

HUCKABAY INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2020

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2020

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CERTIFICATE OF BOARD

Huckabay Independent School District
Name of School District

Erath
County

072-908
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's reports of the above named school district were reviewed and ___approved
- ___disapproved for the year ended August 31, 2020, at a meeting of the board of school trustees of such school district on the
____ day of _____, 2020.

Signature of Board Secretary

Signature of Board President

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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Independent Auditor's Report

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Board of Trustees
Huckabay Independent School District
200 County Road 421
Stephenville, Texas 76401

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for Huckabay Independent School District (the "District") as of and for the year ended August 31, 2020, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Huckabay Independent School District as of August 31, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule for the General Fund, Schedule of District's Proportionate Share of the Net Pension Liability (TRS), Schedule of District Pension Contributions to TRS, Schedule of District's Proportionate Share of the Net OPEB Liability (TRS) and Schedule of District OPEB Contributions to TRS as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required 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 my opinion, the combining and individual nonmajor fund financial statements and the TEA required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements and the TEA required schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated October 22, 2020, on my consideration of the District's internal control over financial reporting and on my 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 my 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.

Cameron L. Gulley
Certified Public Accountant

October 22, 2020



Huckabay Independent School District

www.hisd.us

200 COUNTY ROAD 421 • STEPHENVILLE, TX 76401-6429

Troy Roberts
Superintendent
254-968-8476

Wes Corzine
Principal
254-968-5274

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Huckabay Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August, 31, 2020. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

In the Statement of Net Position and the Statement of Activities, we divide the District into one activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two different types of funds - governmental and proprietary - use different accounting approaches.

Governmental funds - All of the District's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 18. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities increased from \$3,239,817 to \$3,688,104. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from \$1,656,644 to \$1,692,909. Current and other assets increased by \$2,754,463 due to changes in cash balances. Capital assets increased by \$6,649,144 due to asset additions in excess of current year depreciation expense. Long-term liabilities increased by \$8,601,812 due to long-term debt issuance and the effects of net pension (NPL) and other post-employment benefit (OPEB) liabilities. Other liabilities increased by \$268,966 related to accounts payable and state aid overpayments. Deferred resource outflows and inflows related to NPL and OPEB liabilities increased by \$40,693 and \$125,235, respectively.

Increased state-mandated salary increases enacted through the 86th Legislative session had a significant impact on revenues and expenses for the year. Additionally, expenses were impacted by the state-mandated school closure in March, 2020 due to the COVID-19 pandemic.

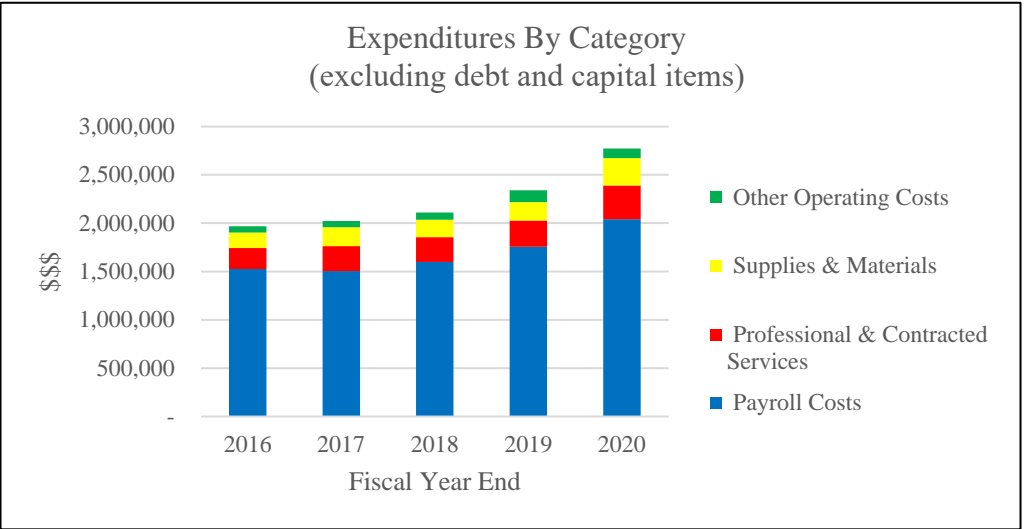
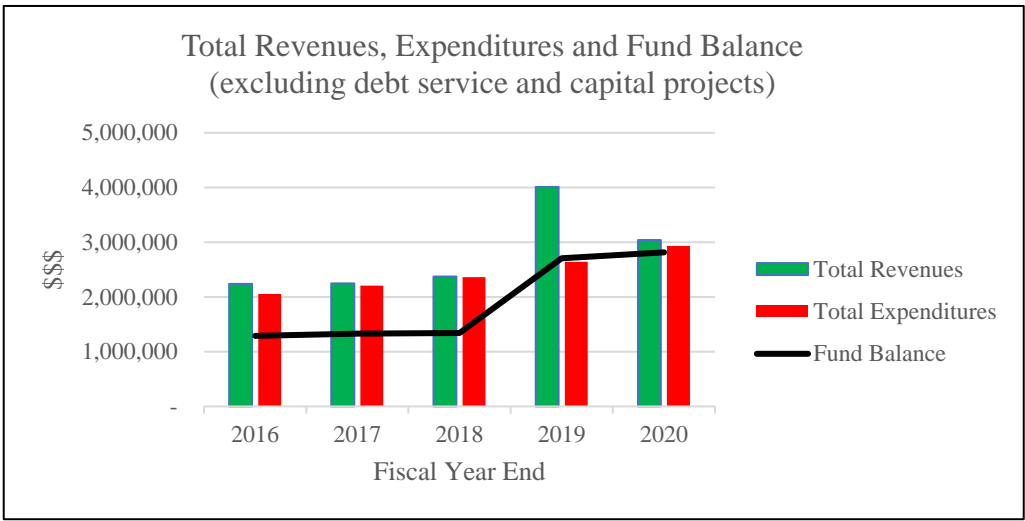
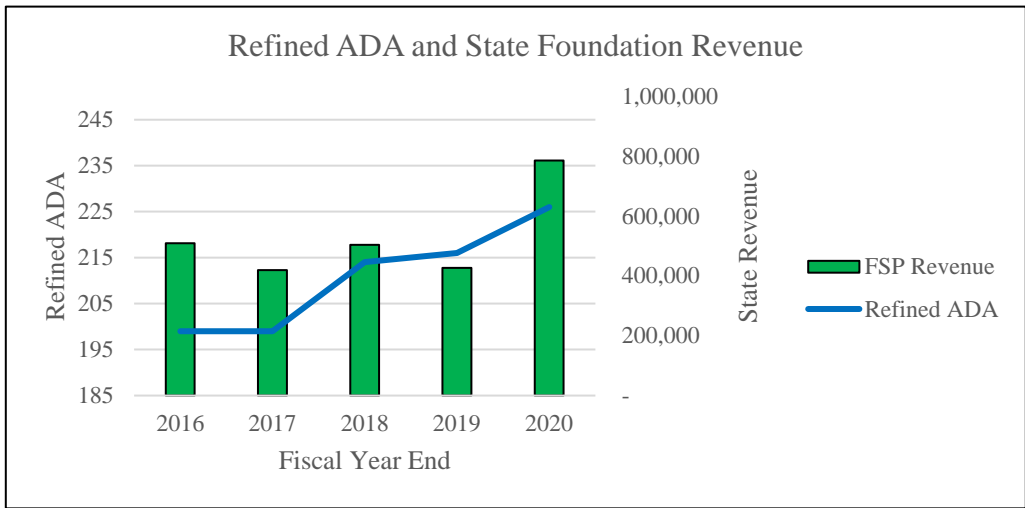
The District's total revenues were \$34,680 more than last year. State aid-formula grants increased by \$355,000 due to increased enrollment and additional state funding relative to the 86th Legislative Session and salary increases. Property tax revenues were higher by \$720,000 due to a new debt service tax levy for the year. Other revenue increased \$91,000 due to investment income. Operating grants and contributions decreased \$1.1 million due to prior year hold-harmless payments received from the District's Chapter 313 tax limitation agreement.

Overall, total expenses were \$930,963 more than last year. Most of the net expense increases by function were related to higher payroll costs enacted through the 86th Legislative session mentioned above and debt service fees. Total payroll cost increases for the year were \$285,000 and debt service costs by \$444,000. Changes in instructional, instructional leadership, and general administration were all mostly due to payroll costs. Student support services were higher due to professional fees. Extracurricular activities expenses were lower due to reduced student travel related to the COVID-19 school closure.

