155,000		
Premium							
Series 2011	145,726		24,287	121,439			
Series 2016	865,207		61,801	803,406			
Total Bonds	\$ 10,210,933		\$ 621,088	\$ 9,589,845	\$ 550,000		
Capital Lease							
Santander Bank, N.A.	34,739		34,739				
Total Capital Lease	\$ 34,739		\$ 34,739	\$	\$		
Net Pension Liability	\$ 461,609		\$ (12,684)	\$ 41,737	\$ 407,188		
Net OPEB Liability	1,618,146		(690,625)	10,958	916,563		
	\$ 2,079,755		\$ (703,309)	\$ 52,695	\$ 1,323,751		

Debt service requirements for long term debt are as follows:

Total Bond Requirements	Principal	Interest	Total
2019	\$ 550,000	\$ 285,725	\$ 835,725
2020	565,000	270,575	835,575
2021	580,000	253,950	833,950
2022	600,000	234,925	834,925
2023	620,000	214,425	834,425
2024-2028	3,390,000	786,950	4,176,950
2029-2031	2,360,000	144,200	2,504,200
Total	\$ 8,665,000	\$ 2,190,750	\$ 10,855,750

**NOTE 5: PROPERTY TAXES**

Property taxes are levied on October 1<sup>st</sup> on the assessed value listed as of the prior January 1<sup>st</sup> for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by January 31<sup>st</sup> of the year in which imposed. On February 1<sup>st</sup> of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. Allowances for uncollectible tax receivables within the General Fund and Debt Service Fund are based on 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.

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 5: PROPERTY TAXES - continued**

The tax rates assessed for the fiscal year ended August 31, 2018, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.16 and \$0.16 per \$100 valuation, respectively, for a total of \$1.32 per \$100 valuation.

#### **NOTE 6: INTERFUND BALANCES AND ACTIVITIES**

Balances due to and from other funds at August 31, 2018, consisted of the following:

Due From Fund	Due to Fund	Amount
Child Nutrition Program	General Fund	\$ 251
		<u><u>\$ 251</u></u>

All amounts due are scheduled to be repaid within one year and are to eliminate deficit cash balances or to refund for expenditures paid.

Interfund transfers consist of a transfer from the General Fund to the Food Service Fund in the amount of \$100,326. The transfer was needed to supplement the Food Service fund.

#### **NOTE 7: RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three years.

##### **Unemployment Compensation Pool**

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

The Fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation Pool. For the year ended August 31, 2018, the Fund anticipates that Highland Independent School District has no additional liability beyond the contractual obligation for payment of contribution.

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

##### ***Auto, Liability, and/or Property Program***

During the year ended August 31, 2018, Highland Independent School District participated in the following TASB Risk Management Fund (the Fund) programs:

## **HIGHLAND INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO THE FINANCIAL STATEMENTS**

#### **NOTE 7: RISK MANAGEMENT - *continued***

Auto Liability  
Auto Physical Damage  
Legal Liability  
Privacy & Information Security  
Property

The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2018, the Fund anticipates that Highland Independent School District has no additional liability beyond the contractual obligation for payment of contributions.

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

#### ***Workers' Compensation Coverage***

During the year ended August 31, 2018, Highland Independent School District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Funds' self-insured retention of \$2.0 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2017, the Fund carries a discounted reserve of \$49,076,113 for future development on reported claims and claims that have been incurred but not reported. For the years ended August 31, 2018, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

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

#### **NOTE 8: DEFINED BENEFIT PENSION PLAN**

##### ***Plan Description***

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

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 8: DEFINED BENEFIT PENSION PLAN - continued**

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

#### ***Pension Plan Fiduciary Net Position***

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

#### ***Benefits Provided***

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

#### ***Contributions***

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

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

	Contribution Rates	
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contributions	\$ 38,204	
Current fiscal year member contributions	\$ 146,443	
2017 measurement year NECE On-Behalf Contributions	\$ 114,430	

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

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 8: DEFINED BENEFIT PENSION PLAN - continued**

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

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

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

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

#### ***Actuarial Assumptions***

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term Expected Rate	8.00%
Last Year Ending August 31 in 2017 to 2116	
Projection Period (100 years)	2116
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Ad hoc Post-Employment Benefit Changes	None

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

#### ***Discount Rate***

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8: DEFINED BENEFIT PENSION PLAN - continued**

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 weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017 are summarized below:

Asset Class	Target Allocation *	Lont-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns**
<b>Global Equity</b>			
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%
<b>Stable Value</b>			
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%
<b>Real Returns</b>			
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%
<b>Risk Parity</b>			
Risk Parity	<u>5%</u>	6.7%	<u>0.3%</u>
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<u><u>100%</u></u>		<u><u>8.7%</u></u>

\* Target allocations are based on the FY 2014 policy model. Infrastructure was moved from Real Assets to Energy and Natural Resources in FY 2017, but the reallocation does not affect the long-term expected geometric real rate of return or contribution to long-term portfolio returns.

