

**HOWE INDEPENDENT
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

RUTHERFORD, TAYLOR & COMPANY, P.C.
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HOWE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

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CERTIFICATE OF BOARD

Howe Independent School District
Name of School District

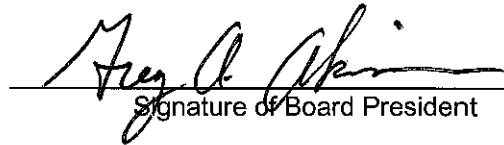
Grayson
County

091-905
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's report of the above named school district was reviewed and X **approved**/ _____ **disapproved** for the year ended June 30, 2018, at a meeting of the board of school trustees of such school district on October 15, 2018.



Signature of Board Secretary



Signature of Board President

If the auditor's report was checked above as disapproved, the reasons(s) therefore is/are (attach list if necessary):

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Members of the Board:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As discussed in Note Q to the financial statements, in 2018 the District adopted various accounting pronouncements issued by the Governmental Accounting Standards Board. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The schedules identified in the table of contents as other supplementary information are presented for the purpose of additional analysis, and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is 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 the District's internal control over financial reporting and compliance.

September 12, 2018
Greenville, Texas

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

Members of the Board:

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 the Howe Independent School District (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 12, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Report on Internal Control – Continued

Purpose of this Report

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

September 12, 2018
Greenville, Texas

HOWE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Financial Statement Findings (Section I)

NONE

HOWE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Prior Year Findings (Section II)

NONE

HOWE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2018

Corrective Action Plans (Section III)

NONE

HOWE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

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

FINANCIAL HIGHLIGHTS

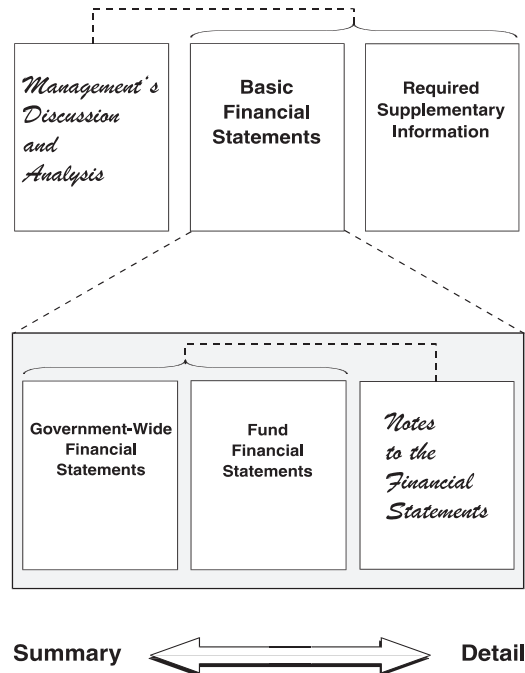
- The District's total combined net position was \$ 2,941,025 at June 30, 2018.
- During the period, the District's expenses were \$ 2,308,128 less than the \$ 11,615,758 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs decreased over the prior year due to the implementation of GASB 75 which required reporting an on-behalf amount that reduced overall expenses.
- The General Fund reported a fund balance this period of \$ 4,689,835, an increase of \$ 985,477 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



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

HOWE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

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

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

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

GOVERNMENT-WIDE STATEMENTS

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

The District has the following kinds of funds:

- Governmental funds—Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

HOWE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

- Proprietary funds—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities.
- Fiduciary funds—The District is the trustee, or fiduciary, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$ 2,941,025 at June 30, 2018.

Howe Independent School District's Net Position				Table A-1
	Governmental Activities		Total	
	2018	2017	Percentage	
			Change	
			2017 - 2018	
Assets:				
Cash and Investments	\$ 5,983,186	\$ 5,212,254	14.79%	
Other Assets	1,254,261	1,107,305	13.27%	
Capital Assets less Accumulated Depreciation	11,404,399	11,673,134	-2.30%	
Total Assets	\$ 18,641,846	\$ 17,992,693	3.61%	
Total Deferred Net Outflows of Resources	\$ 988,278	\$ 1,250,088	-20.94%	
Liabilities:				
Current Liabilities	\$ 882,446	\$ 807,499	9.28%	
Long-term Liabilities	14,082,833	11,533,170	22.11%	
Total Liabilities	\$ 14,965,279	\$ 12,340,669	21.27%	
Total Deferred Net Inflows of Resources	\$ 1,723,820	\$ 111,505	1445.96%	
Net Position:				
Net Investment in Capital Assets	\$ 3,526,384	\$ 3,127,409	12.76%	
Restricted	1,469,742	1,351,319	8.76%	
Unrestricted	(2,055,101)	2,311,879	-188.89%	
Total Net Position	\$ 2,941,025	\$ 6,790,607	-56.69%	

Approximately \$ 1,386,920 of the District's restricted net position represent funds collected for debt retirement. These funds are restricted for debt retirement. Unrestricted net position represents resources available to fund the programs of the District in the coming year.

CHANGES IN NET POSITION

The District's total revenues were \$ 14,751,620. 25% of the District's revenue comes from local property taxes (See Table A-2). 73% comes from state aid and federal grants, while only 2% relates to charges for services and other miscellaneous revenues including investment earnings.

The total cost of all programs and services was \$ 12,425,772. 58% of these costs are for instruction and related staff and student services.

The District's tax collection percentage rate (current and delinquent base tax only) was 98.97%. The total tax collection percentage rate (base tax and penalty and interest) was 100.09%.

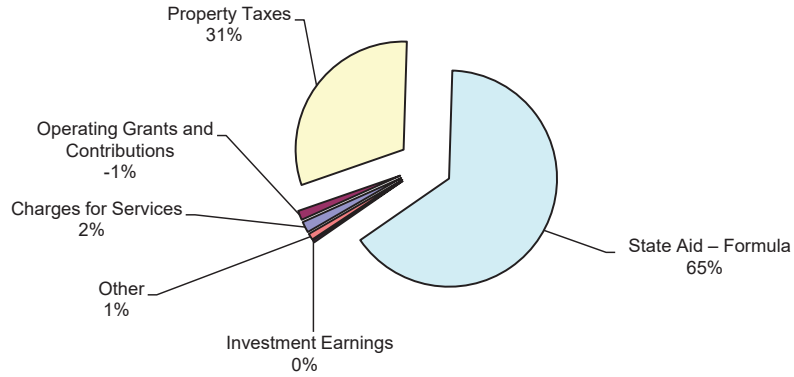
HOWE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