| | Governmental Activities 2020 | Governmental Activities 2019 | Variance Increase/ (Decrease) |
|--|------------------------------------|------------------------------------|-------------------------------------|
| Current and other assets | \$ 5,628,252 | \$ 2,873,789 | \$ 2,754,463 |
| Capital assets | 8,368,199 | 1,719,055 | 6,649,144 |
| Deferred resource outflows for TRS | 380,062 | 339,369 | 40,693 |
| Total assets and deferred resource outflows | 14,376,513 | 4,932,213 | 9,444,300 |
| Long-term liabilities | 9,909,282 | 1,307,470 | 8,601,812 |
| Other liabilities | 390,721 | 121,755 | 268,966 |
| Deferred resource inflows for TRS | 388,406 | 263,171 | 125,235 |
| Total liabilities and deferred resource inflows | 10,688,409 | 1,692,396 | 8,996,013 |
| Net position: | | | |
| Net investment in capital assets | (386,447) | 1,583,173 | (1,969,620) |
| Restricted for debt service and capital projects | 2,381,642 | 0 | 2,381,642 |
| Unrestricted | 1,692,909 | 1,656,644 | 36,265 |
| Total net position | \$ 3,688,104 | \$ 3,239,817 | \$ 448,287 |

| | Governmental Activities 2020 | Governmental Activities 2019 | Variance Favorable/ (Unfavorable) |
|---|------------------------------------|------------------------------------|---|
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for services | \$ 28,250 | \$ 37,779 | \$ (9,529) |
| Operating grants and contributions | 404,749 | 1,525,973 | (1,121,224) |
| General Revenues: | | | |
| Property taxes | 2,481,037 | 1,761,208 | 719,829 |
| State aid - formula grants | 901,417 | 546,756 | 354,661 |
| Other | 130,636 | 39,693 | 90,943 |
| Total Revenues | 3,946,089 | 3,911,409 | 34,680 |
| Expenses: | | | |
| Instruction, curriculum and media services | 1,878,278 | 1,449,592 | (428,686) |
| Instructional and school leadership | 88,877 | 82,396 | (6,481) |
| Student support services | 145,113 | 128,343 | (16,770) |
| Child nutrition | 81,448 | 81,063 | (385) |
| Extracurricular activities | 74,947 | 89,366 | 14,419 |
| General administration | 341,413 | 322,677 | (18,736) |
| Plant maintenance, security & data processing | 351,432 | 340,187 | (11,245) |
| Debt service | 447,895 | 4,377 | (443,518) |
| Payments related to shared service arrangements | 30,899 | 26,139 | (4,760) |
| Other intergovernmental charges | 57,500 | 42,699 | (14,801) |
| Total Expenses | 3,497,802 | 2,566,839 | (930,963) |
| Increase (Decrease) in Net Position | 448,287 | 1,344,570 | (896,283) |
| Net Position - beginning of year | 3,239,817 | 1,895,247 | 1,344,570 |
| Net Position - end of year | \$ 3,688,104 | \$ 3,239,817 | \$ 448,287 |

The following charts depict trend information for the past five years.



THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$5,189,064, an increase of \$2,481,190 in the District's Governmental Funds from last year's fund balance of \$2,707,874. The primary reasons for the net increase are similar to the narrative related to the tables above. The major exceptions are depreciation expense which is not charged to the governmental funds and the net effect relative to GASB 68 and 75 whose impacts are only at the government-wide level financial statements. The specific variances in the changes in fund balance versus the change in net position are detailed out on Exhibit C-4 on the accompanying general purpose financial statements.

The Board of Trustees revised the District's budget numerous times during the year. The major amendments were to instruction for payroll costs and technology supplies.

The District's General Fund balance of \$2,813,157 reported on pages 15 and 43 differs from the General Fund's budgetary fund balance of \$3,197,400 reported in the budgetary comparison schedule on page 43 primarily due to revenues being less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2020, the District had \$9,839,854 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Following were asset additions for the year.

Asset additions:

| | |
|--------------------------------------|----------------------------|
| New facilities - in progress | \$ 6,595,231 |
| Roof and other building improvements | 46,454 |
| Stock trailer | 40,051 |
| Ag equipment | 15,111 |
| School furnishings | 59,380 |
| Other asset additions | 15,786 |
| Total asset additions | <u><u>\$ 6,772,013</u></u> |

Debt

The District had one bond payable issued during the year for construction of new facilities and upgrades to existing facilities and two notes payable issued for the purpose of financing vehicles purchases. Interest rates on the bonds vary from 2% - 5% and on the loans from 3.0% to 4.34% with payments due annually ranging from \$535,000 to \$655,000 with final maturity due in August, 2049. Following are outstanding debt balances for the District:

| | 2020 | 2019 |
|----------------------|----------------------------|--------------------------|
| Debt by category: | | |
| Bonds payable | \$ 7,565,000 | \$ 0 |
| Notes payable | 88,623 | 135,882 |
| Total long-term debt | <u><u>\$ 7,653,623</u></u> | <u><u>\$ 135,882</u></u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's overall fund balance should remain strong with a slight deficit budget adopted for 2020-21. The tax rate was set at \$0.9664 for maintenance and operations and \$0.254 for debt service. General fund revenues were budgeted at \$2.84 million and expenditures were budgeted at approximately \$2.94 million. Therefore, the District expects that its general fund balance to approximate \$2.7 million at August 31, 2021.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at: Huckabay Independent School District, 200 County Road 421, Stephenville, Texas 76401.

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BASIC FINANCIAL STATEMENTS

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2020

EXHIBIT A-1

| Data Control Codes | Primary Government Governmental Activities |
|---|--|
| ASSETS | |
| 1110 Cash and Cash Equivalents | \$ 5,479,049 |
| 1220 Property Taxes - Delinquent | 89,176 |
| 1230 Allowance for Uncollectible Taxes | (27,655) |
| 1240 Due from Other Governments | 79,682 |
| 1410 Prepayments | 8,000 |
| Capital Assets: | |
| 1510 Land | 253,555 |
| 1520 Buildings, Net | 1,023,977 |
| 1530 Furniture and Equipment, Net | 416,619 |
| 1580 Construction in Progress | 6,595,231 |
| 1590 Infrastructure, Net | 78,817 |
| 1000 Total Assets | 13,996,451 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| 1705 Deferred Outflow Related to TRS Pension | 237,211 |
| 1706 Deferred Outflow Related to TRS OPEB | 142,851 |
| 1700 Total Deferred Outflows of Resources | 380,062 |
| LIABILITIES | |
| 2110 Accounts Payable | 119,915 |
| 2140 Interest Payable | 13,054 |
| 2150 Payroll Deductions and Withholdings | (447) |
| 2160 Accrued Wages Payable | 113,488 |
| 2180 Due to Other Governments | 142,216 |
| 2200 Accrued Expenses | 2,495 |
| Noncurrent Liabilities: | |
| 2501 Due Within One Year | 338,836 |
| 2502 Due in More Than One Year | 8,415,810 |
| 2540 Net Pension Liability (District's Share) | 447,723 |
| 2545 Net OPEB Liability (District's Share) | 706,913 |
| 2000 Total Liabilities | 10,300,003 |
| DEFERRED INFLOWS OF RESOURCES | |
| 2605 Deferred Inflow Related to TRS Pension | 82,585 |
| 2606 Deferred Inflow Related to TRS OPEB | 305,821 |
| 2600 Total Deferred Inflows of Resources | 388,406 |
| NET POSITION | |
| 3200 Net Investment in Capital Assets | (386,447) |
| 3850 Restricted for Debt Service | 65,567 |
| 3860 Restricted for Capital Projects | 2,316,075 |
| 3900 Unrestricted | 1,692,909 |
| 3000 Total Net Position | \$ 3,688,104 |

The notes to the financial statements are an integral part of this statement.

HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT B-1

| Data Control Codes | 1 | Program Revenues | | 6 |
|---|---------------------|-------------------------|--|--|
| Codes | Expenses | 3 | 4 | Net (Expense) Revenue and Changes in Net Position |
| Codes | Expenses | Charges for Services | Operating Grants and Contributions | Primary Gov. Governmental Activities |
| Primary Government: | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | |
| 11 Instruction | \$ 1,831,398 | \$ - | \$ 319,730 | \$ (1,511,668) |
| 12 Instructional Resources and Media Services | 1,458 | - | - | (1,458) |
| 13 Curriculum and Instructional Staff Development | 45,422 | - | 13,850 | (31,572) |
| 23 School Leadership | 88,877 | - | 7,352 | (81,525) |
| 31 Guidance, Counseling and Evaluation Services | 59,984 | - | 1,797 | (58,187) |
| 33 Health Services | 18,817 | - | 859 | (17,958) |
| 34 Student (Pupil) Transportation | 66,312 | - | 1,072 | (65,240) |
| 35 Food Services | 81,448 | 22,285 | 26,171 | (32,992) |
| 36 Extracurricular Activities | 74,947 | 5,965 | 2,824 | (66,158) |
| 41 General Administration | 341,413 | - | 20,520 | (320,893) |
| 51 Facilities Maintenance and Operations | 291,431 | - | 8,013 | (283,418) |
| 52 Security and Monitoring Services | 16,246 | - | - | (16,246) |
| 53 Data Processing Services | 43,755 | - | 2,561 | (41,194) |
| 72 Debt Service - Interest on Long-Term Debt | 273,392 | - | - | (273,392) |
| 73 Debt Service - Bond Issuance Cost and Fees | 174,503 | - | - | (174,503) |
| 93 Payments Related to Shared Services Arrangements | 30,899 | - | - | (30,899) |
| 99 Other Intergovernmental Charges | 57,500 | - | - | (57,500) |
| [TP] TOTAL PRIMARY GOVERNMENT: | <u>\$ 3,497,802</u> | <u>\$ 28,250</u> | <u>\$ 404,749</u> | <u>(3,064,803)</u> |

| Data Control Codes | General Revenues: | | |
|--------------------------|--|--|---------------------|
| Codes | Taxes: | | |
| MT | Property Taxes, Levied for General Purposes | | 1,750,672 |
| DT | Property Taxes, Levied for Debt Service | | 730,365 |
| SF | State Aid - Formula Grants | | 901,417 |
| IE | Investment Earnings | | 115,638 |
| MI | Miscellaneous Local and Intermediate Revenue | | 14,998 |
| TR | Total General Revenues | | <u>3,513,090</u> |
| CN | Change in Net Position | | 448,287 |
| NB | Net Position - Beginning | | <u>3,239,817</u> |
| NE | Net Position - Ending | | <u>\$ 3,688,104</u> |

The notes to the financial statements are an integral part of this statement.