\*\*The expected Contribution to Long-Term Portfolio Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

#### **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 (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Proportionate share of the net pension liability	\$ 686,438	\$ 407,188	\$ 17,467

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

At August 31, 2018, Highland Independent School District reported a liability of \$407,188 for its proportionate share of the TRS' net pension liability. This liability reflects a reduction for State pension support provided to Highland Independent School District. The amount recognized by Highland Independent School District as its

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

**NOTE 8: DEFINED BENEFIT PENSION PLAN - continued**

proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Highland Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 407,188
State's proportionate share that is associated with the District	1,118,735
Total	\$ 1,525,923

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

At August 31, 2017, the employer's proportion of the collective net pension liability was 0.0012734726% which was an increase of 0.0000519143% from its proportion measured as of August 31, 2016.

***Changes Since the Prior Actuarial Valuation***

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

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

For the year ended August 31, 2018, Highland Independent School District recognized pension expense of \$161,026 and revenue of \$85,333 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,957	\$ 21,959
Changes in actuarial assumptions	18,548	10,618
Differences between projected and actual investment earnings		29,675
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	144,053	17
Total as of August 31, 2017 measurement date	168,558	62,269
Contributions paid to TRS subsequent to the measurement date	38,204	
Total as of fiscal year-end	\$ 206,762	\$ 62,269

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:

Year ended August 31:	Pension Expense	
	Amount	
2019	\$ 21,653	
2020	47,645	
2021	19,656	
2022	10,645	
2023	5,074	
Thereafter	1,616	

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 9: DEFINED OTHER POST-EMPLOYMENT BENEFITS PLANS**

##### ***Plan Description***

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

##### ***OPEB Plan Fiduciary Net Position***

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

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

<b>Net OPEB Liability</b>	
Total OPEB Liability	43,885,784,621
Less: Plan Fiduciary Net Position	<u>399,535,986</u>
Net OPEB Liability	<u><u>43,486,248,635</u></u>
Net Position as a Percentage of Total OPEB Liability	0.91%

##### ***Benefits Provided***

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

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

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

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

	\$	TRS Care - 1	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

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 9: DEFINED OTHER POST-EMPLOYMENT BENEFITS PLANS - continued**

##### ***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 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	Contribution Rates	
	2017	2018
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
Current fiscal year employer contributions	\$	14,885
Current fiscal year member contributions	\$	12,568
2017 measurement year NECE on-behalf contributions	\$	18,609

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017. House Bill 21 was passed in special session and provided a supplemental appropriation in the amount of \$212 million in fiscal year 2018.

The District's proportional of share of the \$212,000,000 received during the district's 2018 fiscal year is reported in the fund level financial statements as an on-behalf contribution as required by GASB 85 and GASB 24.

##### ***Actuarial Assumptions***

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

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

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

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:

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

**NOTE 9: DEFINED OTHER POST-EMPLOYMENT BENEFITS PLANS - continued**

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

Additional actuarial methods and assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50%
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc Post-Employment Benefit Changes	None

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

\*\* Includes inflation at 2.50%

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

#### **Discount Rate**

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

#### **Sensitivity of the Net OPEB Liability:**

##### **Discount Rate Sensitivity Analysis**

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

District's Proportionate Share of the Net OPEB Liability	1% Decrease in Discount Rate	3.42%	1% Increase in Discount Rate
	\$ 1,081,772	\$ 916,563	\$ 783,773

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 9: DEFINED OTHER POST-EMPLOYMENT BENEFITS PLANS - continued**

##### ***Healthcare Cost Trend Rates Sensitivity Analysis***

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's Proportionate Share of the Net OPEB Liability	\$ 763,131	\$ 916,563	\$ 1,117,887

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

At August 31, 2018, Highland Independent School District reported a liability of \$916,563 for its proportionate share of the TRS' net OPEB liability. This liability reflects a reduction for State OPEB support provided to Highland Independent School District. The amount recognized by Highland Independent School 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 Highland Independent School District were as follows:

District's Proportionate share of the collective net OPEB liability	\$ 916,563
State's proportionate share that is associated with the District	1,556,519
Total	<u><u>\$ 2,473,082</u></u>

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

At August 31, 2017, the employer's proportion of the collective net OPEB liability was 0.0021077085%.