GOVERNMENTAL ACTIVITIES

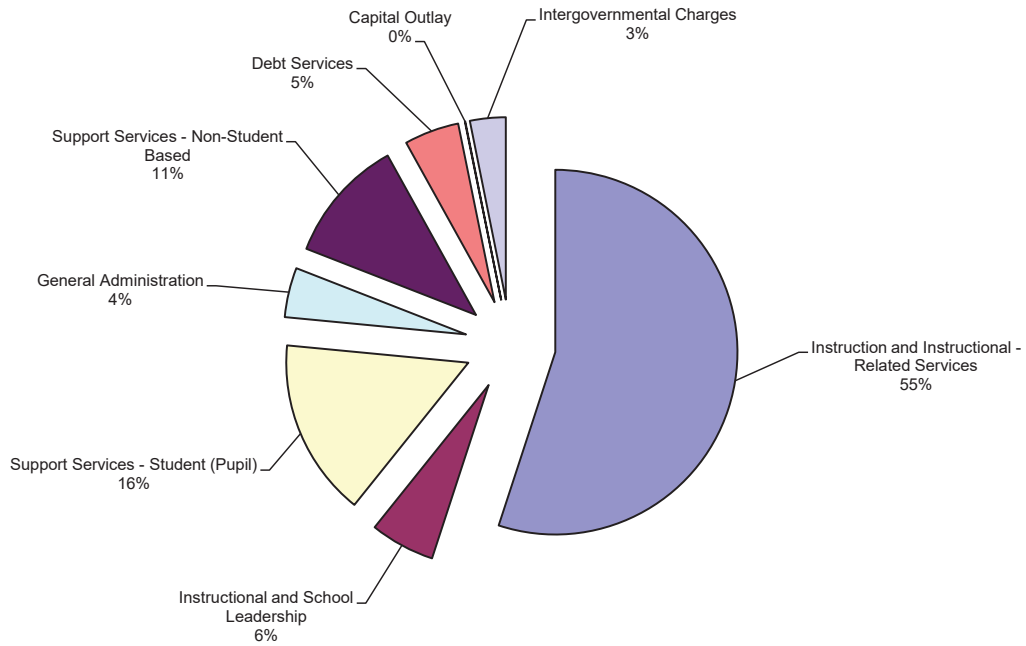
Changes in Howe Independent School District's Net Position			Table A-2
	Governmental Activities		Total Percentage Change
	2018	2017	2017 - 2018
Program Revenues:			
Charges for Services	\$ 195,497	\$ 453,822	-56.92%
Operating Grants and Contributions	(166,859)	1,495,083	-111.16%
General Revenues:			
Property Taxes	3,678,640	3,236,285	13.67%
State Aid – Formula	7,752,733	6,794,396	14.10%
Investment Earnings	41,466	21,630	91.71%
Other	114,281	34,479	231.45%
Total Revenues	<u>\$ 11,615,758</u>	<u>\$ 12,035,695</u>	-3.49%
Expenses:			
Instruction	\$ 4,861,293	\$ 6,136,099	-20.78%
Instructional Resources and Media Services	204,323	170,676	19.71%
Curriculum and Staff Development	25,562	39,219	-34.82%
Instructional Leadership	56,523	85,266	-33.71%
School Leadership	474,097	704,497	-32.70%
Guidance, Counseling and Evaluation Services	120,287	181,494	-33.72%
Health Services	68,964	85,749	-19.57%
Student (Pupil) Transportation	206,823	242,016	-14.54%
Food Services	434,352	494,063	-12.09%
Co-curricular/Extracurricular Activities	626,487	754,759	-17.00%
General Administration	407,029	510,722	-20.30%
Plant Maintenance and Operations	1,019,756	1,115,522	-8.58%
Security and Monitoring Services	56,180	13,455	317.54%
Data Processing Services	221,916	246,934	-10.13%
Debt Service	227,596	244,421	-6.88%
Capital Outlay	3,500	121,907	-97.13%
Payments for Shared Service Arrangements	228,021	195,468	16.65%
Other Intergovernmental Charges	64,921	58,570	10.84%
Total Expenses	<u>\$ 9,307,630</u>	<u>\$ 11,400,837</u>	-18.36%
Excess (Deficiency) Before Other Resources, Uses and Transfers	<u>\$ 2,308,128</u>	<u>\$ 634,858</u>	263.57%
Increase (Decrease) in Net Position	<u>2,308,128</u>	<u>634,858</u>	263.57%
Net Position - Beginning (July 1)	\$ 6,790,608	\$ 6,155,749	10.31%
Prior Period Adjustment	(6,157,711)	-	10000.00%
Net Position - Beginning, as Restated	<u>\$ 632,897</u>	<u>\$ 6,155,749</u>	-89.72%
Net Position - Ending (June 30)	<u>\$ 2,941,025</u>	<u>\$ 6,790,607</u>	-56.69%

HOWE INDEPENDENT SCHOOL DISTRICT
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2018

Sources of Revenue for Fiscal Year 2017 - See Table A-2



Functional Expenses for Fiscal Year 2017 - See Table A-2



HOWE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

- Table A-3 presents the cost of selected District functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.
- The cost of all governmental activities this period was \$ 9,307,630.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$ 3,678,640.
- Some of the cost was paid by those who directly benefited from the programs, \$ 195,497, or
- By grants and contributions, \$ (166,859).

Howe Independent School District's Net Cost of Selected District Functions							Table A-3
	Total Cost of Services		%	Net Cost of Services		%	
	2018	2017		2017 - 2018	2018		2017
Instruction	\$ 4,861,293	\$ 6,136,099	-20.78%	\$ 5,305,787	\$ 5,688,267	-6.72%	
School Leadership	474,097	704,497	-32.70%	575,829	704,497	-18.26%	
General Administration	407,029	510,722	-20.30%	467,948	510,722	-8.38%	
Plant Maintenance and Operations	1,019,756	1,115,522	-8.58%	1,082,419	1,028,777	5.21%	
Debt Service	227,596	244,421	-6.88%	54,650	(136,960)	-139.90%	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues in the governmental funds totaled \$ 13,322,581. This represents an increase of \$ 1,369,165 from the prior year revenues of \$ 11,953,416, due to a general decrease in state and local funding.

Expenditures in the governmental funds totaled \$ 12,488,593. This represents an increase of \$ 653,853 from the prior year expenditures of \$ 11,834,740, due primarily to increases in general operating costs in the District.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised its General Fund budget several times. With these adjustments, actual expenditures were \$ 399,161 below final General Fund budget amounts. The most significant variance occurred in plant maintenance and instructional categories.

Resources available were \$ 985,477 above the final General Fund budgeted amount. The favorable variance was the result of better than expected state revenue sources.

HOWE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

CAPITAL ASSETS AND DEBT ADMINISTRATION

CAPITAL ASSETS

At year end, the District had invested \$ 27,838,281 in a broad range of capital assets, including land, equipment, buildings and vehicles (See Table A-4).

Howe Independent School District's Capital Assets			Table A-4
	Governmental Activities		Total Percentage Change
	2018	2017	2017 - 2018
Land	\$ 653,538	\$ 653,538	0.00%
Construction in Progress	279,571	-	100.00%
Buildings and Improvements	24,863,385	24,863,385	0.00%
Equipment	1,043,251	1,109,558	-5.98%
Vehicles	998,536	933,883	6.92%
Totals at Historical Cost	\$ 27,838,281	\$ 27,560,364	1.01%
Total Accumulated Depreciation	(16,433,882)	(15,887,230)	3.44%
Net Capital Assets	<u>\$ 11,404,399</u>	<u>\$ 11,673,134</u>	-2.30%

DEBT

At year end, the District had \$ 8,938,927 in debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the basic financial statements.

Bond Ratings -
The District's bonds presently carry "AAA" ratings.

Howe Independent School District's Debt			Table A-5
	Governmental Activities		Total Percentage Change
	2018	2017	2017 - 2018
Bonds Payable	\$ 7,538,594	\$ 8,157,132	-7.58%
Other Debt Payable	1,400,333	1,441,199	-2.84%
Total Debt Payable	<u>\$ 8,938,927</u>	<u>\$ 9,598,331</u>	-6.87%

HOWE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

ECONOMIC FACTORS

The District's property valuation has stabilized from previous drops due to housing development bankruptcies and foreclosures. Local property tax rates are restricted by state statute, without local elections, to \$ 1.04 for maintenance and operations. The District voters approved a tax rate cap of \$ 1.17 in a prior year to maximize allowed state funding. The state funding formula was changed to provide state funds to replace any lost local property tax revenue. This change in funding and other legislative changes could impact the District's financial operations, including cash flows.

Student population has remained at a steady historical growth rate in the District. The economic outlook for the area is for growth to remain at a steady pattern of marginal growth. As housing develops, student growth and property values will increase. Housing is beginning to recover to the rate of other north central Texas communities. These economic conditions allow the District to maintain constant funding and staffing levels.

The State has increased funding levels for the 2017-2018 biennium, which will affect the revenue levels of the District. With these increases in funding, the District anticipates monitoring expenditure levels to ensure financial stability remains strong. Changes in property tax homestead allowances mandated by the State will affect property tax revenues in future periods.