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2020

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | 60 Capital Projects |
|--|-----------------------|----------------------------|---------------------------|
| ASSETS | | | |
| 1110 Cash and Cash Equivalents | \$ 3,047,490 | \$ 58,400 | \$ 2,367,086 |
| 1220 Property Taxes - Delinquent | 80,774 | 8,402 | - |
| 1230 Allowance for Uncollectible Taxes | (26,815) | (840) | - |
| 1240 Due from Other Governments | 40,507 | - | - |
| 1260 Due from Other Funds | 37,697 | - | 9,790 |
| 1410 Prepayments | 8,000 | - | - |
| 1000 Total Assets | <u>\$ 3,187,653</u> | <u>\$ 65,962</u> | <u>\$ 2,376,876</u> |
| LIABILITIES | | | |
| 2110 Accounts Payable | \$ 56,808 | \$ - | \$ 60,801 |
| 2150 Payroll Deductions and Withholdings Payable | (447) | - | - |
| 2160 Accrued Wages Payable | 109,900 | - | - |
| 2170 Due to Other Funds | 9,790 | 395 | - |
| 2180 Due to Other Governments | 142,216 | - | - |
| 2200 Accrued Expenditures | 2,270 | - | - |
| 2000 Total Liabilities | <u>320,537</u> | <u>395</u> | <u>60,801</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| 2601 Unavailable Revenue - Property Taxes | 53,959 | 7,562 | - |
| 2600 Total Deferred Inflows of Resources | <u>53,959</u> | <u>7,562</u> | <u>-</u> |
| FUND BALANCES | | | |
| Nonspendable Fund Balance: | | | |
| 3430 Prepaid Items | 8,000 | - | - |
| Restricted Fund Balance: | | | |
| 3470 Capital Acquisition and Contractual Obligation | - | - | 2,316,075 |
| 3480 Retirement of Long-Term Debt | - | 58,005 | - |
| Committed Fund Balance: | | | |
| 3510 Construction | 443,871 | - | - |
| 3530 Capital Expenditures for Equipment | 78,500 | - | - |
| 3600 Unassigned Fund Balance | 2,282,786 | - | - |
| 3000 Total Fund Balances | <u>2,813,157</u> | <u>58,005</u> | <u>2,316,075</u> |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 3,187,653</u> | <u>\$ 65,962</u> | <u>\$ 2,376,876</u> |

The notes to the financial statements are an integral part of this statement.

| Other Funds | Total Governmental Funds |
|------------------|--------------------------------|
| \$ 6,073 | \$ 5,479,049 |
| - | 89,176 |
| - | (27,655) |
| 39,175 | 79,682 |
| - | 47,487 |
| - | 8,000 |
| <u>\$ 45,248</u> | <u>\$ 5,675,739</u> |
| \$ 2,306 | \$ 119,915 |
| - | (447) |
| 3,588 | 113,488 |
| 37,302 | 47,487 |
| - | 142,216 |
| 225 | 2,495 |
| <u>43,421</u> | <u>425,154</u> |
| - | 61,521 |
| - | <u>61,521</u> |
| - | 8,000 |
| - | 2,316,075 |
| - | 58,005 |
| - | 443,871 |
| - | 78,500 |
| 1,827 | 2,284,613 |
| <u>1,827</u> | <u>5,189,064</u> |
| <u>\$ 45,248</u> | <u>\$ 5,675,739</u> |

HUCKABAY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2020

EXHIBIT C-2

| | | |
|--|-----------|------------------|
| Total Fund Balances - Governmental Funds | \$ | 5,189,064 |
| 1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$3,148,640 and the accumulated depreciation was (\$1,429,585). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position. | | 1,583,173 |
| 2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase net position. | | 7,194,272 |
| 3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$237,211, a deferred resource inflow in the amount of \$82,585 and a net pension liability in the amount of \$447,723. This resulted in a decrease in net position. | | (293,097) |
| 4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$142,851, a deferred resource inflow in the amount of \$305,821 and a net OPEB liability in the amount of \$706,913. This resulted in a decrease in net position. | | (869,883) |
| 5 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | | (122,869) |
| 6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position. | | (8,992,556) |
| 19 Net Position of Governmental Activities | <u>\$</u> | <u>3,688,104</u> |

The notes to the financial statements are an integral part of this statement.

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | 60 Capital Projects |
|--|-----------------------|----------------------------|---------------------------|
| REVENUES: | | | |
| 5700 Total Local and Intermediate Sources | \$ 1,883,195 | \$ 725,289 | \$ 76,678 |
| 5800 State Program Revenues | 1,030,371 | - | - |
| 5900 Federal Program Revenues | - | - | - |
| 5020 Total Revenues | 2,913,566 | 725,289 | 76,678 |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 Instruction | 1,630,754 | - | - |
| 0012 Instructional Resources and Media Services | 1,458 | - | - |
| 0013 Curriculum and Instructional Staff Development | 30,555 | - | - |
| 0023 School Leadership | 80,073 | - | - |
| 0031 Guidance, Counseling, and Evaluation Services | 56,807 | - | - |
| 0033 Health Services | 17,851 | - | - |
| 0034 Student (Pupil) Transportation | 74,201 | - | - |
| 0035 Food Services | - | - | - |
| 0036 Extracurricular Activities | 70,777 | - | - |
| 0041 General Administration | 310,757 | - | - |
| 0051 Facilities Maintenance and Operations | 322,505 | - | - |
| 0052 Security and Monitoring Services | 16,246 | - | - |
| 0053 Data Processing Services | 40,801 | - | - |
| Debt Service: | | | |
| 0071 Principal on Long-Term Debt | 47,259 | 375,000 | - |
| 0072 Interest on Long-Term Debt | 4,280 | 292,284 | - |
| 0073 Bond Issuance Cost and Fees | - | - | 174,503 |
| Capital Outlay: | | | |
| 0081 Facilities Acquisition and Construction | - | - | 6,663,349 |
| Intergovernmental: | | | |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 30,899 | - | - |
| 0099 Other Intergovernmental Charges | 57,500 | - | - |
| 6030 Total Expenditures | 2,792,723 | 667,284 | 6,837,852 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | 120,843 | 58,005 | (6,761,174) |
| OTHER FINANCING SOURCES (USES): | | | |
| 7911 Capital Related Debt Issued | - | - | 7,940,000 |
| 7912 Sale of Real and Personal Property | 15,000 | - | - |
| 7915 Transfers In | - | - | - |
| 7916 Premium or Discount on Issuance of Bonds | - | - | 1,137,249 |
| 8911 Transfers Out (Use) | (28,848) | - | - |
| 7080 Total Other Financing Sources (Uses) | (13,848) | - | 9,077,249 |
| 1200 Net Change in Fund Balances | 106,995 | 58,005 | 2,316,075 |
| 0100 Fund Balance - September 1 (Beginning) | 2,706,162 | - | - |
| 3000 Fund Balance - August 31 (Ending) | \$ 2,813,157 | \$ 58,005 | \$ 2,316,075 |

The notes to the financial statements are an integral part of this statement.

| Other Funds | Total Governmental Funds |
|----------------|--------------------------------|
| \$ 22,400 | \$ 2,707,562 |
| 27,895 | 1,058,266 |
| 59,818 | 59,818 |
| 110,113 | 3,825,646 |
| 52,256 | 1,683,010 |
| - | 1,458 |
| 11,400 | 41,955 |
| - | 80,073 |
| - | 56,807 |
| - | 17,851 |
| - | 74,201 |
| 75,190 | 75,190 |
| - | 70,777 |
| - | 310,757 |
| - | 322,505 |
| - | 16,246 |
| - | 40,801 |
| - | 422,259 |
| - | 296,564 |
| - | 174,503 |
| - | 6,663,349 |
| - | 30,899 |
| - | 57,500 |
| 138,846 | 10,436,705 |
| (28,733) | (6,611,059) |
| - | 7,940,000 |
| - | 15,000 |
| 28,848 | 28,848 |
| - | 1,137,249 |
| - | (28,848) |
| 28,848 | 9,092,249 |
| 115 | 2,481,190 |
| 1,712 | 2,707,874 |
| \$ 1,827 | \$ 5,189,064 |

HUCKABAY INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2020

EXHIBIT C-4

| | | |
|---|-----------|----------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 2,481,190 |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the capital outlays and debt principal payments is to increase net position. | | 7,194,272 |
| Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position. | | (122,869) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position. | | (9,036,716) |
| GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. Those contributions made after the measurement date of the plan caused the change in ending net position to increase by \$41,974. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$30,146. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$65,574. The net result is a decrease in the change in net position. | | (53,746) |
| GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. Those contributions made after the measurement date of the plan caused the change in ending net position to increase by \$12,681. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in the change in net position totaling \$10,609. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense decreased the change in net position by \$15,916. The net result is a decrease in the change in net position. | | (13,844) |
| Change in Net Position of Governmental Activities | \$ | 448,287 |

The notes to the financial statements are an integral part of this statement.

HUCKABAY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2020

| | Agency Fund |
|---------------------------|------------------|
| <hr/> | |
| ASSETS | |
| Cash and Cash Equivalents | \$ 87,230 |
| Total Assets | <u>\$ 87,230</u> |
| LIABILITIES | |
| Due to Student Groups | \$ 87,230 |
| Total Liabilities | <u>\$ 87,230</u> |

The notes to the financial statements are an integral part of this statement.

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED AUGUST 31, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Huckabay Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

Pensions. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other Post-Employment Benefits (OPEB). The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as you-go plan and all cash is held in a cash account.

The District applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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, that is, when they are both measurable and available. 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.

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund.** The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Debt Service Fund** - The debt service fund is used to account for revenues collected to pay interest and related costs and to retire long-term debt.
3. **Capital Projects Fund** - The capital projects fund accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodel of facilities and procurement of equipment necessary for providing educational programs for all students within the District.

Additionally, the District reports the following fund type(s):

Governmental Funds:

4. **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.

Fiduciary Funds:

5. **Agency Funds.** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Huckabay Student Activity Fund."