##### ***Changes Since the Prior Actuarial Valuation***

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

1. Significant plan changes were adopted during 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 percent as of August 31, 2016 to 3.42 percent 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 percent.
- 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.

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 9: DEFINED OTHER POST-EMPLOYMENT BENEFITS PLANS - *continued***

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; change 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 affected measurement of the total OPEB liability during the measurement period.

For the year ended August 31, 2018, Highland Independent School District recognized OPEB expense of \$(826,770) and revenue of \$(520,853) for support provided by the State.

At August 31, 2018, Highland Independent School District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experiences	19,134	
Changes in actuarial assumptions		364,266
Difference between projected and actual investment earnings	139	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	5	
Total as of August 31, 2017 measurement date	144	383,400
Contributions paid to TRS subsequent to the measurement date	14,885	
Total as of fiscal year-end	<u>\$ 15,029</u>	<u>\$ 383,400</u>

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ended August 31:	Pension Expense	
	Amount	
2019	\$ (50,571)	
2020	(50,571)	
2021	(50,571)	
2022	(50,571)	
2023	(50,606)	
Thereafter	(130,366)	

#### **NOTE 10: MEDICARE PART D ON BEHALF PAYMENTS**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Highland Independent School District paid state contributions for the years ended August 31, 2018, 2017, and 2016 in the amount of \$8,964, \$5,635, and \$7,152, respectively.

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 11: ON-BEHALF PAYMENTS**

The District records on-behalf payments from the State of Texas to be used for Teacher Retirement in the amount of \$144,319 for the year ended August 31, 2018.

#### **NOTE 12: COMMITMENTS AND CONTINGENCIES**

##### Contingencies

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

##### Litigation

No reportable litigation was pending against the District at August 31, 2018.

#### **NOTE 13: DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018 are summarized below.

Fund	State Grants/ Entitlements	Federal Grant	Total
National Breakfast and Lunch Program	\$ 3,147	\$ 3,147	\$ 3,147
Debt Service Fund	(200)		(200)
General Fund	1,074		1,074
Total	\$ 874	\$ 3,147	\$ 4,021

#### **NOTE 14: REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

For the year ended August 31, 2018, revenues from local and intermediate sources for governmental fund types consisted of the following:

	General Fund	Child Nutrition	Debt Service Fund	Capital Project Fund	Total
Property taxes	\$ 2,995,998		\$ 828,701		\$ 3,824,699
Food service sales		55,968			55,968
Penalties, interest & other					
tax revenues	19,133		6,913		26,046
Investment earnings	144,986		1,431	6,945	153,362
Miscellaneous	2,797,393				2,797,393
Athletic activities	8,470				8,470
	\$ 5,965,980	\$ 55,968	\$ 837,045	\$ 6,945	\$ 6,865,938

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 15: JOINT VENTURE – SHARED SERVICES ARRANGEMENT**

The District participates in three services arrangements through Region XIV and five through West Central Texas SSA. The District does not account for revenues or expenditures in these programs and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Region XIV and West Central Texas SSA, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Highland Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the revenues and expenditures attributable to the District's participation:

#### Region XIV

	ESEA Title II Part A	Carl D. Perkins CATE	ESEA Title IV Part A
Revenue	\$ <u>1,023</u>	\$ <u>777</u>	\$ <u>1,674</u>
<b>Expenditures</b>			
Contracted Services	920	151	1,602
Supplies	70	602	24
Other Costs	<u>33</u>	<u>24</u>	<u>48</u>
Total Expenditures	\$ <u>1,023</u>	\$ <u>777</u>	\$ <u>1,674</u>
% Attributable	0.30%	0.47%	3.49%