A challenge to the State's funding system resulted in the system being held constitutional. Future legislative sessions could produce minor changes to funding for student populations. The legal process ended the challenges by the various interested parties including the State. State funding will continue under the present system until legislative changes occur.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

HOWE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2018

Data Control Codes	1 Governmental Activities
ASSETS	
1110 Cash and Investments	\$ 5,983,186
1225 Property Taxes Receivable, Net	234,249
1240 Due from Other Governments	954,067
1250 Accrued Interest	1,040
1290 Other Receivables, Net	54,905
1410 Unrealized Expenses	10,000
Capital Assets:	
1510 Land	653,538
1520 Buildings and Improvements, Net	10,072,417
1530 Furniture and Equipment, Net	398,873
1580 Construction in Progress	279,571
1000 Total Assets	\$ 18,641,846
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflows - Pensions	\$ 791,684
1701 Deferred Outflows - Refunding	163,023
1706 Deferred Outflows - OPEB	33,571
1700 Total Deferred Outflows of Resources	\$ 988,278
LIABILITIES	
2110 Accounts Payable	\$ 55,963
2140 Interest Payable	63,993
2165 Accrued Liabilities	746,302
2300 Unearned Revenue	16,188
Noncurrent Liabilities:	
2501 Due within one year	624,620
2502 Due in more than one year	8,314,307
2540 Net Pension Liability	1,632,225
2545 Net OPEB Liability	3,511,681
2000 Total Liabilities	\$ 14,965,279
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflows - Pensions	\$ 254,877
2606 Deferred Inflows - OPEB	1,468,943
2600 Total Deferred Inflows of Resources	\$ 1,723,820
NET POSITION	
3200 Net Investment in Capital Assets	\$ 3,526,384
Restricted For:	
3820 Federal Programs	82,738
3850 Debt Service	1,386,920
3890 Other Purposes	84
3900 Unrestricted	(2,055,101)
3000 Total Net Position	\$ 2,941,025

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Data	1	3	4	Net (Expense) Revenue and Changes in Net Position
Control	Program Revenues			Governmental
Codes Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Activities
Governmental Activities:				
11 Instruction	\$ 4,861,293	\$ 30,211	\$ (474,705)	\$ (5,305,787)
12 Instructional Resources and Media Services	204,323	-	2,308	(202,015)
13 Curriculum and Staff Development	25,562	-	(3,586)	(29,148)
21 Instructional Leadership	56,523	-	(10,752)	(67,275)
23 School Leadership	474,097	-	(101,732)	(575,829)
31 Guidance, Counseling and Evaluation Services	120,287	-	(26,526)	(146,813)
33 Health Services	68,964	-	(13,677)	(82,641)
34 Student (Pupil) Transportation	206,823	-	(15,587)	(222,410)
35 Food Services	434,352	-	488,018	53,666
36 Co-Curricular/Extracurricular Activities	626,487	165,286	(39,376)	(500,577)
41 General Administration	407,029	-	(60,919)	(467,948)
51 Plant Maintenance and Operations	1,019,756	-	(62,663)	(1,082,419)
52 Security and Monitoring services	56,180	-	-	(56,180)
53 Data Processing Services	221,916	-	(25,608)	(247,524)
72 Interest on Long-term Debt	225,386	-	172,946	(52,440)
73 Bond Issuance Costs and Fees	2,210	-	-	(2,210)
81 Capital Outlay	3,500	-	5,000	1,500
93 Payments for Shared Service Arrangements	228,021	-	-	(228,021)
99 Other Intergovernmental Charges	64,921	-	-	(64,921)
TG Total Governmental Activities	\$ 9,307,630	\$ 195,497	\$ (166,859)	\$ (9,278,992)
TP Total Primary Government	\$ 9,307,630	\$ 195,497	\$ (166,859)	\$ (9,278,992)
General Revenues:				
MT Property Taxes, Levied for General Purposes				\$ 3,084,794
DT Property Taxes, Levied for Debt Service				593,846
IE Investment Earnings				41,466
GC Grant and Contributions Not Restricted to Specific Programs				7,752,733
MI Miscellaneous				114,281
TR Total General Revenues				\$ 11,587,120
CN Change in Net Position				2,308,128
NB Net Position - Beginning (July 1)				\$ 6,790,608
PA Prior Period Adjustment				(6,157,711)
				\$ 632,897
NE Net Position - Ending (June 30)				\$ 2,941,025

The accompanying notes are an integral part of this statement

HOWE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS					
1110 Cash and Investments	\$ 4,249,115	\$ 1,413,702	\$ 9,336	\$ 135,169	\$ 5,807,322
1225 Property Taxes Receivable, Net	191,547	42,702	-	-	234,249
1240 Due from Other Governments	847,750	-	-	106,317	954,067
1250 Accrued Interest	1,040	-	-	-	1,040
1260 Due from Other Funds	283,979	-	-	-	283,979
1290 Other Receivables	4,930	-	-	49,975	54,905
1410 Unrealized Expenditures	-	-	10,000	-	10,000
1000 Total Assets	<u>\$ 5,578,361</u>	<u>\$ 1,456,404</u>	<u>\$ 19,336</u>	<u>\$ 291,461</u>	<u>\$ 7,345,562</u>
LIABILITIES					
Current Liabilities:					
2110 Accounts Payable	\$ 4,911	\$ -	\$ -	\$ 955	\$ 5,866
2150 Payroll Deductions & Withholdings	2,743	-	-	-	2,743
2160 Accrued Wages Payable	633,116	-	-	45,559	678,675
2170 Due to Other Funds	-	-	283,900	79	283,979
2200 Accrued Expenses	56,209	-	-	8,675	64,884
2300 Unearned Revenues	-	5,491	-	10,697	16,188
2000 Total Liabilities	<u>\$ 696,979</u>	<u>\$ 5,491</u>	<u>\$ 283,900</u>	<u>\$ 65,965</u>	<u>\$ 1,052,335</u>
DEFERRED INFLOWS OF RESOURCES					
2600 Total Deferred Inflows of Resources	<u>\$ 191,547</u>	<u>\$ 42,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 234,249</u>
FUND BALANCES					
Restricted Fund Balances:					
3450 Federal or State Funds Grants	\$ -	\$ -	\$ -	\$ 83,738	\$ 83,738
3480 Retirement of Long Term Debt	-	1,408,211	-	-	1,408,211
3490 Other Restrictions of Fund Balance	-	-	(264,564)	84	(264,480)
Committed Fund Balances:					
3545 Other Committed Fund Balance	-	-	-	141,674	141,674
3600 Unassigned	4,689,835	-	-	-	4,689,835
3000 Total Fund Balances	<u>\$ 4,689,835</u>	<u>\$ 1,408,211</u>	<u>\$ (264,564)</u>	<u>\$ 225,496</u>	<u>\$ 6,058,978</u>
4000 Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,578,361</u>	<u>\$ 1,456,404</u>	<u>\$ 19,336</u>	<u>\$ 291,461</u>	<u>\$ 7,345,562</u>

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET (GOVERNMENTAL FUNDS)
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balances - Balance Sheet (governmental funds)	\$	6,058,978
<p>Amounts reported for governmental activities in the statement of net position (SNP) are different because:</p>		
Capital assets used in governmental activities are not reported in the funds.		11,404,399
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		234,249
The assets and liabilities of internal service funds are included in governmental activities in the SNP.		125,767
Payables for bond principal which are not due in the current period are not reported in the funds.		(7,538,596)
Payables for bond interest which are not due in the current period are not reported in the funds.		(63,993)
Payables for compensated absences which are not due in the current period are not reported in the funds.		(166,936)
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.		39,172
Other long-term assets are not available to pay for current period expenditures and are not reported in the funds.		163,023
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.		(3,511,681)
Deferred Resource Inflows related to the net OPEB liability are not reported in the funds.		(1,468,943)
Deferred Resource Outflows related to the net OPEB liability are not reported in the funds.		33,571
Recognition of the District's proportionate share of the net liability is not reported in the funds.		(1,632,225)
Deferred Resource Inflows related to the pension plan are not reported in the funds.		(254,877)
Deferred Resource Outflows related to the pension plan are not reported in the funds.		791,684
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.		(883,974)
Bond premiums are amortized in the SNA but not in the funds.		<u>(388,593)</u>
Net position of governmental activities - Statement of Net Position	\$	<u>2,941,025</u>