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

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

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

| <u>Asset:</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 40 |
| Infrastructure | 20 |
| Vehicles | 10 |
| Equipment | 7 |
| Technology equipment | 5 |

6. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's board. Assignments of fund balance are amounts set aside by the District's superintendent or his designee with the intent they be used for specific purposes.
7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. In general governments are required to report investments at fair value. These methods are disclosed in section III.A. below.
9. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Items reported as deferred outflows of resources are as follows:

| | |
|--|------------|
| Deferred charges related to TRS retirement | \$ 237,211 |
| Deferred charges related to TRS OPEB | \$ 142,851 |

10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Items reported as deferred inflows of resources are as follows:

| | |
|--|------------|
| Deferred charges related to TRS retirement | \$ 82,585 |
| Deferred charges related to TRS OPEB | \$ 305,821 |

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other reports are in Exhibits J-4 and J-5.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 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. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. (However, none of these were significant.)
4. Each budget 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.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the District had the following functional categories from the General Fund that exceeded its final amended budget by more than \$2,500:

| Functional Category | Amount Over Budget | Explanation |
|--|--------------------|---|
| 11 - Instruction | \$ 14,832 | Difference for variance was due to excess expenditures coded to federal grant funds moved back to general fund. |
| 51 - Facilities maintenance and operations | \$ 22,462 | Difference for variance was due to accruals for ending accounts payable. |

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits. The District was not exposed to custodial credit risk.

Foreign Currency Risk. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

As of August 31, 2020, the following are the District's cash and cash equivalents (including it's student activity fund) with respective maturities and credit rating:

| Type of Deposit | Fair Value | Percent | Maturity < 1 Yr | Maturity 1-10 Yrs | Maturity > 10 Yrs | Credit Rating |
|--|---------------------|-------------|---------------------|----------------------|----------------------|------------------|
| Cash: | | | | | | |
| Money market and FDIC insured accounts | \$ 3,559,173 | 64% | \$ 3,559,173 | | | N/A |
| Certificate of deposit | 1,485,470 | 27% | 1,485,470 | | | N/A |
| Total Cash | 5,044,643 | 91% | 5,044,643 | | | |
| Investment Pools: | | | | | | |
| TexPool | 521,636 | 9% | 521,636 | | | AAA |
| Total Investment Pools | 521,636 | 9% | 521,636 | | | |
| Total Cash and Cash Equivalents | \$ 5,566,279 | 100% | \$ 5,566,279 | | | |

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The ***Public Funds Investment Act***(Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Huckabay Independent School District is in substantial compliance with the requirements of the Act and with local policies. Additional policies and contractual provisions governing investments for the District are specified below:

Credit Risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in commercial paper, corporate bonds and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2020, all of the District's investments were rated AAA by Standard & Poor's rating agency. Therefore, the District was not exposed to credit risk.

Custodial Credit Risk for Investments. To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent. The District was not exposed to custodial credit risk.

Concentration of Credit Risk. To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%. The District was not exposed to concentration of credit risk.

Interest Rate Risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires a review of its investment portfolio at least annually to determine whether market conditions pose an inherent risk of future interest rates either rising or falling which could significantly affect investment performance. The District was not exposed to interest rate risk.

Foreign Currency Risk for Investments. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in any foreign currency. Therefore, the District was not exposed to foreign currency risk.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The District had no investments during the year under audit except for governmental investment pooled cash.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District 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 year in which imposed. On January 31 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 (1) when they become due or past due and receivable within the current period.

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of August 31, 2020 is as follows:

| Fund | Receivable | Payable | Purpose | Current? |
|-----------------------------|------------------|------------------|--------------------|----------|
| General fund | \$ 37,697 | \$ 9,790 | Temporary advances | Yes |
| Debt service fund | | 395 | Temporary advances | Yes |
| Capital projects fund | 9,790 | | Temporary advances | Yes |
| Nonmajor governmental funds | | 37,302 | Temporary advances | Yes |
| Total | <u>\$ 47,487</u> | <u>\$ 47,487</u> | | |

Interfund transfers for the year ended August 31, 2020 consisted of the following individual amounts:

| Fund | Transfers In | Transfers Out | Purpose |
|----------------------------|------------------|------------------|----------------------------|
| Nonmajor governmental fund | \$ 28,848 | | Operating deficit transfer |
| General fund | | 28,848 | Operating deficit transfer |
| Total | <u>\$ 28,848</u> | <u>\$ 28,848</u> | |

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2020 were as follows:

| | Property Taxes (net) | Other Government | Total Receivables |
|-------------------------------|----------------------|------------------|-------------------|
| Governmental Activities: | | | |
| General fund | \$ 53,959 | \$ 40,507 | \$ 94,466 |
| Debt service fund | 7,562 | | 7,562 |
| Nonmajor governmental funds | | 39,175 | 39,175 |
| Total Governmental Activities | <u>\$ 61,521</u> | <u>\$ 79,682</u> | <u>\$ 141,203</u> |

Payables at August 31, 2020 were as follows:

| | Accounts | Salaries and Benefits | Other Governments | Total Payables |
|-------------------------------|-------------------|-----------------------|-------------------|-------------------|
| Governmental Activities: | | | | |
| General fund | \$ 56,808 | \$ 111,723 | \$ 142,216 | \$ 310,747 |
| Capital projects fund | 60,801 | | | 60,801 |
| Nonmajor governmental funds | 2,306 | 3,813 | | 6,119 |
| Total Governmental Activities | <u>\$ 119,915</u> | <u>\$ 115,536</u> | <u>\$ 142,216</u> | <u>\$ 377,667</u> |

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended August 31, 2020, was as follows:

| | Balance 8/31/19 | Additions | Disposals | Balance 8/31/20 |
|---|---------------------|---------------------|---------------|---------------------|
| Governmental activities: | | | | |
| Land and improvements | \$ 253,555 | | | \$ 253,555 |
| Infrastructure | 214,018 | | | 214,018 |
| Buildings and improvements | 1,813,848 | 46,454 | | 1,860,302 |
| Furniture and equipment | 867,219 | 130,328 | 80,799 | 916,748 |
| Construction in progress | 0 | 6,595,231 | | 6,595,231 |
| Totals | <u>3,148,640</u> | <u>6,772,013</u> | <u>80,799</u> | <u>9,839,854</u> |
| Less accumulated depreciation for: | | | | |
| Infrastructure | 125,127 | 10,074 | | 135,201 |
| Buildings and improvements | 787,528 | 48,797 | | 836,325 |
| Furniture and equipment | 516,930 | 63,998 | 80,799 | 500,129 |
| Total accumulated depreciation | <u>1,429,585</u> | <u>122,869</u> | <u>80,799</u> | <u>1,471,655</u> |
| Governmental activities capital assets, net | <u>\$ 1,719,055</u> | <u>\$ 6,649,144</u> | <u>\$ 0</u> | <u>\$ 8,368,199</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

| | |
|--|-------------------|
| 11 - Instruction | \$ 58,055 |
| 13 - Curriculum and staff development | 1,467 |
| 23 - School leadership | 2,799 |
| 31 - Guidance, counseling and evaluation services | 1,986 |
| 34 - Student (pupil) transportation | 31,522 |
| 35 - Food services | 2,628 |
| 36 - Extracurricular activities | 2,474 |
| 41 - General administration | 10,863 |
| 51 - Facilities maintenance and operations | 9,649 |
| 53 - Data processing services | 1,426 |
| Total depreciation expense - governmental activities | <u>\$ 122,869</u> |

G. BONDS AND LONG-TERM NOTES PAYABLE

The District accounts for long-term debts for maintenance purposes through the General Fund. Long-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from long-term loans are shown in the financial statements as non-current liabilities and principal payments as expenditures in the fund financial statements and reductions in liabilities in the government-wide financial statements.

A summary of changes in general long-term debt for the year ended August 31, 2020 is as follows:

| Description | Interest Rate Payable | Amounts Original Issue | Amounts Outstanding 9/1/19 | Issued | Retired | Amounts Outstanding 8/31/20 |
|-----------------------------------|-----------------------|------------------------|----------------------------|---------------------|-------------------|-----------------------------|
| Bonds Payable: | | | | | | |
| UL tax building bonds series 2019 | 2% - 5% | \$ 8,900,000 | \$ 0 | \$ 7,940,000 | \$ 375,000 | \$ 7,565,000 |
| Bond premium series 2019 | N/A | N/A | 0 | 1,137,249 | 36,226 | 1,101,023 |
| Subtotal - bonds payable | | | <u>0</u> | <u>9,077,249</u> | <u>411,226</u> | <u>8,666,023</u> |
| Loans Payable: | | | | | | |
| First Financial Bank | 4.34% | \$ 47,873 | 19,963 | | 9,756 | 10,207 |
| First Financial Bank | 3.00% | \$ 156,900 | 115,919 | | 37,503 | 78,416 |
| Subtotal - loans payable | | | <u>135,882</u> | <u>0</u> | <u>47,259</u> | <u>88,623</u> |
| Total Long-Term Debt | | | <u>\$ 135,882</u> | <u>\$ 9,077,249</u> | <u>\$ 458,485</u> | <u>\$ 8,754,646</u> |

The bonds payable are paid by the District's debt service fund with tax rates ratified through taxpayer authorization. The long-term loan is payable from the general fund.

Huckabay ISD Unlimited Tax School Building Bonds, Series 2019 -

The bonds were issued on September 17, 2019 for the purpose of construction and renovation of facilities and were issued in accordance with Texas law. The original issue was for \$7,940,000, maturing in various amounts, with a stated interest rates ranging from 2.0% - 5.0%, and maturing on August 15, 2049. Bonds due on or after August 15, 2028 are callable at par on August 15, 2027, or any date thereafter. The bonds were issued at a premium of \$1,137,249 which is being amortized over the life of the bonds.

Loans Payable - First Financial Bank -

The District obtained a long-term note payable in August, 2016 to finance the purchase of a new school bus. The amount financed was for \$47,873 payable in annual installments of \$10,559 at an interest rate of 4.34% with final maturity in February, 2021.