#### Shared Service Arrangement with West Central Texas SSA

	IDEA B Formula	IDEA B Preschool	Pregnancy Education & Parenting	Abstinence Education	Special Education
Revenue	\$ <u>48,472</u>	\$ <u>1,035</u>	\$ <u>858</u>	\$ <u>3,017</u>	\$ <u>24,868</u>
<b>Expenditures</b>					
Payroll Costs	44,339	986	733	2,847	18,224
Contracted Services	3,042	49	12		4,177
Supplies	724		5	25	1,060
Other Costs	367		108	145	736
Capital Assets					671
Total Expenditures	\$ <u>48,472</u>	\$ <u>1,035</u>	\$ <u>858</u>	\$ <u>3,017</u>	\$ <u>24,868</u>
% Attributable	4.81%	3.74%	0.97%	3.86%	3.22%

#### **NOTE 16: TAX ABATEMENT**

The District entered into an agreement with Airtricity Champion Wind Farm on December 17, 2007. The agreement was for Airtricity Champion Wind Farm to invest capital on a long-term basis for a valuation limitation of \$10,000,000. The project valuation at December 31, 2017 was \$46,833,810. For fiscal year 2018, which is year ten of the agreement with the M&O tax rate 1.16 per \$100, with property valued at \$284,818,030 without considering the limit and \$239,754,323 with the limit. When calculated, the District forgoes collecting \$522,739 in tax revenue; however, that will be offset by the increase in state funding through the FSP funding formula.

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 16: TAX ABATEMENT - continued**

The District entered into an agreement with Buzzi Unicem, USA on December 17, 2014. The agreement was for Buzzi Unicem, USA to invest capital on a long-term basis for a valuation limitation of \$30,000,000. The project valuation at December 31, 2017 was \$243,000,000. For fiscal year 2018, which is year three of the agreement with the M&O tax rate 1.16 per \$100, with property valued at \$284,818,030 without considering the limit and \$71,818,030 with the limit. When calculated, the District forgoes collecting \$2,470,800 in tax revenue; however, that will be offset by the increase in state funding through the FSP funding formula.

#### **NOTE 17: NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS**

The District implemented GASB No. 75, which records the District's proportionate share of the Net OPEB liability of the Teacher Retirement System. Because of the changes in actuarial assumptions and difference between expected and actual actuarial experience, recording the current year activity caused operating grants and contributions to be negative. The following table shows the affects of GASB No. 75 on current year statement of activities.

Functional Allocation		Operating Grants & Contributions Statement of Activities	GASB 75 Negative Government-Wide On-Behalf Accrual	Operating Grants & Contributions - Statement of Activities (excluding the effect of GASB 75 negative on-behalf accrual)	
				GASB 75 Negative Government-Wide On-Behalf Accrual	Statement of Activities (excluding the effect of GASB 75 negative on-behalf accrual)
11 Pension expense - Instruction	\$ (203,206)	\$ (319,988)	\$ 116,782		
23 Pension expense - School leadership	(40,740)	(48,722)	7,982		
31 Pension expense - Guidance, counseling and evaluation services	(11,535)	(13,795)	2,260		
34 Pension expense - Student (pupil) transportation	(2,632)	(3,148)	516		
35 Pension expense - Food services	38,737	(29,516)	68,253		
36 Pension expense - Extracurricular activities	(5,877)	(7,029)	1,152		
41 Pension expense - General administration	(23,815)	(28,481)	4,666		
51 Pension expense - Facilities maintenance and operations	(41,223)	(49,301)	8,078		
52 Pension expense - Security and monitoring services	(11,892)	(14,222)	2,330		
53 Pension expense - Data processing services	(5,561)	(6,651)	1,090		
	<b><u>(307,744)</u></b>	<b><u>(520,853)</u></b>	<b><u>213,109</u></b>		

#### **NOTE 18: PRIOR PERIOD ADJUSTMENT**

During fiscal year 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. With GASB No. 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB No. 75 required a prior period adjustment to report the effect of GASB No. 75 retroactively. The adoption of GASB No. 75 resulted in a decrease of \$1,605,736 to the beginning net position. The restated beginning net position was \$14,146,752.