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES					
5700 Local and Intermediate Sources	\$ 3,231,673	\$ 598,151	\$ 7	\$ 406,857	\$ 4,236,688
5800 State Program Revenues	8,022,225	360,818	-	45,006	8,428,049
5900 Federal Program Revenues	40,187	-	-	617,657	657,844
5020 Total Revenues	\$ 11,294,085	\$ 958,969	\$ 7	\$ 1,069,520	\$ 13,322,581
EXPENDITURES					
Current:					
0011 Instruction	\$ 5,937,688	\$ -	\$ -	\$ 390,259	\$ 6,327,947
0012 Instructional Resources and Media Services	150,904	-	-	75,827	226,731
0013 Curriculum and Staff Development	33,764	-	-	-	33,764
0021 Instructional Leadership	86,872	-	-	-	86,872
0023 School Leadership	710,452	-	-	-	710,452
0031 Guidance, Counseling and Evaluation Services	179,821	-	-	-	179,821
0033 Health Services	101,676	-	-	-	101,676
0034 Student (Pupil) Transportation	292,131	-	-	-	292,131
0035 Food Services	-	-	-	465,138	465,138
0036 Co-Curricular/Extracurricular Activities	499,278	-	-	84,155	583,433
0041 General Administration	548,064	-	-	-	548,064
0051 Plant Maintenance and Operations	1,129,556	-	-	-	1,129,556
0052 Security and Monitoring Services	56,180	-	-	-	56,180
0053 Data Processing Services	272,455	-	-	-	272,455
0071 Principal on Long-term Debt	-	618,537	-	-	618,537
0072 Interest on Long-term Debt	-	277,613	-	-	277,613
0073 Bond Issuance Cost and Fees	-	2,210	-	-	2,210
0081 Capital Outlay	18,500	-	264,571	-	283,071
0093 Payments for Shared Service Arrangements	228,021	-	-	-	228,021
0099 Other Intergovernmental Charges	64,921	-	-	-	64,921
6030 Total Expenditures	\$ 10,310,283	\$ 898,360	\$ 264,571	\$ 1,015,379	\$ 12,488,593
1100 Excess (Deficiency) of Revenues Over Expenditures	\$ 983,802	\$ 60,609	\$ (264,564)	\$ 54,141	\$ 833,988
Other Financing Sources and Uses					
7912 Sale of Real or Personal Property	\$ 1,675	\$ -	\$ -	\$ -	\$ 1,675
7080 Net Other Financing Sources and Uses	\$ 1,675	\$ -	\$ -	\$ -	\$ 1,675
1200 Net Changes in Fund Balances	\$ 985,477	\$ 60,609	\$ (264,564)	\$ 54,141	\$ 835,663
0100 Fund Balances - Beginning (July 1)	3,704,358	1,347,602	-	171,355	5,223,315
3000 Fund Balances - Ending (June 30)	\$ 4,689,835	\$ 1,408,211	\$ (264,564)	\$ 225,496	\$ 6,058,978

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

Net change in fund balances - Total Governmental Funds	\$	835,663
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are not reported as expenses in the SOA.		385,952
The depreciation of capital assets used in governmental activities is not reported in the funds.		(654,687)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		844
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.		21,907
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		618,537
The accretion of interest on capital appreciation bonds is not reported in the funds.		26,195
(Increase) decrease in accrued interest expense from beginning of period to end of period.		4,125
The net revenue (expense) of internal service funds is reported with governmental activities.		2,308
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.		(24,500)
Pension contributions deferred in PY were expended in CY.		(167,304)
Pension contributions made after the measurement date but in the correct FY were de-expended and reeduced NPO.		151,761
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.		(103,331)
OPEB payments deferred in prior FY expended in CY as OPEB expense.		(41,984)
District's share of proportional OPEB liability is recorded in the SOA but not in the funds.		1,219,619
District CY contributions for OPEB on de-expended and recorded as deferred resource outflow.		<u>33,023</u>
Change in net position of governmental activities - Statement of Activities	\$	<u>2,308,128</u>

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
JUNE 30, 2018

Data Control Codes	Nonmajor Internal Service Fund
	Insurance Fund
ASSETS	
1110 Cash and Investments	\$ 175,864
1000 Total Assets	\$ 175,864
LIABILITIES	
2110 Accounts Payable	\$ 50,097
2000 Total Liabilities	\$ 50,097
NET POSITION	
3900 Unrestricted Net Position	\$ 125,767
3000 Total Net Position	\$ 125,767

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET POSITION - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

Data Control Codes	Nonmajor Internal Service Fund	Insurance Fund
OPERATING REVENUES		
5700 Local and Intermediate Sources	\$	46,390
5020 Total Operating Revenues	\$	46,390
OPERATING EXPENSES		
6400 Other Operating Costs	\$	44,082
6030 Total Operating Expenses	\$	44,082
1300 Change in Net Position	\$	2,308
0100 Net Position - Beginning (July 1)		123,459
3300 Net Position - Ending (June 30)	\$	125,767

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018

	<div style="text-align: center;">Nonmajor Internal Service Fund</div> <hr/>
	<div style="text-align: center;">Insurance Fund</div> <hr/>
Cash Flows from Operating Activities:	
Cash Receipts from Quasi External Interfund Transfers	\$ 46,390
Cash Payments for Reinsurance and Administrative Fees	(25,397)
Cash Payments for Claims	(13,607)
	<hr/>
Net Cash Provided by (Used for) Operating Activities	\$ 7,386
	<hr/>
Cash Flows from Capital and Other Related Financing Activities:	
NONE	
Cash Flows from Noncapital Financing Activities:	
NONE	
Cash Flows from Investing Activities:	
NONE	
Net Increase (Decrease) in Cash and Investments	\$ 7,386
Cash and Investments - Beginning (July 1)	<hr/> 168,478
Cash and Investments - Ending (June 30)	<u><u>\$ 175,864</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income (Loss)	\$ 2,308
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Increase (Decrease) in Claims Liability	<hr/> 5,078
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ 7,386</u></u>

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION - FIDUCIARY FUNDS
 JUNE 30, 2018

Data Control Codes	Agency Funds <hr/> Student Agency <hr/>
ASSETS	
1110 Cash and Investments	<u>\$ 23,015</u>
1000 Total Assets	<u>\$ 23,015</u>
LIABILITIES	
2190 Due to Student Groups	<u>\$ 23,015</u>
2000 Total Liabilities	<u>\$ 23,015</u>
NET POSITION	
3800 Held in Trust	<u>\$ -</u>
3000 Total Net Position	<u><u>\$ -</u></u>

The accompanying notes are an integral part of this statement.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees (Board), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and as a body corporate has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined by GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

2. Basis of Presentation – Basis of Accounting

a. Basis of Presentation

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

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

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

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

Debt Service Fund – This fund is used to account for the accumulation of resources for, and the payment of general long-term debt principal, interest and related costs.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

A. Summary of Significant Accounting Policies (Continued)

Capital Projects Fund – This fund accounts for proceeds of long-term financing revenues and expenditures related to authorized construction and other capital asset acquisitions.

In addition, the District reports the following fund types:

Special Revenue Funds – The District 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. The Board can commit specific types of resources to specific purposes which are included as special revenue funds.

Internal Service Funds – These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Fiduciary Funds – These funds are used to account for assets held by the District in a trustee capacity or as an agent for individuals, private organizations, or other governments. These include agency funds. Agency funds are purely custodial and thus do not involve measurement of results of operations.

b. Measurement Focus – Basis of Accounting

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

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available.

The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital lease are reported as other financing sources.

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

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

A. Summary of Significant Accounting Policies (Continued)

3. Budgetary Data

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

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

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

4. Encumbrance Accounting

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are:

General Fund	\$	-0-
Special Revenue Fund		-0-
Debt Service Fund		-0-
		<hr/>
Total	\$	<u>-0-</u>

5. Financial Statement Amounts

Cash and Investments

The District pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as a part of the District's cash and temporary investments.

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

Inventories

Inventory in governmental funds consists of expendable supplies held for consumption. The cost, determined by physical count and valued using the weighted average method, is recorded as an expenditure at the time of use. Reported inventories in these funds are equally offset by a fund balance reserve, which indicates they do not represent available spendable resources.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

A. Summary of Significant Accounting Policies (Continued)

Fund Balance

Governmental funds utilize a fund balance presentation for equity. Fund balance is categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable fund balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the Board. Committed resources cannot be used for any other purpose unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amounts the District intends to use for specific purposes as expressed by the Board or an official delegated the authority. The Board has delegated the authority to assign fund balances to the Superintendent.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

The following schedule provides information about the specific fund balance classification by fund:

	General	Debt Service	Capital Projects	Other Governmental	Total
Restricted					
Child Nutrition Program	\$ -	\$ -	\$ -	\$ 83,738	\$ 83,738
Retirement of Long Term Debt	-	1,408,211	-	-	-
Library Grant	-	-	-	81	81
Exxon Grant	-	-	-	3	3
Capital Projects	-	-	(264,564)	-	(264,564)
Committed					
Scholarships	-	-	-	15,666	15,666
Campus Activity Funds	-	-	-	126,007	126,007
Unassigned	4,689,835	-	-	-	4,689,835
Totals	<u>\$ 4,689,835</u>	<u>\$ 1,408,211</u>	<u>\$ (264,564)</u>	<u>\$ 225,495</u>	<u>\$ 4,650,766</u>

Accretion

Accretion is an adjustment of the difference between the price of a bond issued at an original discount and the par value of the bond. For governmental activities debt, the accreted value is recognized as it accrues by fiscal year.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

A. Summary of Significant Accounting Policies (Continued)

Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$ 5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and Improvements	15-50
Vehicles	5-15
Furniture and Equipment	3-15

6. Deferred Outflows and Inflows of Resources

The District implemented GASB Statement Number 68, *Accounting and Financial Reporting for Pensions* and GASB Statement Number 75, *Accounting and Financial Reporting for Postemployment Benefits and Other Pensions*. In addition to assets and liabilities, the government-wide Statement of Net Position and governmental fund Balance Sheet reports separate sections for deferred outflows and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position/fund balance that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until then. Deferred inflows of resources represent the acquisition of net position/fund balance that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. The District reports certain deferred inflows and outflows related to pensions on the government-wide Statement of Net Position. At the governmental fund level, earned but unavailable revenue is reported as a deferred inflow of resources. To the extent practical, this change in accounting principle is required to be reported as an adjustment to prior periods.