The District obtained a long-term note payable in August, 2019 to finance the purchase of two school buses. The amount financed was for \$156,900 payable in annual installments of \$40,981 at an interest rate of 3.00% with final maturity in August, 2022.

H. DEBT SERVICE REQUIREMENTS - BONDS AND LONG-TERM NOTES PAYABLE

Future debt service requirements are as follows:

| Year Ended August 31, | Principal | Interest | Total Requirements |
|--------------------------|---------------------|---------------------|-----------------------|
| 2021 | \$ 338,836 | \$ 316,004 | \$ 654,840 |
| 2022 | 324,787 | 302,894 | 627,681 |
| 2023 | 275,000 | 290,300 | 565,300 |
| 2024 | 270,000 | 279,300 | 549,300 |
| 2025 | 270,000 | 265,800 | 535,800 |
| 2026-30 | 1,335,000 | 1,136,550 | 2,471,550 |
| 2031-35 | 1,105,000 | 870,400 | 1,975,400 |
| 2036-40 | 1,110,000 | 661,600 | 1,771,600 |
| 2041-45 | 1,350,000 | 421,000 | 1,771,000 |
| 2046-49 | 1,275,000 | 129,800 | 1,404,800 |
| Totals | <u>\$ 7,653,623</u> | <u>\$ 4,673,648</u> | <u>\$ 12,327,271</u> |

I. DEFINED BENEFIT PENSION PLAN

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

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

Pension Plan Fiduciary Net Position. Detailed information about the 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.

| <u>Net Pension Liability</u> | <u>Total</u> |
|-----------------------------------|--------------------------|
| Total Pension Liability | \$ 209,961,325,288 |
| Less: Plan Fiduciary Net Position | (157,978,199,075) |
| Net Pension Liability | <u>\$ 51,983,126,213</u> |

Net Position as a percentage of Total Pension Liability 75.24%

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 (A) above.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2019 and 2020.

| Contribution Rates | | |
|--|------|------|
| | 2019 | 2020 |
| Member | 7.7% | 7.7% |
| Non-Employer Contributing Entity (State) | 6.8% | 7.5% |
| Employers | 6.8% | 7.5% |

| | | |
|--|----|---------|
| Current fiscal year District contributions | \$ | 41,974 |
| Current fiscal year Member contributions | \$ | 124,828 |
| 2019 measurement year NECE contributions | \$ | 80,378 |

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. 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, 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 including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source.

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 does not contribute to the Federal Old-Age Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees, and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

| | |
|--|---|
| Valuation Date | August 31, 2018 rolled forward to August 31, 2019 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Asset Valuation Method | Market Value |
| Actuarial Assumptions: | |
| Single Discount Rate | 7.25% |
| Long-term expected Investment Rate of Return | 7.25% |
| Inflation | 2.3% |
| Salary Increases | 3.05% to 9.05% including inflation |
| Benefit Changes During the Year | None |
| Ad hoc Post-Employment Benefit Changes | None |

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2018. For a full description of these assumptions, please see the TRS CAFR and actuarial valuation report dated November 9, 2018.

Discount Rate. The single discount rate used to measure the total pension liability was 7.25%. This was a change in the discount rate from the previous year of 0.343%. 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 set during the 2019 legislative session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and State contributions for active and rehired retirees. 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 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2019 are summarized below:

| Asset Class | Target Allocation | Real Return Geometric Basis | Long-Term Expected Portfolio Real Rate of Return* |
|-------------------------------|-------------------|-----------------------------|---|
| Global Equity | | | |
| U.S. | 18% | 5.70% | 1.04% |
| Non-U.S. Developed | 13% | 6.90% | 0.90% |
| Emerging Markets | 9% | 8.95% | 0.80% |
| Directional Hedge Funds | 4% | 3.53% | 0.14% |
| Private Equity | 13% | 10.18% | 1.32% |
| Stable Value | | | |
| U.S. Treasuries | 11% | 1.11% | 0.12% |
| Absolute Return | 0% | 0.00% | 0.00% |
| Hedge Funds (Stable Value) | 4% | 3.09% | 0.12% |
| Cash | 1% | (0.30)% | 0.00% |
| Real Return | | | |
| Global Inflation Linked Bonds | 3% | 0.70% | 0.02% |
| Real Assets | 16% | 5.21% | 0.73% |
| Energy and Natural Resources | 3% | 7.48% | 0.37% |
| Commodities | 0% | 0.00% | 0.00% |
| Risk Parity | | | |
| Risk Parity | 5% | 3.70% | 0.18% |
| Inflation Expectations | | | 2.30% |
| Alpha | | | (0.79)% |
| Total | <u>100%</u> | | <u>7.25%</u> |

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the 2019 Net Pension Liability.

| | 1% Decrease in Discount Rate (6.25%) | Discount Rate (7.25%) | 1% Increase in Discount Rate (8.25%) |
|---|--------------------------------------|-----------------------|--------------------------------------|
| District's proportionate share of the net pension liability | \$ 688,215 | \$ 447,723 | \$ 252,878 |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2020, the District reported a liability of \$447,723 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 | \$ 447,723 |
| State's proportionate share that is associated with the District | 1,193,807 |
| Total | <u>\$ 1,641,530</u> |

The net pension liability was measured as of August 31, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the District's proportion of the collective net pension liability was 0.0008612846% which was an increase of 0.0000341818% from its proportion measured as of August 31, 2018.

Changes Since the Prior Actuarial Valuation. Changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period are as follows:

1. The single discount rate as of August 31, 2018 was a blended rate of 6.907% and that has changed to the long-term rate of return of 7.25% as of August 31, 2019.
2. With the enactment of SB 3 by the 2019 Texas Legislature, an assumption has been made about how this would impact future salaries. It is assumed that eligible active members will each receive a \$2,700 increase in fiscal year 2020. This is in addition to the salary increase expected based on the actuarial assumptions.

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

For the year ended August 31, 2020, the District recognized pension expense of \$283,250 and revenue of \$187,530 for support provided by the State in the Government-Wide Statement of Activities.

At August 31, 2020, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual economic experiences | \$ 1,881 | \$ 15,546 |
| Changes in actuarial assumptions | 138,906 | 57,402 |
| Differences between projected and actual investment earnings | 4,495 | |
| Changes in proportion and differences between the District's contributions and the proportionate share of contributions | 49,955 | 9,637 |
| Total as of August 31, 2019 measurement date | \$ 195,237 | \$ 82,585 |
| Contributions paid to TRS subsequent to the measurement date | 41,974 | |
| Total as of August 31, 2020 fiscal year end | <u>\$ 237,211</u> | <u>\$ 82,585</u> |

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

| Fiscal year ended August 31, | Amount |
|------------------------------|------------|
| 2021 | \$ 29,716 |
| 2022 | \$ 24,601 |
| 2023 | \$ 29,362 |
| 2024 | \$ 24,309 |
| 2025 | \$ 8,048 |
| Thereafter | \$ (3,384) |

J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2019 are as follows:

| | |
|--|--------------------------|
| <u>Net OPEB Liability:</u> | <u>Total</u> |
| Total OPEB liability | \$ 48,583,247,239 |
| Less: plan fiduciary net position | (1,292,022,349) |
| Net OPEB liability | <u>\$ 47,291,224,890</u> |
| Net position as a percentage of total OPEB liability | 2.66% |

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

Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible Medicare retirees and dependents may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system.

The General Appropriations Act passed by the 86th Legislature included funding to maintain TRS Care premiums at their current level through 2021. The 86th legislature also passed SB 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures.

The following premium rates for retirees with Medicare Part A and Part B became effective January 1, 2018 and are reflected in the following table.

| TRS-Care Plan Premium Rates Effective January 1, 2018 - December 31, 2021 | | |
|--|----------|--------------|
| | Medicare | Non-Medicare |
| Retiree or surviving spouse | \$ 135 | \$ 200 |
| Retiree and spouse | 529 | 689 |
| Retiree or surviving spouse and children | 468 | 408 |
| Retiree and family | 1,020 | 999 |

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 plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for the plan 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 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

| Contribution Rates | | |
|---|-------|-------|
| | 2019 | 2020 |
| Active employee | 0.65% | 0.65% |
| Non-employer contributing entity (State) | 1.25% | 1.25% |
| Employers | 0.75% | 0.75% |
| Federal/private funding remitted by employers | 1.25% | 1.25% |

| | | |
|--|----|--------|
| Current fiscal year District contributions | \$ | 12,681 |
| Current fiscal year member contributions | \$ | 10,537 |
| 2019 measurement year NECE contributions | \$ | 14,096 |

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.

A supplemental appropriation was received in 2019 for \$73.6 million, which was re-appropriated from amounts received by the pension and TRS-Care funds in excess of the state's actual obligation and then transferred to TRS-Care.

Actuarial Assumptions. The total OPEB liability in the August 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of TRS-Care was performed as of August 31, 2018. Update procedures were used to roll forward the total OPEB liability to August 31, 2019.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions used for members of TRS are identical to the assumptions employed in the August 31, 2019 TRS annual pension actuarial valuation:

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

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females with full generational mortality using Scale BB. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale (U-MP).

The initial medical trend rates were 10.25% for Medicare retirees and 7.50% for non-Medicare retirees. There was an initial prescription drug trend rate of 10.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.50% over a period of 13 years.

Additional Actuarial Methods and Assumptions:

| | |
|--|--|
| Valuation Date | August 31, 2018 rolled forward to August 31, 2019 |
| Actuarial Cost Method | Individual Entry Age Normal |
| Inflation | 2.30% |
| Discount Rate | 2.63% |
| Aging Factors | Based on plan specific experience |
| Expenses | Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs. |
| Projected Salary Increases | 3.05% to 9.05% |
| Election Rates | Normal Retirement: 65% participation prior to age 65 and 50% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65. |
| Ad hoc post-employment benefit changes | None |

The impact of the Cadillac Tax that is returning in fiscal year 2023 has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annual by 2.30%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

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

Discount Rate. A single discount rate of 2.63% was used to measure the total OPEB liability. There was a change of (1.06%) 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, 2019.