#### **NOTE 19: NEW ACCOUNTING PRONOUNCEMENTS**

In November 2016, the GASB issued Statement No. 83 *Certain Asset Retirement Obligations*. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 19: NEW ACCOUNTING PRONOUNCEMENTS - continued**

of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In January 2017, the GASB issued Statement No 84 *Fiduciary Activities*. The objective of this statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In March 2017, the GASB issued Statement No. 85 *Omnibus 2017*. The objective of this statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. The District determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In May 2017, the GASB issued Statement No. 86 *Certain Debt Extinguishment Issues*. The objective of this statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeated in substance. The requirements of this statement are effective for reporting periods beginning after June 15, 2017. The District determined there was no impact upon its financial position, results of operations or cash flows upon adoption.

In June 2017, the GASB issued Statement No. 87 *Leases*. The objective of this statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In April 2018, the GASB issued Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this statement are effective for reporting periods beginning after June 15, 2018. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

## HIGHLAND INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

#### **NOTE 19: NEW ACCOUNTING PRONOUNCEMENTS - continued**

In June 2018, the GASB issued Statement No. 89 *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

In August 2018, the GASB issued Statement No. 90 *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objectives of this statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this statement are effective for reporting periods beginning after December 15, 2018. The District has not determined the impact, if any, upon its financial position, results of operations or cash flows upon adoption.

**REQUIRED SUPPLEMENTARY INFORMATION**

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED AUGUST 31, 2018**

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
<b>REVENUES:</b>					
5700	Local and intermediate sources	\$ 3,674,236	\$ 3,674,236	\$ 5,965,980	\$ 2,291,744
5800	State program revenue	219,605	219,605	849,132	629,527
5020	Total Revenues	<u>3,893,841</u>	<u>3,893,841</u>	<u>6,815,112</u>	<u>2,921,271</u>
<b>EXPENDITURES:</b>					
Current					
0011	Instruction	2,165,705	1,904,068	1,563,390	340,678
0012	Instructional resources and media services	13,700	13,700	13,037	663
0013	Curriculum & instructional staff dev.	4,000	6,000	3,759	2,241
0023	School leadership	160,557	235,557	236,333	(776)
0031	Guidance, counseling & evaluation services	67,539	67,539	65,752	1,787
0033	Health services	7,800	7,800	8,849	(1,049)
0034	Student (pupil) transportation	81,016	81,016	42,553	38,463
0035	Food service		3,000	7,584	(4,584)
0036	Extracurricular activities	138,513	138,513	116,035	22,478
0041	General administration	370,979	370,979	338,682	32,297
0051	Plant maintenance & operations	507,854	507,854	503,233	4,621
0052	Security & monitoring services	50,006	57,006	56,686	320
0053	Data processing services	45,962	48,462	48,451	11
Debt Service					
0071	Debt service-Principal on LT debt	32,378	34,741	34,741	
0072	Debt service-Interest on LT debt	3,195	832	831	1
Intergovernmental					
0091	Contracted instructional services btwn schools	100,000	150,000	148,031	1,969
0093	Payments to fiscal agent/member dist - SSA	30,000	30,000	23,350	6,650
6030	Total Expenditures	<u>3,779,204</u>	<u>3,657,067</u>	<u>3,211,297</u>	<u>445,770</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	114,637	236,774	3,603,815	3,367,041
<b>OTHER FINANCING SOURCES (USES):</b>					
8911	Transfers out		(122,137)	(100,326)	21,811
	Total Other Financing Sources (Uses)		<u>(122,137)</u>	<u>(100,326)</u>	<u>21,811</u>
1200	Net Change in Fund Balance	114,637	114,637	3,503,489	3,388,852
0100	Fund Balance - Beginning	8,164,520	8,164,520	8,164,520	
3000	Fund Balance - Ending	\$ <u>8,279,157</u>	\$ <u>8,279,157</u>	\$ <u>11,668,009</u>	\$ <u>3,388,852</u>

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

EXHIBIT G-2

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2018**

	<u>FY 2018</u> <u>Plan Year 2017</u>	<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>	<u>FY 2015</u> <u>Plan Year 2014</u>
District's Proportion of the net Pension Liability	0.001273437%	0.0012216%	0.0012579%	0.0005026%
District's Proportionate Share of Net Pension Liability	\$ 407,188	\$ 461,609	\$ 444,651	\$ 134,252
State's Proportionate Share of the Net Pension Liability Associated with the District	<u>1,118,735</u>	<u>1,354,814</u>	<u>1,266,677</u>	<u>1,069,294</u>
Total	<u>\$ 1,525,923</u>	<u>\$ 1,816,423</u>	<u>\$ 1,711,328</u>	<u>\$ 1,203,546</u>
District's Covered Employee Payroll	\$ 1,914,125	\$ 1,848,266	\$ 1,736,635	\$ 1,634,535
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	21.27%	24.98%	25.60%	8.21%
Plan Fiduciary Net Pension as a percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