The District also implemented GASB Statement Number 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which amends the transition provisions of GASB 68. GASB 71 requires that, at transition, governments recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date of the beginning Net Pension Liability. Implementation is reflected in the financial statements and the prior period adjustment.

7. Receivable and Payable Balances

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

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

8. Interfund Activities

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

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

A. Summary of Significant Accounting Policies (Continued)

9. Vacation, Sick Leave and Other Compensated Absences

District employees are entitled to certain compensated absences based on their length of employment. Sick leave accrues at various rates established by the State and adopted by the Board of Trustees. Sick leave does not vest but accumulates and is recorded as an expenditure as it is paid

10. 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. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Teacher Retirement System of Texas (TRS) and additions to/deductions from TRS's fiduciary net position have been determined on the same basis as they are reported by TRS. For this purpose, 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.

11. Other Post-Employment Benefits

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expenses, 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 term. There are no investments as this a pay-as-you-go plan and all cash is held in a cash account.

12. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

13. Data Control Codes

Data control codes refer to the account code structure prescribed by the Agency in the *Guide*. The Agency requires the District to display these codes in its financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

14. Accounting System

In accordance with Texas Education Code, Chapter 44, Subchapter A, the District adopted and implemented an accounting system which at least meets the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. The District's accounting system uses codes and the code structure presented in the accounting code section of the *Guide*. Mandatory codes are utilized in the form provided in that section.

B. Deposits, Securities and Investments

The District's funds are deposited and invested under the terms of a depository contract. The contract requires the depository to pledge approved securities in an amount significant to protect the District's day-to-day balances. The pledge is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At June 30, 2018, all District cash deposits appear to have been covered by FDIC insurance or by pledged collateral held by the District's agent bank in the name of the District. The District's deposits appear to have been properly secured throughout the fiscal period.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

B. Deposits, Securities and Investments (Continued)

The District's investment policies and types of investments are governed by the Public Funds Investment Act. The Act requires specific training, reporting and establishment of local policies. The District appears to have been in substantial compliance with the requirements of the Act.

State statutes and local policy authorize the District to invest in the following types of investment goods:

- a. obligations of the U.S. or its agencies or instrumentalities,
- b. obligations of the State of Texas or its agencies,
- c. obligations guaranteed by the U.S. or State of Texas or their agencies or instrumentalities,
- d. obligations of other states, agencies or political subdivisions having a national investment rating of "A" or greater,
- e. guaranteed or secured certificates of deposit issued by a bank domiciled in the State of Texas, or
- f. fully collateralized repurchase agreements.

District investments include investments in TexPool, an external investment pool. All Texpool investments are reported at share price (fair value) and are presented as cash and investments.

Texas Local Government Investment Pool (TexPool) has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools and permit eligible governmental entities to jointly invest their funds in authorized investments.

The Comptroller of Public Accounts (Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, (Trust Company), which is authorized to operate TexPool. Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Federated Investors, Inc. (Federated), under an agreement with the Comptroller, acting on behalf of the Trust Company.

The Comptroller maintains oversight of the services provided to TexPool by Federated. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, the Advisory Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

The fund is rated AAAM by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's. This rating as well as the operational policies and procedures allow the fund to comply with the requirements of the Public Funds Investment Act.

The following table categorizes the District's investments at June 30, 2018:

	<u>Credit Rating</u>	<u>Fair Value</u>
Certificate of Deposit	N/A	\$ 1,557,058
TexPool	AAAM	<u>2,335,737</u>
	Total	<u><u>\$ 3,892,795</u></u>

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

- a. Name of bank: Independent Bank, Howe, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 5,861,853.
- c. Largest cash, savings and time deposit combined account balances amounted to \$ 5,761,181 and occurred during the month of February 2018.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$ 593,513.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

B. Deposits, Securities and Investments (Continued)

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

a. Credit Risk

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

b. Custodial Credit Risk

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

Investment securities are exposed to custodial 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 Districts' name. At June 30, 2018, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At June 30, 2018, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At June 30, 2018, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At June 30, 2018, the District was not exposed to foreign currency risk.

C. Property Taxes

Property taxes are levied by October 1, in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1, of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Property taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Section 33.05, Property Tax Code, requires the tax collector for the District to cancel and remove from the delinquent tax rolls a tax on real property that has been delinquent for more than 20 years or a tax on personal property that has been delinquent for more than 10 years. Delinquent taxes meeting this criteria may not be canceled if litigation concerning these taxes is pending.

The District levied taxes on property within the District at \$ 1.17 to fund general operations and \$ 0.235 for the payment of principal and interest on long term debt. The rates were levied on property assessed totaling \$ 261,531,028.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

D. Capital Assets

Capital asset activities during the year were as follows:

	Beginning Balance	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets not Being Depreciated:				
Land	\$ 653,538	\$ -	\$ -	\$ 653,538
Construction in Progress	-	279,571	-	279,571
Total Capital Assets not being Depreciated	\$ 653,538	\$ 279,571	\$ -	\$ 933,109
Capital Assets being Depreciated:				
Building and Improvements	\$ 24,863,385	\$ -	\$ -	\$ 24,863,385
Equipment	1,109,558	14,728	81,035	1,043,251
Vehicles	933,883	91,653	27,000	998,536
Total Capital Assets being Depreciated	\$ 26,906,826	\$ 106,381	\$ 108,035	\$ 26,905,172
Less Accumulated Depreciation for :				
Buildings and Improvements	\$ 14,247,044	\$ 543,924	\$ -	\$ 14,790,968
Equipment	918,428	63,824	81,035	901,217
Vehicles	721,758	46,939	27,000	741,697
Total Accumulated Depreciation	\$ 15,887,230	\$ 654,687	\$ 108,035	\$ 16,433,882
Total Capital Assets being Depreciated, Net	\$ 11,019,596	\$ (548,306)	\$ -	\$ 10,471,290
Governmental Activities Capital Assets, Net	\$ 11,673,134	\$ (268,735)	\$ -	\$ 11,404,399

Depreciation was charged to government-wide functions as follows:

Instruction	\$ 373,767
Instructional Resources and Media Services	16,698
Staff Development	1,919
School Leadership	2,472
Guidance, Counseling and Evaluation Services	250
Health Services	500
Student (Pupil) Transportation	38,342
Food Services	49,526
Co-curricular/Extracurricular Activities	151,384
Plant Maintenance and Operations	19,829
Total	\$ 654,687

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

E. Long Term Obligations

Long-Term Obligation Activity

Long-term obligations activities during the year were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
General Obligation Bonds	\$ 8,157,132	\$ -	\$ 618,538	\$ 7,538,594	\$ 624,620
Accreted Interest Payable	910,169	75,268	101,462	883,975	-
Bond Premium (Discount)	388,594	-	39,172	349,422	-
Retirement Benefits	142,436	193,305	168,805	166,936	-
Total Governmental Activities	<u>\$ 9,598,331</u>	<u>\$ 268,573</u>	<u>\$ 927,977</u>	<u>\$ 8,938,927</u>	<u>\$ 624,620</u>

Bonds

The District has issued various series of general obligation bonds to fund facility construction and improvements. Bonds mature at various times with varying rates of interest. The bonds issued require the District to levy an ad valorem tax annually to retire the current maturities.