Sensitivity of the Net OPEB Liability:

Discount Rate Sensitivity Analysis - The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability.

| | 1% Decrease in Discount Rate (1.63%) | Current Single Discount Rate (2.63%) | 1% Increase in Discount Rate (3.63%) |
|--|--|--|--|
| District’s proportionate share of net OPEB liability | \$ 853,471 | \$ 706,913 | \$ 592,261 |

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

| | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|--|-------------|--|-------------|
| District’s proportionate share of net OPEB liability | \$ 576,675 | \$ 706,913 | \$ 881,372 |

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2020, the District reported a liability of \$706,913 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 | \$ 706,913 |
| State’s proportionate share that is associated with the District | 939,329 |
| Total | <u>\$ 1,646,242</u> |

The net OPEB liability was measured as of August 31, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District’s proportion of the net OPEB liability was based on the District’s contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2018 thru August 31, 2019.

At August 31, 2019 the District’s proportion of the collective net OPEB liability was 0.0014948081% which was an increase of 0.0000601631% from its proportion measured as of August 31, 2018.

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

1. The discount rate changed from 3.69% as of August 31, 2018 to 2.63% as of August 31, 2019. This change increased the total OPEB liability (TOL).
2. The participation rate for pre-65 retirees was lowered from 70% to 65%. The participation rate for post-65 retirees was lowered from 75% to 50%. 25% of pre-65 retirees are assumed to discontinue their coverage at age 65. There was not lapse assumption in the prior valuation. These changes decreased the TOL.
3. The trend rates were reset to better reflect the plan's anticipated experience. This change increased the TOL.
4. Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
5. The percentage of retirees who are assumed to have two-person coverage was lowered from 20% to 15%. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20% to 10%. These changes decreased the TOL.

There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2020, the District recognized OPEB expense of \$51,282 and revenue of \$24,757 for support provided by the State.

At August 31, 2020, 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:

| | Deferred Outflow of Resources | Deferred Inflow of Resources |
|--|-------------------------------------|------------------------------------|
| Differences between expected and actual actuarial experience | \$ 34,680 | \$ 115,679 |
| Changes in actuarial assumptions | 39,264 | 190,142 |
| Differences between projected and actual investment earnings | 77 | |
| Changes in proportion and difference between the District's contributions and the proportionate share of contributions | 56,149 | |
| Total as of August 31, 2019 measurement date | \$ 130,170 | \$ 305,821 |
| Contributions paid to TRS subsequent to the measurement date | 12,681 | |
| Total as of August 31, 2020 fiscal year end | <u>\$ 142,851</u> | <u>\$ 305,821</u> |

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

| Fiscal year ended August 31, | Amount |
|------------------------------|-------------|
| 2021 | \$ (31,613) |
| 2022 | \$ (31,613) |
| 2023 | \$ (31,637) |
| 2024 | \$ (31,651) |
| 2025 | \$ (31,647) |
| Thereafter | \$ (17,490) |

K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Texas Insurance Code Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by phoning the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The Contribution Rate for the State was 1.25% for 2018 thru 2020. The contribution rate for the district was 0.75% for 2018 thru 2020. The contribution rate for active employees was 0.65% of the district payroll for 2018 thru 2020. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.25% for 2018 thru 2020.

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf to the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2020, 2019 and 2018 are as follows:

| Contribution Rates and Contribution Amounts | | | | | | | |
|---|--------|-----------|-------|-----------|-----------------|-----------|--|
| Year | Member | | State | | School District | | |
| | Rate | Amount | Rate | Amount | Rate | Amount | |
| 2020 | 0.65% | \$ 10,537 | 1.25% | \$ 20,264 | 0.75% | \$ 12,159 | |
| 2019 | 0.65% | \$ 8,996 | 1.25% | \$ 17,301 | 0.75% | \$ 10,381 | |
| 2018 | 0.65% | \$ 8,267 | 1.25% | \$ 15,898 | 0.75% | \$ 9,549 | |

Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2020, 2019 and 2018 were \$7,732, \$4,929 and \$3,953, respectively.

The 86th Legislative Session of the Texas Legislature appropriated supplemental contributions to the TRS-Care program. Amounts appropriated for fiscal year 2020 totaled \$230.8 million with the District's share of the on behalf contribution recognized during the year as both revenues and expenditures totaling \$2,159.

Active Employee Health Care Coverage

Plan Description. The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

L. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2020, was as follows:

| | Beginning Balance | Additions | Retirements | Ending Balance | Due Within One Year |
|-----------------------|----------------------|---------------------|-------------------|---------------------|------------------------|
| Bonds payable | \$ 0 | \$ 7,940,000 | \$ 375,000 | \$ 7,565,000 | \$ 290,000 |
| Bond premium | 0 | 1,137,249 | 36,226 | 1,101,023 | 0 |
| Notes payable | 135,882 | | 47,259 | 88,623 | 48,836 |
| Net pension liability | 455,257 | 22,612 | 30,146 | 447,723 | 0 |
| Net OPEB liability | 716,331 | 1,191 | 10,609 | 706,913 | 0 |
| Total | <u>\$ 1,307,470</u> | <u>\$ 9,101,052</u> | <u>\$ 499,240</u> | <u>\$ 9,909,282</u> | <u>\$ 338,836</u> |

M. UNAVAILABLE/UNEARNED REVENUE

Unavailable and unearned revenue at year-end consisted of the following:

| Fund | Unavailable Revenue (levied but uncollected property taxes) |
|-------------------|--|
| General fund | \$ 53,959 |
| Debt service fund | 7,562 |
| Total | <u>\$ 61,521</u> |

N. DUE FROM STATE AND FEDERAL AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2020, are summarized below. They are reported on the combined financial statements as Due from Other Governments.

| Fund | State Entitlements | Federal Grants | Total |
|-----------------------------|-----------------------|-------------------|------------------|
| General fund | \$ 40,507 | | \$ 40,507 |
| Nonmajor governmental funds | | 39,175 | 39,175 |
| Net Total Receivables | <u>\$ 40,507</u> | <u>\$ 39,175</u> | <u>\$ 79,682</u> |

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

| Description | General Fund | Debt Service Fund | Capital Projects Fund | Nonmajor Governmental Funds | Total |
|--|---------------------|-------------------------|-----------------------------|-----------------------------------|---------------------|
| Property taxes | \$ 1,721,345 | \$ 719,483 | | | \$ 2,440,828 |
| Penalties, interest and other tax related income | 19,528 | 3,320 | | | 22,848 |
| Food sales | | | | 22,285 | 22,285 |
| Investment income | 36,454 | 2,486 | 76,678 | 18 | 115,636 |
| Extracurricular student activities | 5,868 | | | 97 | 5,965 |
| Chapter 313 hold-harmless contribution | 100,000 | | | | 100,000 |
| Total | <u>\$ 1,883,195</u> | <u>\$ 725,289</u> | <u>\$ 76,678</u> | <u>\$ 22,400</u> | <u>\$ 2,707,562</u> |

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

Q. JOINT VENTURE SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Special Education services with the Greater Erath County Special Ed Co-op. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Stephenville ISD, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

The District also participates in various shared service arrangements with the Education Service Center Region 11. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Education Service Center Region 11 is the fiscal agent manager and is responsible for all financial activities of the shared service arrangement.

R. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2020 the District purchased commercial insurance to cover general liabilities. Additional insurance information by coverage type follows.

Property Casualty Program

The District participated in the Texas Association of School Boards Risk Management Fund (the “Fund”) with coverage in auto liability, auto physical damage, general liability, property and legal liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were not settlements exceeding insurance coverage for each of the past three years.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its auto, liability and property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2020, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

Workers’ Compensation

The District has established a partially self-funded workers’ compensation plan by participating in the Claims Administrative Services, Inc. self-insured workers’ compensation program administered by Texas Educational Insurance Association (the “Association”). The Association is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to a agreed upon retention limit. The plan for workers’ compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers’ compensation self-insurance plan includes \$12,820 estimated claims liability and estimated claims incurred but not reported of \$5,276. Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable at August 31, 2020, are reflected as accounts and claims payable of the Fund (if material). The plan is funded to discharge liabilities of the fund as they become due.

Unemployment Compensation

During the year ended August 31, 2020, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the “Fund”). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund’s unemployment compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2020, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund’s board of trustees in February of the following year. The Fund’s audited financial statements as of August 31, 2020, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

S. GENERAL FUND FEDERAL SOURCE REVENUES

None.

T. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 22, 2020; the date which the financial statements were available for distribution.

U. TAX ABATEMENTS

On October 20, 2016, the District’s Board of Trustees approved an Agreement with Buckthorn Wind Project, LLC (the “Applicant”) for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. Each company qualified for a tax limitation agreement under Texas Tax Code §313.024(b)(5), as renewable energy projects.

Value limitation agreements are a part of a state program, originally created in 2001, which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in the statute. The project(s) under the Chapter 313 Agreement(s) must be consistent with the State’s goal to “encourage large scale capital investments in this state.” Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, the Applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the Application’s approval, the Agreement was deemed to have done so by both the District’s Board of Trustees and the Texas Comptroller’s Office, which recommended approval of the project. The Application, the Agreement, and state reporting requirement documentation can be viewed at the Texas Comptroller’s website:

<https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>

After approval, the Applicant company must maintain a viable presence in the District for the entire period of the value limitation, plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that an entity terminates the Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of the Agreement or to meet any material obligation under the Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of the Agreement together with the payment of penalty and interest on that recaptured ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01 (a), or its successor statute. Interest on said amounts shall be calculated in accordance with the

methodology set forth in Texas Tax Code §33.01 (c), or its successor statute. The Agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

As of the date of the audit report, the Applicant company is in full compliance with all of their obligations under law and the individual Agreement.