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

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

EXHIBIT G-3

**SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2018**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 38,204	\$ 41,580	\$ 38,407	\$ 37,247
Contribution in Relation to the Contractually Required Contribution	<u>(38,204)</u>	<u>(41,580)</u>	<u>(38,407)</u>	<u>(37,247)</u>
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
District's Covered Employee Payroll	\$ 1,933,737	\$ 1,914,125	\$ 1,848,266	\$ 1,736,635
Contributions as a percentage of Covered Employee Payroll	1.98%	2.17%	2.08%	2.14%

Note: GASB No. 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time period covered by the measurement dates ending August 31 for the respective fiscal year.

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

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

EXHIBIT G-4

**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2018**

	FY 2018 <u>Plan Year 2017</u>
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.002107708%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 916,563
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) Associated with the District	<u>1,556,519</u>
Total	<u>\$ 2,473,082</u>
District's Covered Payroll	\$ 1,914,125
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	47.88%
Plan Fiduciary Net Pension as a percentage of the Total OPEB Liability	0.91%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore, the amounts reported for FY 2018 are based on the August 31, 2017 measurement date.

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

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

EXHIBIT G-5

**SCHEDULE OF DISTRICT CONTRIBUTIONS FOR OTHER POST EMPLOYMENT BENEFITS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2018**

	<u>2018</u>
Contractually Required Contribution	\$ <u>14,885</u>
Contribution in Relation to the Contractually Required Contribution	<u>(14,885)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>
District's Covered Employee Payroll	\$ <u>1,933,553</u>
Contributions as a percentage of Covered Payroll	<u>0.77%</u>

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

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

**OTHER SUPPLEMENTARY INFORMATION**

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

COMBINING BALANCE SHEET  
**NONMAJOR GOVERNMENTAL FUNDS**  
AUGUST 31, 2018

Data Control Codes		211 ESEA I, A Improving Basic Pgms	240 National Breakfast and Lunch Pgm	255 ESEA II, A Training and Recruiting
<b>ASSETS</b>				
1110 Cash and cash equivalents	\$ 2,670	\$ 3,314	\$	\$
1240 Due from other governments		3,147		
1000 Total Assets	\$ 2,670	\$ 6,461	\$	\$
<b>LIABILITIES</b>				
Current Liabilities				
2110 Accounts payable	\$ 2,422	\$ 14	\$	\$
2160 Accrued wages payable		6,064		
2170 Due to other funds		251		
2200 Accrued expenditures	248	132		
2000 Total Liabilities	\$ 2,670	\$ 6,461	\$	\$
4000 Total Liabilities and Fund Balances	\$ 2,670	\$ 6,461	\$	\$

## EXHIBIT H-1

Rural Education	410 State Textbook Fund	Total Nonmajor Governmental Funds
\$	\$	\$ 5,984
		3,147
\$	\$	\$ 9,131
\$	\$	\$ 14
		8,486
		251
		380
		\$ 9,131
\$	\$	\$ 9,131

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2018

Data Control <u>Codes</u>	211 ESEA I, A Improving Basic Pgms	240 National Breakfast and Lunch Pgm	255 ESEA II, A Training and Recruiting
<b>REVENUES</b>			
5700 Local and intermediate sources	\$ 55,968	\$	\$
5800 State program revenues	1,303		
5900 Federal program revenues	<u>21,840</u>	<u>62,114</u>	<u>1,717</u>
5020 Total Revenues	<u>21,840</u>	<u>119,385</u>	<u>1,717</u>
<b>EXPENDITURES</b>			
Current:			
0011 Instruction	21,840		1,717
0035 Food service	<u>226,142</u>		
6030 Total Expenditures	<u>21,840</u>	<u>226,142</u>	<u>1,717</u>
1100 Deficiency of Revenues Under Expenditures	<u>(106,757)</u>		
Other Financing Sources and Uses:			
7915 Transfers In	<u>100,326</u>		
Total Other Financing Sources	<u>100,326</u>		
1200 Net Change in Fund Balance		(6,431)	
0100 Fund Balance - Beginning	<u>6,431</u>		
3000 Fund Balance - Ending	<u>\$</u>	<u>\$</u>	<u>\$</u>