Bonds outstanding at year end are as follows:

Description	Interest Rate	Original Amount	Outstanding Balance
Unlimited Tax Building Bonds, Series 1999	4.625%	\$ 2,449,917	\$ 543,594
Unlimited Tax Refunding, Series 2013	2.051%	1,165,000	1,165,000
Unlimited Tax Refunding, Series 2016A	1.411%	5,040,000	4,555,000
Unlimited Tax Refunding, Series 2016B	1.411%	1,435,000	1,275,000
Totals			<u>\$ 7,538,594</u>

Debt service requirements on bonded debt outstanding at year end are as follows:

Year Ending June 30	Principal	Interest	Total Requirements
2019	\$ 624,620	\$ 270,430	\$ 895,050
2020	630,869	262,882	893,751
2021	637,278	254,972	892,250
2022	654,439	246,010	900,449
2023	656,153	237,247	893,400
2023-2027	3,133,178	974,122	4,107,300
2028-2031	1,202,057	168,268	1,370,325
Totals	<u>\$ 7,538,594</u>	<u>\$ 2,413,931</u>	<u>\$ 9,952,525</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. The District appears to be in compliance with all significant limitations and restrictions at year end.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

F. Defined Benefits Pension Plan

1. *Plan Description*

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

2. *Benefits Provided*

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

3. *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.

Employees contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>2017</u>	<u>2018</u>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2018 Employer Contributions	\$	178,312
2018 Member Contributions	\$	497,524
2017 NECE On-Behalf Contributions	\$	329,140

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

F. Defined Benefits Pension Plan (Continued)

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

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers 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.

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.

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

At June 30, 2018, the District reported a liability of \$ 1,632,225 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 1,632,225
State's proportionate share that is associated with the District	<u>3,217,854</u>
Total	<u><u>\$ 4,850,079</u></u>

The net pension liability was measured as of August 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contribution 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 0.0051047526% which was a decrease of 0.000015428% from its proportion measured as of August 31, 2016.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

F. Defined Benefits Pension Plan (Continued)

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 June 30, 2018, the District recognized pension expense of \$ 245,445 and revenue of \$ 245,445 for support provided by the State.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual actuarial experience	\$ 23,880	\$ 88,024
Changes of actuarial assumptions	74,350	42,564
Difference between projected and actual investment earnings	-	118,953
Changes in proportion and differentials between the employer's contributions and proportionate share of contributions	<u>541,693</u>	<u>5,336</u>
Total as of August 31, 2017 measurement date	<u>\$ 639,923</u>	<u>\$ 254,877</u>
Contributions paid to TRS subsequent to the measurement date	151,761	-
Total	<u>\$ 791,684</u>	<u>\$ 254,877</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ 79,937
2020	184,126
2021	71,929
2022	36,142
2023	15,118
Thereafter	(2,206)

5. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-Term Expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

F. Defined Benefits Pension Plan (Continued)

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

6. *Discount Rate*

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimates ranges future real rates of return (expected returns, net pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

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

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

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

F. Defined Benefits Pension Plan (Continued)

7. *Discount Rate Sensitivity Analysis*

The following presents the District's share of the net pension liability of the plan using the discount rate of 8%, as well as what the District's share of the net pension liability would be if it were calculated using a discount rate that is 1 – percentage point lower (7%) or 1 – percentage point higher (9%) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
District's proportionate share of the net pension liability	\$ 2,751,609	\$ 1,632,225	\$ 700,156

8. *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. The information provided in the Notes to the Financial Statements in the 2016 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2017 and 2016.

<u>Net Pension Liability</u>	<u>August 31, 2017</u>	<u>August 31, 2016</u>
Total Pension Liability	\$ 179,336,534,819	\$ 171,797,150,487
Less: Plan Fiduciary Net Position	<u>(147,361,922,120)</u>	<u>(134,008,637,473)</u>
Net Pension Liability	<u>\$ 31,974,612,699</u>	<u>\$ 37,788,513,014</u>
Net Position as percentage of Total Pension Liability	82.17%	78.00%

G. Defined Other Post-Employment Benefit Plans

1. *Plan Description*

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

2. *OPEB Plan Fiduciary Net Position*

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

3. *Benefits Provided*

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

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

G. Defined Other Post-Employment Benefit Plans (Continued)

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

* or surviving spouse

4. *Contributions*

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. 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% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding remitted by Employers	1.00%	1.25%
2018 Employer Contributions	\$ 33,023	
2018 Member Contributions	\$ 35,577	
2017 NECE On-Behalf Contributions	\$ 57,577	

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

G. Defined Other Post-Employment Benefit Plans (Continued)

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

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

5. *Actuarial Assumptions*

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

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on pan 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

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

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

G. Defined Other Post-Employment Benefit Plans (Continued)

6. *Discount Rate*

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of 0.44% 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.

7. *Discount Rate Sensitivity Analysis*

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
District's proportionate share of the net OPEB liability	\$ 4,144,655	\$ 3,511,681	\$ 3,002,912

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

At August 31, 2018 the District reported a liability of \$ xxxxx for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective Net OPEB Liability	\$ 3,511,681
State's proportionate share that is associated with the District	<u>4,815,901</u>
Total	<u>\$ 8,327,582</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 contribution to the EPEB 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 0.0080753818%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016. The Notes to the Financial Statements for August 31, 2016 for TRS stated that the change in proportion was immaterial and, therefore, disregarded this year.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

G. Defined Other Post-Employment Benefit Plans (Continued)

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

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$ 2,795,937 and revenue of \$ 1,611,529 for support provided by the State.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual actuarial experience	\$ -	\$ 73,309
Changes in actuarial assumptions	-	1,395,634
Difference between projected and actual investment earnings	533	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	15	-
Total as of August 31, 2017 measurement date	\$ 548	\$ 1,468,943
Contributions paid to TRS subsequent to the measurement date	33,023	-
Total at fiscal year end	<u>\$ 33,571</u>	<u>\$ 1,468,943</u>

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

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2019	\$ (193,755)
2020	(193,755)
2021	(193,755)
2022	(193,755)
2023	(193,889)
Thereafter	(499,486)

H. Risk Management

Health Care

During the year ended June 30, 2018, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$ 341 per month per employee and employees, at their option, authorized payroll withholdings to provide dependents coverage under the Plan. All premiums were paid to Teacher Retirement System of Texas (Aetna). The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

H. Risk Management (Continued)

The contract between the Howe Independent School District and Teacher Retirement System of Texas (Aetna) is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Aetna are available from the company and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Workers' Compensation

The District participates in the East Texas Educational Insurance Association Workers' Compensation Self Insurance Joint Fund. The District is partially self funded to a loss fund maximum of \$ 62,572 for the 17-18 fiscal year. Additionally, the District incurred fixed costs of \$ 22,843 for their share of claims administration, loss control, record keeping and cost of excess insurance.

Claims administration is provided by Claims Administrative Services, Inc. Reinsurance is provided for aggregate claim losses exceeding \$ 225,000. The fixed cost charge is based on total payroll paid by the District. Increases or decreases in the fixed costs will adjust subsequent year charges.

The accrued liability for workers' compensation self-insurance of \$ 53,968 includes \$ 25,830 of incurred but not reported claims. This liability is based on the requirements of GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues," which require that a liability for claims be reported if information indicates that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated. The liability recorded is an undiscounted actuarial calculation.

Changes in the workers compensation claims liability amounts in fiscal periods 2018 and 2017 are represented below:

	<u>2018</u>	<u>2017</u>
Beginning Claims Liability	\$ 45,019	\$ 51,194
Claims Incurred (Reduced)	21,675	712
Claims Paid	<u>(12,726)</u>	<u>(6,887)</u>
Ending Claims Liability	<u>\$ 53,968</u>	<u>\$ 45,019</u>

Other Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ending June 30, 2018, the District purchased commercial insurance to cover these liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

I. Litigation

The District does not appear to be involved in any litigation as of June 30, 2018.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

J. Commitments and Contingencies

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

The District has construction projects in various stages of completion. These projects include contracts that will be completed in the coming year. Funds from the operating budget will be used to fulfill these commitments.