The following is a table related to the net benefit of the project to the District but does not include any (if applicable) interest and sinking impact.

| Project: | Buckthorn Wind Project, LLC (Application #1126) | | | | | |
|-------------------------------------|---|--|---|--|--|--|
| First Year Value Limitation: | 2018 tax year | | | | | |
| Tax Year 2019 (Fiscal Year 2019-20) | | | | | | |
| (A) Project Value | (B) Project's Value Limitation Amount | (C) Amount of Applicant's M&O Taxes Paid | (D) Amount of Applicant's M&O Taxes Reduced | (E) Company Revenue Loss Payment to School District | (F) Company Supplemental Payment to School District | (G) Net Benefit (Loss) to the School District (C+E+F) |
| \$ 110,748,650 | \$ 10,000,000 | \$ 97,000 | \$ 977,262 | \$ 0 | \$ 100,000 | \$ 197,000 |

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REQUIRED SUPPLEMENTARY INFORMATION

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|--------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 1,511,455 | \$ 1,891,455 | \$ 1,883,195 | \$ (8,260) |
| 5800 State Program Revenues | 616,980 | 1,280,980 | 1,030,371 | (250,609) |
| 5020 Total Revenues | 2,128,435 | 3,172,435 | 2,913,566 | (258,869) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 Instruction | 1,417,140 | 1,615,922 | 1,630,754 | (14,832) |
| 0012 Instructional Resources and Media Services | 3,550 | 2,680 | 1,458 | 1,222 |
| 0013 Curriculum and Instructional Staff Development | 31,950 | 30,700 | 30,555 | 145 |
| 0023 School Leadership | 78,464 | 81,469 | 80,073 | 1,396 |
| 0031 Guidance, Counseling, and Evaluation Services | 56,109 | 59,759 | 56,807 | 2,952 |
| 0033 Health Services | 19,924 | 20,794 | 17,851 | 2,943 |
| 0034 Student (Pupil) Transportation | 81,551 | 82,151 | 74,201 | 7,950 |
| 0036 Extracurricular Activities | 99,151 | 81,182 | 70,777 | 10,405 |
| 0041 General Administration | 342,738 | 348,777 | 310,757 | 38,020 |
| 0051 Facilities Maintenance and Operations | 273,723 | 300,043 | 322,505 | (22,462) |
| 0052 Security and Monitoring Services | 10,534 | 16,284 | 16,246 | 38 |
| 0053 Data Processing Services | 34,124 | 41,378 | 40,801 | 577 |
| Debt Service: | | | | |
| 0071 Principal on Long-Term Debt | 44,507 | 47,259 | 47,259 | - |
| 0072 Interest on Long-Term Debt | 7,927 | 4,299 | 4,280 | 19 |
| Intergovernmental: | | | | |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 28,000 | 30,900 | 30,899 | 1 |
| 0099 Other Intergovernmental Charges | 48,000 | 57,500 | 57,500 | - |
| 6030 Total Expenditures | 2,577,392 | 2,821,097 | 2,792,723 | 28,374 |
| 1100 Excess (Deficiency) of Revenues Over (Under) | (448,957) | 351,338 | 120,843 | (230,495) |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7912 Sale of Real and Personal Property | - | - | 15,000 | 15,000 |
| 7914 Non-Current Loans | 156,900 | 156,900 | - | (156,900) |
| 8911 Transfers Out (Use) | (17,000) | (17,000) | (28,848) | (11,848) |
| 7080 Total Other Financing Sources (Uses) | 139,900 | 139,900 | (13,848) | (153,748) |
| 1200 Net Change in Fund Balances | (309,057) | 491,238 | 106,995 | (384,243) |
| 0100 Fund Balance - September 1 (Beginning) | 2,706,162 | 2,706,162 | 2,706,162 | - |
| 3000 Fund Balance - August 31 (Ending) | \$ 2,397,105 | \$ 3,197,400 | \$ 2,813,157 | \$ (384,243) |

HUCKABAY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2020

| | Measurement Year Ended August 31, | | | | | |
|--|-----------------------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| District's Proportion of the Net Pension Liability (Asset) | 0.0008612846% | 0.0008271028% | 0.0008660785% | 0.0008259021% | 0.0007649000% | 0.0005150000% |
| District's Proportionate Share of Net Pension Liability (Asset) | \$ 447,723 | \$ 455,257 | \$ 276,925 | \$ 312,096 | \$ 270,382 | \$ 137,564 |
| States Proportionate Share of the Net Pension Liability (Asset) associated with the District | 1,193,807 | 1,223,974 | 760,308 | 907,459 | 813,008 | 661,091 |
| Total | \$ 1,641,530 | \$ 1,679,231 | \$ 1,037,233 | \$ 1,219,555 | \$ 1,083,390 | \$ 798,655 |
| District's Covered Payroll | \$ 1,384,084 | \$ 1,271,839 | \$ 1,263,537 | \$ 1,212,640 | \$ 1,076,106 | \$ 1,085,604 |
| District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll | 32.35% | 35.80% | 21.92% | 25.74% | 25.13% | 12.67% |
| Plan Fiduciary Net Position as a percentage of the Total Pension Liability | 75.24% | 73.74% | 82.17% | 78.00% | 78.43% | 83.25% |

Note: Only six 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."

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2020

| | Fiscal Year Ended August 31, | | | | | |
|---|------------------------------|--------------|--------------|--------------|--------------|--------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Contractually Required Contribution | \$ 41,974 | \$ 30,146 | \$ 28,062 | \$ 28,180 | \$ 26,376 | \$ 22,649 |
| Contribution in Relation to the Contractually Required Contribution | (41,974) | (30,146) | (28,062) | (28,180) | (26,376) | (22,649) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's Covered Payroll | \$ 1,621,147 | \$ 1,384,084 | \$ 1,271,839 | \$ 1,263,537 | \$ 1,212,640 | \$ 1,076,106 |
| Contributions as a percentage of Covered Payroll | 2.59% | 2.18% | 2.21% | 2.23% | 2.18% | 2.10% |

Note: Only six 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."

HUCKABAY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2020

| | Measurement Year Ended August 31, | | |
|--|-----------------------------------|---------------------|---------------------|
| | 2019 | 2018 | 2017 |
| District's Proportion of the Net OPEB Liability (Asset) | 0.0014948081% | 0.0014346450% | 0.0013869945% |
| District's Proportionate Share of the Net OPEB Liability (Asset) | \$ 706,913 | \$ 716,331 | \$ 603,152 |
| State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District | <u>939,329</u> | <u>1,128,831</u> | <u>1,029,291</u> |
| Total | <u>\$ 1,646,242</u> | <u>\$ 1,845,162</u> | <u>\$ 1,632,443</u> |
| District's Covered Payroll | \$ 1,384,084 | \$ 1,271,839 | \$ 1,263,537 |
| District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll | 51.07% | 56.32% | 47.74% |
| Plan Fiduciary Net Position as a percentage of the Total OPEB Liability | 2.66% | 1.57% | 0.91% |

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR THE YEAR ENDED AUGUST 31, 2020

| | Fiscal Year Ended August 31, | | |
|---|------------------------------|-----------------|-----------------|
| | 2020 | 2019 | 2018 |
| Contractually Required Contribution | \$ 12,681 | \$ 10,609 | \$ 10,511 |
| Contribution in Relation to the Contractually Required Contribution | <u>(12,681)</u> | <u>(10,609)</u> | <u>(10,511)</u> |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's Covered Payroll | \$ 1,621,147 | \$ 1,384,084 | \$ 1,271,839 |
| Contributions as a percentage of Covered Payroll | 0.78% | 0.77% | 0.83% |

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

HUCKABAY INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2020

Budget

The official budget was prepared for adoption for all Governmental 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.:

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. 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.
- c. Prior to the beginning of the fiscal year, 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 August 31, and encumbrances outstanding at that 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.

Defined Benefit Pension Plan

Changes of benefit terms.

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

Changes of assumptions.

See Footnote I page 32 for changes in assumptions that affected measurement of the total pension liability during the measurement period.

Other Post-Employment Benefit Plan

Changes of benefit terms.

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

Changes of assumptions.

See Footnote J page 36 for changes in assumptions that affected measurement of the total OPEB liability during the measurement period.