Rural Education	410 State Textbook Fund	Total Nonmajor Governmental Funds
\$ 26,546	\$ 5,291	\$ 55,968
		6,594
<u>26,546</u>	<u>5,291</u>	<u>112,217</u>
<u>26,546</u>	<u>5,291</u>	<u>174,779</u>
26,546	5,291	55,394
<u>26,546</u>	<u>5,291</u>	<u>226,142</u>
<u>26,546</u>	<u>5,291</u>	<u>281,536</u>
		(106,757)
		100,326
		<u>100,326</u>
		(6,431)
		<u>6,431</u>
\$ <u>          </u>	\$ <u>          </u>	\$ <u>          </u>

**REQUIRED TEA SCHEDULES**

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
FOR THE YEAR ENDED AUGUST 31, 2018

Last Ten Years Ended August 31	1 Tax Rates		3 Assessed/ Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
2009 (and prior years)	Various	Various	Various
2010	1.1600	0.1950	567,036,812
2011	1.1600	0.1800	148,354,840
2012	1.1600	0.1720	169,848,569
2013	1.1300	0.1450	204,350,885
2014	1.1000	0.1227	260,929,173
2015	1.1600	0.1200	248,284,219
2016	1.1600	0.1200	199,867,500
2017	1.1600	0.1800	267,856,194
2018 (School Year Under Audit)	1.1600	0.1600	284,818,030
Total			

10	20	31	32	40	50
Beginning Balance 9/1/2017	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 8/31/2018
\$ 1,462	\$	\$	\$	\$	\$ 1,462
117					117
195					195
265		2			263
862		43	6	(1)	812
7,785		50	6	2	7,731
2,611		30	3		2,578
8,499		159	16		8,324
67,672		54,882	8,564	(152)	4,074
	<u>3,759,598</u>	<u>2,940,832</u>	<u>820,106</u>	<u>9,788</u>	<u>8,448</u>
\$ <u>89,468</u>	\$ <u>3,759,598</u>	\$ <u>2,995,998</u>	\$ <u>828,701</u>	\$ <u>9,637</u>	\$ <u>34,004</u>

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
<b>REVENUES:</b>					
5700	Local and intermediate sources	\$ 45,000	\$ 51,168	\$ 55,968	\$ 4,800
5800	State program revenues	800	1,304	1,303	(1)
5900	Federal program revenues	49,500	53,126	62,114	8,988
5020	Total Revenues	<u>95,300</u>	<u>105,598</u>	<u>119,385</u>	<u>13,787</u>
<b>EXPENDITURES:</b>					
Current					
0035	Food services	<u>217,437</u>	<u>217,437</u>	<u>226,142</u>	<u>(8,705)</u>
6030	Total Expenditures	<u>217,437</u>	<u>217,437</u>	<u>226,142</u>	<u>(8,705)</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(122,137)</u>	<u>(111,839)</u>	<u>(106,757)</u>	<u>5,082</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers in	<u>122,137</u>	<u>100,326</u>	<u>(21,811)</u>	
	Total Other Financing Sources (Uses)	<u>122,137</u>	<u>100,326</u>	<u>(21,811)</u>	
1200	Net Change in Fund Balance	<u>(122,137)</u>	<u>10,298</u>	<u>(6,431)</u>	<u>(16,729)</u>
0100	Fund Balance - Beginning	<u>6,431</u>	<u>6,431</u>	<u>6,431</u>	
3000	Fund Balance - Ending	<u>\$ (115,706)</u>	<u>\$ 16,729</u>	<u>\$ (16,729)</u>	

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-5

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL - DEBT SERVICE FUND FOR THE YEAR ENDED AUGUST 31, 2018

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
<b>REVENUES:</b>					
5700	Local and intermediate sources	\$ 822,289	\$ 836,500	\$ 837,045	\$ 545
5800	State program revenues		915	915	
5020	Total Revenues	<u>822,289</u>	<u>837,415</u>	<u>837,960</u>	<u>545</u>
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on long term debt	535,000	535,000	535,000	
0072	Interest on long term debt	299,637	299,638	299,638	
0073	Bond issuance costs and fees	800	1,662	1,612	50
6030	Total Expenditures	<u>835,437</u>	<u>836,300</u>	<u>836,250</u>	<u>50</u>
1200	Net Change in Fund Balance	(13,148)	1,115	1,710	595
0100	Fund Balance - Beginning	<u>289,956</u>	<u>289,956</u>	<u>289,956</u>	
3000	Fund Balance - Ending	\$ <u>276,808</u>	\$ <u>291,071</u>	\$ <u>291,666</u>	\$ <u>595</u>