K. Revenue from Local and Intermediate Sources

The District received revenue from the following local and intermediate sources during the year:

	General	Debt Service	Capital Projects	Other Governmental	Total
Property Tax Collections	\$ 3,080,004	\$ 593,737	\$ -	\$ -	\$ 3,673,741
Investment Income	37,650	3,754	7	55	41,466
Food Service Income	-	-	-	182,528	182,528
Gifts and Bequests	5,000	-	-	75,917	80,917
Extracurricular Activities	-	-	-	148,357	148,357
Other	109,019	660	-	-	109,679
Total	<u>\$ 3,231,673</u>	<u>\$ 598,151</u>	<u>\$ 7</u>	<u>\$ 406,857</u>	<u>\$ 4,236,688</u>

L. Receivables

Receivables at year end, for the District's individual major funds and aggregate nonmajor funds, including any applicable allowances for uncollectible amounts are as follows:

	General	Debt Service	Capital Projects	Other Governmental	Total
Due from Other Governments	\$ 847,750	\$ -	\$ -	\$ 106,317	\$ 954,067
Accrued Interest	1,040	-	-	-	1,040
Property Taxes	201,628	44,950	-	-	246,578
Less Allowance for Uncollectible					
Property Taxes	(10,081)	(2,248)	-	-	(12,329)
Other	288,909	-	-	49,975	338,884
Net Receivables	<u>\$ 1,329,246</u>	<u>\$ 42,702</u>	<u>\$ -</u>	<u>\$ 156,292</u>	<u>\$ 1,528,240</u>

M. Shared Service Arrangements

The District participates in cooperative programs with other local districts. The District does not account for revenue or expenditures of these programs and does not disclose them in these financial statements.

<u>Shared Service Arrangements</u>	<u>Fiscal Agent</u>	<u>Service</u>
Grayson County Special Education Cooperative	Gunter Independent School District	Special Education

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

N. Subsequent Events

The District approved the sale of \$ 16,495,000 of general obligation debt that settled on July 24, 2018. The proceeds will be used to construct facilities in the District. The proceeds will be used to reverse the deficit equity represented in the Capital Project Fund as pre-issue expenditures were authorized by resolution of the Board.

O. State Aid Reconciliation

The State provides various types of funding for local school districts as provided for in state statute. The following reconciliation presents funding earned by the District in each category presented. Because of the State's delay in reconciling the funding to local districts, the summary below represents an estimate of earnings. The settle-up with the State will occur some 9 to 10 months following the fiscal year end.

Funding is earned for: 1) Available – annual allocation based on prior year enrollment; 2) Foundation – annual allocation based on student attendance, property tax collections and valuations, and special student population; 3) Instructional Facilities Allotment – based on property wealth; and 4) Existing Debt Allotment – based on eligible debt, student attendance and property wealth. Various other sources are received but not reconciled here as these are the major sources of funding.

	Available	Foundation	IFA	EDA
Current Year Earnings	\$ 208,481	\$ 7,343,777	\$ 187,877	\$ 178,062
Prior Year Settle Up	112	12,491	(5)	(5,116)
Financial Statement Earnings	\$ 208,593	\$ 7,356,268	\$ 187,872	\$ 172,946
Amounts Received	196,179	6,526,134	190,205	176,104
Receivable (Overpayment) *	\$ 12,414	\$ 830,134	\$ (2,333)	\$ (3,158)

* Overpayments are represented in the financial statements as Unearned Revenue (government-wide and governmental).

P. Interfund Balances and Activities

Interfund Receivables and Payables

The composition of interfund balances at year end are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Special Revenue Fund	\$ 79
General Fund	Capital Projects Fund	283,900
Total		<u>\$ 283,979</u>

Q. Change in Accounting Principles

Statement 75, Accounting and Financial Reporting for Postemployment Benefits and Other Pensions.

The Statement addresses accounting and reporting for postemployment benefits other than pensions (OPEB). Various standards for recognizing measuring and reporting liabilities, deferred outflows and deferred inflows are implemented to achieve the financial accounting and reporting objectives. Note disclosures and other required supplemental information were expanded to provide additional insight into the financial implications of the OPEB.

Statement 85, Omnibus 2017

The Statement addresses a variety of technical corrections to previously issued statements that were identified during the implementation of the standards. Included are amendments to GASB Statement 75 that enhance the financial reporting required.

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

R. Prior Period Adjustments

Government-wide Financial Statements

The increase in net assets identified on Exhibit B-1 includes the following corrections of errors in prior periods or changes related to implementations of new accounting standards:

Implementation of GASB Statement 75, *Accounting and Financial Reporting for Post Employment Benefits and Other Pension*, relating to retiree healthcare benefits (OPEB) decreased beginning net assets

S. Negative Operating Grants and Contributions – Statement of Activities

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

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

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on-behalf accruals)
11 - Instruction	\$ (474,705)	\$ (1,083,201)	\$ 608,496
12 - Instructional Resources and Media Services	2,308	(25,140)	27,448
13 - Curriculum and Instructional Staff Development	(3,586)	(4,684)	1,098
21 - Instructional Leadership	(10,752)	(14,049)	3,297
23 - School Leadership	(101,732)	(132,917)	31,185
31 - Guidance, Counseling and Evaluation Services	(26,526)	(34,658)	8,132
33 - Health Services	(13,677)	(17,870)	4,193
34 - Student (Pupil) Transportation	(15,587)	(20,365)	4,778
35 - Food Services	488,018	(32,278)	520,296
36 - Extracurricular Activities	(39,376)	(51,446)	12,070
41 - General Administration	(60,919)	(79,592)	18,673
51 - Facilities Maintenance and Operations	(62,663)	(81,872)	19,209
53 - Data Processing Services	(25,608)	(33,457)	7,849
72 - Interest on Long Term Debt	172,946	-	172,946
81 - Facility Acquisition and Construction	5,000	-	5,000
	<u>\$ (166,859)</u>	<u>\$ (1,611,529)</u>	<u>\$ 1,444,670</u>

REQUIRED SUPPLEMENTARY INFORMATION

HOWE INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
5700	\$ 10,359,582	\$ 3,134,446	\$ 3,231,673	\$ 97,227
5800	-	7,574,998	8,022,225	447,227
5900	-	-	40,187	40,187
5020	\$ 10,359,582	\$ 10,709,444	\$ 11,294,085	\$ 584,641
EXPENDITURES				
Instruction and Instructional Related Services:				
0011	\$ 5,836,223	\$ 6,064,223	\$ 5,937,688	\$ 126,535
0012	155,037	159,426	150,904	8,522
0013	41,030	41,030	33,764	7,266
	\$ 6,032,290	\$ 6,264,679	\$ 6,122,356	\$ 142,323
Instructional and School Leadership:				
0021	\$ 88,368	\$ 94,368	\$ 86,872	\$ 7,496
0023	714,188	726,188	710,452	15,736
	\$ 802,556	\$ 820,556	\$ 797,324	\$ 23,232
Support Services - Student (Pupil):				
0031	\$ 187,386	\$ 190,886	\$ 179,821	\$ 11,065
0033	105,549	112,022	101,676	10,346
0034	325,834	325,834	292,131	33,703
0035	-	-	-	-
0036	532,900	536,400	499,278	37,122
	\$ 1,151,669	\$ 1,165,142	\$ 1,072,906	\$ 92,236
Administrative Support Services:				
0041	\$ 536,825	\$ 556,825	\$ 548,064	\$ 8,761
	\$ 536,825	\$ 556,825	\$ 548,064	\$ 8,761
Support Services - Nonstudent Based:				
0051	\$ 1,213,972	\$ 1,253,972	\$ 1,129,556	\$ 124,416
0052	62,750	62,750	56,180	6,570
0053	268,995	278,995	272,455	6,540
	\$ 1,545,717	\$ 1,595,717	\$ 1,458,191	\$ 137,526
Capital Outlay:				
0081	\$ -	\$ 18,500	\$ 18,500	\$ -
	\$ -	\$ 18,500	\$ 18,500	\$ -
Intergovernmental Charges:				
0093	\$ 228,025	\$ 228,025	\$ 228,021	\$ 4
0099	62,500	65,000	64,921	79
	\$ 290,525	\$ 293,025	\$ 292,942	\$ 83
6030	\$ 10,359,582	\$ 10,714,444	\$ 10,310,283	\$ 404,161
1100	\$ -	\$ (5,000)	\$ 983,802	\$ 988,802
OTHER FINANCING SOURCES (USES)				
7912	\$ -	\$ -	\$ 1,675	\$ 1,675
	\$ -	\$ -	\$ 1,675	\$ 1,675
1200	\$ -	\$ (5,000)	\$ 985,477	\$ 990,477
0100	3,704,358	3,704,358	3,704,358	-
3000	\$ 3,704,358	\$ 3,699,358	\$ 4,689,835	\$ 990,477