COMBINING SCHEDULES

HUCKABAY INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2020

| Data Control Codes | 211 ESEA I, A Improving Basic Program | 240 National Breakfast and Lunch Program | 244 Career and Technical - Basic Grant | 289 Other Federal Special Revenue Funds |
|--|--|---|---|--|
| ASSETS | | | | |
| 1110 Cash and Cash Equivalents | \$ - | \$ 4,246 | \$ - | \$ - |
| 1240 Due from Other Governments | 27,775 | - | - | 11,400 |
| 1000 Total Assets | <u>\$ 27,775</u> | <u>\$ 4,246</u> | <u>\$ -</u> | <u>\$ 11,400</u> |
| LIABILITIES | | | | |
| 2110 Accounts Payable | \$ - | \$ 2,306 | \$ - | \$ - |
| 2160 Accrued Wages Payable | 1,688 | 1,900 | - | - |
| 2170 Due to Other Funds | 25,902 | - | - | 11,400 |
| 2200 Accrued Expenditures | 185 | 40 | - | - |
| 2000 Total Liabilities | <u>27,775</u> | <u>4,246</u> | <u>-</u> | <u>11,400</u> |
| FUND BALANCES | | | | |
| 3600 Unassigned Fund Balance | - | - | - | - |
| 3000 Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 4000 Total Liabilities and Fund Balances | <u>\$ 27,775</u> | <u>\$ 4,246</u> | <u>\$ -</u> | <u>\$ 11,400</u> |

| 410 State Instructional Materials | 461 Campus Activity Funds | Total Nonmajor Governmental Funds |
|--|------------------------------------|--|
| \$ - | \$ 1,827 | \$ 6,073 |
| - | - | 39,175 |
| <u>\$ -</u> | <u>\$ 1,827</u> | <u>\$ 45,248</u> |
| | | |
| \$ - | \$ - | \$ 2,306 |
| - | - | 3,588 |
| - | - | 37,302 |
| - | - | 225 |
| <u>-</u> | <u>-</u> | <u>43,421</u> |
| | | |
| - | 1,827 | 1,827 |
| <u>-</u> | <u>1,827</u> | <u>1,827</u> |
| | | |
| <u>\$ -</u> | <u>\$ 1,827</u> | <u>\$ 45,248</u> |

HUCKABAY INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | 211 ESEA I, A Improving Basic Program | 240 National Breakfast and Lunch Program | 244 Career and Technical - Basic Grant | 289 Other Federal Special Revenue Funds |
|---|--|---|---|--|
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ - | \$ 22,285 | \$ - | \$ - |
| 5800 State Program Revenues | - | 3,237 | - | - |
| 5900 Federal Program Revenues | 26,103 | 20,820 | 1,495 | 11,400 |
| 5020 Total Revenues | 26,103 | 46,342 | 1,495 | 11,400 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 Instruction | 26,103 | - | 1,495 | - |
| 0013 Curriculum and Instructional Staff Development | - | - | - | 11,400 |
| 0035 Food Services | - | 75,190 | - | - |
| 6030 Total Expenditures | 26,103 | 75,190 | 1,495 | 11,400 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | - | (28,848) | - | - |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7915 Transfers In | - | 28,848 | - | - |
| 1200 Net Change in Fund Balance | - | - | - | - |
| 0100 Fund Balance - September 1 (Beginning) | - | - | - | - |
| 3000 Fund Balance - August 31 (Ending) | \$ - | \$ - | \$ - | \$ - |

| 410 State Instructional Materials | 461 Campus Activity Funds | Total Nonmajor Governmental Funds |
|--|------------------------------------|--|
| \$ - | \$ 115 | \$ 22,400 |
| 24,658 | - | 27,895 |
| - | - | 59,818 |
| 24,658 | 115 | 110,113 |
| 24,658 | - | 52,256 |
| - | - | 11,400 |
| - | - | 75,190 |
| 24,658 | - | 138,846 |
| - | 115 | (28,733) |
| - | - | 28,848 |
| - | 115 | 115 |
| - | 1,712 | 1,712 |
| \$ - | \$ 1,827 | \$ 1,827 |

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REQUIRED TEA SCHEDULES

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2020

| Last 10 Years Ended August 31 | (1) | (2) | (3) |
|----------------------------------|-------------|--------------|--|
| | Tax Rates | | Assessed/Appraised Value for School Tax Purposes |
| | Maintenance | Debt Service | |
| 2011 and prior years | Various | Various | \$ Various |
| 2012 | 1.040000 | 0.000000 | 115,824,649 |
| 2013 | 1.040000 | 0.000000 | 113,086,732 |
| 2014 | 1.040000 | 0.000000 | 116,267,084 |
| 2015 | 1.040000 | 0.000000 | 120,801,256 |
| 2016 | 1.040000 | 0.000000 | 122,258,989 |
| 2017 | 1.040000 | 0.000000 | 135,337,242 |
| 2018 | 1.040000 | 0.000000 | 144,144,901 |
| 2019 | 1.040000 | 0.000000 | 166,475,538 |
| 2020 (School year under audit) | 0.970000 | 0.260000 | 179,240,003 |
| 1000 TOTALS | | | |

\$279,988,653 is the assessed valuation for interest and sinking fund purposes. The assessed valuation for maintenance and operations is limited pursuant to Chapter 313 of the Property Tax Code for Windfarm Properties.

| (10) Beginning Balance 9/1/2019 | (20) Current Year's Total Levy | (31) Maintenance Collections | (32) Debt Service Collections | (40) Entire Year's Adjustments | (50) Ending Balance 8/31/2020 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 10,344 | \$ - | \$ 608 | \$ - | \$ (106) | \$ 9,630 |
| 813 | - | 35 | - | - | 778 |
| 791 | - | 19 | - | - | 772 |
| 453 | - | 19 | - | - | 434 |
| 574 | - | 20 | - | - | 554 |
| 879 | - | 18 | - | - | 861 |
| 12,006 | - | 477 | - | - | 11,529 |
| 15,496 | - | 4,152 | - | (260) | 11,084 |
| 24,220 | - | 9,032 | - | (1,404) | 13,784 |
| - | 2,466,598 | 1,706,965 | 719,483 | (400) | 39,750 |
| <u>\$ 65,576</u> | <u>\$ 2,466,598</u> | <u>\$ 1,721,345</u> | <u>\$ 719,483</u> | <u>\$ (2,170)</u> | <u>\$ 89,176</u> |

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|-----------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 30,000 | \$ 30,000 | \$ 22,285 | \$ (7,715) |
| 5800 State Program Revenues | 2,862 | 2,862 | 3,237 | 375 |
| 5900 Federal Program Revenues | 41,200 | 41,200 | 20,820 | (20,380) |
| 5020 Total Revenues | 74,062 | 74,062 | 46,342 | (27,720) |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0035 Food Services | 86,170 | 77,570 | 75,190 | 2,380 |
| 6030 Total Expenditures | 86,170 | 77,570 | 75,190 | 2,380 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | (12,108) | (3,508) | (28,848) | (25,340) |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7915 Transfers In | 10,000 | 10,000 | 28,848 | 18,848 |
| 1200 Net Change in Fund Balances | (2,108) | 6,492 | - | (6,492) |
| 0100 Fund Balance - September 1 (Beginning) | - | - | - | - |
| 3000 Fund Balance - August 31 (Ending) | \$ (2,108) | \$ 6,492 | \$ - | \$ (6,492) |

HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2020

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ - | \$ 715,400 | \$ 725,289 | \$ 9,889 |
| 5020 Total Revenues | - | 715,400 | 725,289 | 9,889 |
| EXPENDITURES: | | | | |
| Debt Service: | | | | |
| 0071 Principal on Long-Term Debt | - | 375,000 | 375,000 | - |
| 0072 Interest on Long-Term Debt | - | 292,284 | 292,284 | - |
| 6030 Total Expenditures | - | 667,284 | 667,284 | - |
| 1200 Net Change in Fund Balances | - | 48,116 | 58,005 | 9,889 |
| 0100 Fund Balance - September 1 (Beginning) | - | - | - | - |
| 3000 Fund Balance - August 31 (Ending) | \$ - | \$ 48,116 | \$ 58,005 | \$ 9,889 |

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OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Independent Auditor's Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Trustees
Huckabay Independent School District
200 County Road 421
Stephenville, Texas 76401

I 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Huckabay Independent School District (the "District") as of and for the year ended August 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated October 22, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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 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.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Huckabay Independent School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* listed as item 2017-3 on the accompanying Schedule of Findings and Questioned Costs.

Purpose of this Report

The purpose of this report is solely to describe the scope of my 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.

Cameron L. Gulley
Certified Public Accountant

October 22, 2020

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2020

| Finding | Statement of Condition | Material Weakness? | Questioned Costs |
|---------|--|--------------------|------------------|
| 2017-3 | <p><u>State Compliance - Excess Expenditures Over Appropriations</u></p> <p>The District failed to identify functional categories within both the General and Food Service Funds when expenditures exceeded the adopted budgets for each fund.</p> <p><u>Status:</u> The District again failed to properly identify and amend numerous functional categories in the General Fund for the current year under audit. See continuation finding 2017-3 on the accompanying Schedule of Findings and Questioned Costs.</p> | No | None |

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HUCKABAY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2020

I. Summary of Auditor's Results

A. Financial Statements

Type of auditor's report issued: Unmodified.

Internal control over financial reporting:
 Material weakness(es) identified? No.
 Significant deficiency(ies) identified that are not considered to be material weaknesses? None reported.

Noncompliance material to financial statements noted? No.

B. Federal Awards

Not applicable.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

2017-3 State Compliance - Excess Expenditures Over Appropriations (continuation finding)

Criteria Governmental entities required to adopt a budget must not exceed the approved budget with expenditures until authorized by the board of trustees through budget amendments at any time during the year.

Statement of Condition The District failed to identify functional categories in the General Fund when expenditures exceeded the adopted budgets for each fund. Following are the net variances for each of the affected functional categories which exceeded the budget by more than \$2,500:

| Functional Category | Final Amended Budget | Actual Expenditure | Budget Variance |
|---|----------------------|--------------------|-----------------|
| Function 11 - Instruction | \$ 1,615,922 | \$ 1,630,754 | \$ (14,832) |
| Function 51 - Facilities Maintenance and Operations | \$ 300,043 | \$ 322,505 | \$ (22,462) |

Questioned Costs None.

Cause and Effect For function 11, the annual budget failed to account for payroll expenditures coded to grant funds in excess of grant funding. After reclassification of those excess payroll items back to general fund, expenditures exceeded the final amended budget. For function 51, expenditures exceeded the final amended budget due to accruals for ending accounts payable items.

Recommendations The District should review its business services procedures and analyses of account transactions and balances. Budget amendments should be considered and proposed to the board of trustees whenever it is projected that actual expenditures will be more than currently budgeted before the actual expenditure of funds.

III. Findings and Questioned Costs for Federal Awards

N/A.

HUCKABAY INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2020

2017-3 The District will make budget amendments (as necessary) where expenditures are projected to exceed originally adopted budgets.

Contact representative: Tammie Shipman, business manager
200 County Road 421
Stephenville, Texas 76401
(254) 968-8476

Expected implementation date: Immediately