**OTHER INFORMATION REQUIRED BY GAO**

# Merritt, McLane & Hamby, P.C.

401 Cypress Street, Suite 303  
Abilene, TX 79601

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

To the Board of Trustees  
Highland 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 Highland Independent School District as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise Highland Independent School District's basic financial statements and have issued our report thereon dated November 9, 2018.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Highland Independent School District's financial statements are free of 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 statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses as item 2018-002.

### **Highland Independent School District's Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. Highland Independent School District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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

*Merritt, McLane & Hamby, P.C.*

**MERRITT, MCLANE & HAMBY, P.C.**

Abilene, Texas

November 9, 2018

# HIGHLAND INDEPENDENT SCHOOL DISTRICT

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED AUGUST 31, 2018

### I. Summary of Auditor's Report

- a. The type of report issued on the financial statements of Highland Independent School District was an unqualified opinion.
- b. Significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. Instances of noncompliance not material to the financial statements of Highland Independent School District were disclosed during the audit.

### II. Findings Required to be Reported in Accordance with *Government Auditing Standards*.

#### Findings/Noncompliance

##### **2018-001                  Financial Reporting**

Type of Finding: Material Weakness

Criteria: Management of the District is responsible for the preparation and fair presentation of the financial statements in accordance with generally accepted accounting principles (GAAP). This includes the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements and related financial statement disclosures being audited. In addition, we recorded numerous audit adjustments to the District's recorded account balances, which if not recorded, would have resulted in a material misstatement of the District's financial statements.

Cause: The District does not prepare and has not developed an internal control system to provide for the preparation of the financial statements and related disclosures without significant adjustments.

Effect: Although this circumstance is not unusual for a District of this size, the preparation of financial statements and adjusting journal entries as a part of the audit engagement may result in financial statements and related information included in financial statement disclosures not being available for management purposes as timely as it would be if prepared by District personnel. The need for the audit adjustments indicates that the District's interim financial information is not materially correct, which may affect management decisions made during the course of the year.

Recommendation: Auditing standards require that auditors communicate this deficiency; however, the District prepares budgetary and other financial reports for Board review on a routine basis. It is the responsibility of management and those charged with governance to determine whether to accept the risk associated with this condition because of cost or other considerations.

<b>View of Responsible Officials:</b>	Management is aware of the noted finding. Management weighed the costs and benefits of preparing its own financial statements; including proposing the adjusting journal entries that would be necessary and found it beneficial to outsource this service.
<b>2018-002</b>	<b>Actual Expenditures Exceeded Appropriations</b>
Type of Finding:	Noncompliance required to be reported under <i>Government Auditing Standards</i> .
Criteria:	In compliance with the Financial Accountability System Resource Guide, Budgeting Module, Section 2.6.2, the District is required to amend the official budget before exceeding a functional expenditures category, i.e. instruction, administration, etc., in the total District budget.
Condition:	Certain costs were expended prior to approval through the budgetary process.
Cause:	The District did not amend their budget in school leadership, health services, and food service in the general fund prior to the expenditure of the costs.
Effect:	The District's expenditures exceeded their budget in the General Fund in school leadership, health services, and food service.
Recommendation:	We recommend the District review all budget and actual variance to ensure adequate budgeting.
<b>View of Responsible Officials:</b>	The District will monitor these areas and budget appropriately.
Responsible Party:	Mr. Hyde, Superintendent 325-766-3652

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF STATUS OF PRIOR FINDINGS**

YEAR ENDED AUGUST 31, 2018

Prior Year Findings:

None

**HIGHLAND INDEPENDENT SCHOOL DISTRICT**

EXHIBIT L-1

**SCHOOLS FIRST QUESTIONNAIRE**  
FOR THE YEAR ENDED AUGUST 31, 2018

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$0
SF11	Net Pension Assets (1920) at fiscal year-end.	\$0
SF12	Net Pension Liabilities (2540) at fiscal year-end	\$407,188
SF13	Pension Expense (6147) at fiscal year-end	\$0