HOWE INDEPENDENT SCHOOL DISTRICT
 SCHEDULES OF THE DISTRICTS PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 YEAR ENDED JUNE 30, 2018

	<u>2017 *</u>	<u>2016 *</u>	<u>2015 *</u>	<u>2014 *</u>
District's proportion of the net pension liability	0.0051047526%	0.0051201774%	0.0050880000%	0.0021511000%
District's proportionate share of the net pension liability	\$ 1,632,225	\$ 1,934,839	\$ 1,798,540	\$ 574,589
State's proportionate share of the net pension liability associated with the District	<u>3,217,854</u>	<u>3,892,177</u>	<u>3,781,152</u>	<u>3,415,453</u>
Total	<u>\$ 4,850,079</u>	<u>\$ 5,827,016</u>	<u>\$ 5,579,692</u>	<u>\$ 3,990,042</u>
District's covered-employee payroll (for Measurement Year)	\$ 6,029,358	\$ 5,891,193	\$ 5,640,918	\$ 3,990,042
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	27.07%	32.84%	31.88%	14.40%
Plan fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%

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

* The years above present data for the measurement period ending date. The measurement period represents the period for which the pension plan prepares its reports which provides a 12 month delay for financial reporting in accordance with GASB 68.

HOWE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 LAST 10 FISCAL YEARS

	2018	2017	2016	2015
Contractually required contributions	\$ 178,312	\$ 166,263	\$ 161,670	\$ 130,704
Contributions in relations to the contractual required contributions	(178,312)	(166,263)	(161,670)	(130,704)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 6,461,812	\$ 5,999,135	\$ 5,877,198	\$ 5,590,319
Contributions as a percentage of covered employee payroll	2.76%	2.77%	2.75%	2.34%

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

HOWE INDEPENDENT SCHOOL DISTRICT
 SCHEDULES OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 YEAR ENDED AUGUST 31, 2018

	2017 *
District's proportion of the Net OPEB Liability (Asset)	0.8075381800%
District's proportionate share of the Net OPEB Liability (Asset)	\$ 3,511,681
State's proportionate share of the Net OPEB Liability (Asset) associated with the District	4,815,901
 Total	 \$ 8,327,582
 District's covered-employee payroll (for Measurement Year)	 \$ 6,029,358
 District's proportionate share of the Net OPEB Liability as a percentage of it's covered-employee payroll	 58.24%
 Plan fiduciary net position as a percentage of the Total OPEB Liability	 0.91%

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

* The years above present data for the measurement period ending date. The measurement period represents the period for which the pension plan prepares its reports which provides a 12 month delay for financial reporting in accordance with GASB 68.

HOWE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 YEAR ENDED AUGUST 31, 2018

	2018
Contractually required contributions	\$ 39,795
Contributions in relations to the contractual required contributions	(39,795)
Contribution deficiency (excess)	\$ -
District's covered employee payroll	\$ 6,461,812
Contributions as a percentage of covered employee payroll	0.62%

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

HOWE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

A. Budget

The official budget was prepared for adoption for all Government Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only 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. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at the time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

B. Defined Benefit Pension Plan

1. Changes of Assumptions

No changes in assumptions were made that affected the measurement of the total pension liability during the measurement period.

2. Changes of Benefit Terms

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

OTHER SUPPLEMENTARY INFORMATION

HOWE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2018

Tax Roll Year	Last Ten Years Ended June 30	1		2	3	Assessed/Appraised Value For School Tax Purposes	Beginning Balance 7/1/2017	20	30	32	40	50
		Maintenance	Debt Service									
XXXX	2009 and Prior Years	Various	Various	Various	Various	\$ 44,573	\$ -	\$ 38	\$ 10	\$ (11,057)	\$ 33,468	
2009	2010	1.040000	0.310000	186,726,296	5,862	-	121	36	-	5,705		
2010	2011	1.040000	0.290000	197,108,408	5,587	-	99	27	-	5,461		
2011	2012	1.040000	0.300000	221,245,074	6,749	-	97	28	-	6,624		
2012	2013	1.170000	0.310000	200,316,486	9,177	-	664	176	-	8,337		
2013	2014	1.170000	0.265000	209,753,628	43,326	-	1,493	338	(513)	40,982		
2014	2015	1.170000	0.285000	212,085,351	12,221	-	1,432	349	(905)	9,535		
2015	2016	1.170000	0.280000	206,449,123	23,472	-	9,162	2,193	(1,410)	10,707		
2016	2017	1.170000	0.235000	228,035,307	96,265	-	53,386	10,723	(9,610)	22,546		
2017	2018	1.170000	0.225000	261,531,028	-	3,674,511	2,982,586	573,573	(15,139)	103,213		
1000 TOTALS						\$ 247,232	\$ 3,674,511	\$ 3,049,078	\$ 587,453	\$ (38,634)	\$ 246,578	

HOWE INDEPENDENT SCHOOL DISTRICT
SCHOOL BREAKFAST AND NATIONAL SCHOOL LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and Intermediate Sources	\$ 155,000	\$ 165,000	\$ 182,528	\$ 17,528
5800	State Program Revenues	12,640	12,640	11,728	(912)
5900	Federal Program Revenues	280,500	305,500	327,742	22,242
5020	Total Revenues	\$ 448,140	\$ 483,140	\$ 521,998	\$ 38,858
EXPENDITURES					
Current:					
Support Services - Student (Pupil):					
0035	Food Service	\$ 448,140	\$ 485,620	\$ 465,138	\$ 20,482
	Total Support Services - Student (Pupil)	\$ 448,140	\$ 485,620	\$ 465,138	\$ 20,482
6030	Total Expenditures	\$ 448,140	\$ 485,620	\$ 465,138	\$ 20,482
1100	Excess (Deficiency) of Revenues Over Expenditures	\$ -	\$ (2,480)	\$ 56,860	\$ 59,340
1200	Net Change in Fund Balance	\$ -	\$ (2,480)	\$ 56,860	\$ 59,340
0100	Fund Balance - Beginning (July 1)	26,879	26,879	26,879	-
3000	Fund Balance - Ending (June 30)	\$ 26,879	\$ 24,399	\$ 83,739	\$ 59,340

HOWE INDEPENDENT SCHOOL DISTRICT
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
YEAR ENDED JUNE 30, 2018

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and Intermediate Sources	\$ 908,303	\$ 594,266	\$ 598,151	\$ 3,885
5800	State Program Revenues	-	314,037	360,818	46,781
5020	Total Revenues	\$ 908,303	\$ 908,303	\$ 958,969	\$ 50,666
EXPENDITURES					
Debt Service:					
0071	Principal on Long-term Debt	\$ 618,540	\$ 618,540	\$ 618,537	\$ 3
0072	Interest on Long-term Debt	277,615	277,615	277,613	2
0073	Debt Issuance Costs and Fees	3,200	3,200	2,210	990
	Total Debt Service	<u>\$ 899,355</u>	<u>\$ 899,355</u>	<u>\$ 898,360</u>	<u>\$ 995</u>
6030	Total Expenditures	\$ 899,355	\$ 899,355	\$ 898,360	\$ 995
1100	Excess (Deficiency) of Revenues Over Expenditures	<u>\$ 8,948</u>	<u>\$ 8,948</u>	<u>\$ 60,609</u>	<u>\$ 51,661</u>
1200	Net Change in Fund Balance	\$ 8,948	\$ 8,948	\$ 60,609	\$ 51,661
0100	Fund Balance - Beginning (July 1)	<u>1,347,602</u>	<u>1,347,602</u>	<u>1,347,602</u>	<u>-</u>
3000	Fund Balance - Ending (June 30)	<u>\$ 1,356,550</u>	<u>\$ 1,356,550</u>	<u>\$ 1,408,211</u>	<u>\$ 51,661</u>

HOWE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
 AS OF JUNE 30, 2018

<u>Data Control Codes</u>		<u>Response</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ 883,974
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ -0-
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 1,632,225
SF13	Net OPEB Liability (2545)at fiscal year end.	\$