

# **Mesquite Independent School District**

Annual Financial Report

For The Year Ended August 31, 2018

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**Mesquite Independent School District**  
Annual Financial Report  
For The Year Ended August 31, 2018  
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# Introductory Section

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**CERTIFICATE OF BOARD**

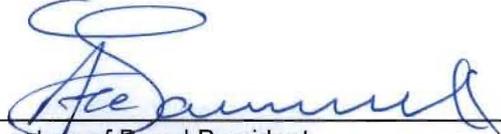
MESQUITE INDEPENDENT SCHOOL DISTRICT  
Name of School District

Dallas  
County

057-914  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2018 at the meeting of the Board of Trustees of such school district on the 14<sup>th</sup> day of January, 2019.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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# **Financial Section**

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## Independent Auditor's Report

Board of Trustees  
Mesquite Independent School District  
Mesquite, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesquite Independent School District (the District), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

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

**Emphasis of Matter**

As discussed in Note 1.C to the basic financial statements, during the year ended August 31, 2018, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (OPEB). Beginning net position has been restated as a result of the implementation of this statement. Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7-13, budgetary comparison, net pension liability and net OPEB liability information on pages 68-75 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining statements and schedules, required TEA schedules, and the School First Questionnaire are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and is also not a required part of the basic financial statements.

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

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

Board of Trustees  
Mesquite Independent School District

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 11, 2019

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## Management's Discussion And Analysis

This section of Mesquite Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2018. Please read it in conjunction with the District's financial statements, which follow this section.

### Financial Highlights

#### Government wide

- The District's Total Net Position was \$133,539,670, unrestricted net position was \$(145,789,963), net investment in capital assets was \$255,197,139, net position restricted for food service was \$7,153,976 and net position restricted for debt service was \$16,978,518.

#### Fund level statements

- The District's General Fund Balance was \$112,296,013, a decrease of \$8,047,587 from the prior year.
- The District's Debt Service Fund Balance was \$22,695,583, an increase of \$5,109,188 from the prior year.
- The District's Capital Projects Fund Balance was \$227,361,987, an increase of \$33,666,781 from the prior year.
- The District's Food Service Special Revenue Fund Balance was \$7,153,976, an increase of \$1,158,387 from the prior year.

### Overview of the Financial Statements

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

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

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

*The statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 13-14 of this report.

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

## Management's Discussion And Analysis

Statement No. 75 establishes financial reporting standards and/or accounting standards for state and local government defined benefit OPEB plans and defined contribution OPEB plans. Statement No. 75 requires that, at transition, a government recognizes a beginning OPEB liability and beginning deferred outflow of resources for its OPEB contributions, if any, made subsequent to the measurement date of the beginning net OPEB liability. The implementation of this statement has no impact on the District's governmental fund financial statements. However, implementation has resulted in certain changes to the presentation of the District's government-wide financial statements. More information on the implementation of this statement and the District's OPEB plan is available in Note 1. C. and Note 12, respectively.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds:** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains thirty-seven governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, food service fund, debt service fund and capital projects fund, all four of which are considered to be major funds. Data from the other thirty-three governmental funds are classified as local, state or federal funds and then combined into a single, aggregated presentation. Fund data for these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 16-22 of this report.
- **Proprietary funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded health and workers' compensation

## Management's Discussion And Analysis

insurance programs. The basic proprietary fund financial statements can be found on pages 23-25 of this report.

- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets that can be found on pages 26-27. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**Notes to the financial statements.** The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 29-65 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 67-74 of this report.

The combining statements in connection with non-major governmental funds, internal service funds and private purpose trust funds are presented immediately following the required supplementary information. Combining statements can be found on pages 77-83 of this report.

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$133,539,670 as of August 31, 2018.

## Management's Discussion And Analysis

### The District's Net Position

	2018	2017	Difference
Current and other assets	\$ 327,121,144	\$ 360,610,460	\$ (33,489,316)
Capital assets	723,942,223	619,953,550	103,988,673
Long-term investments	91,954,383	26,500,763	65,453,620
<b>Total assets</b>	<b>1,143,017,750</b>	<b>1,007,064,773</b>	<b>135,952,977</b>
Deferred Outflows of Resources	88,945,872	97,325,392	(8,379,520)
Long-term liabilities outstanding	974,264,927	755,363,500	218,901,427
Other liabilities	47,513,696	48,182,586	(668,890)
<b>Total liabilities</b>	<b>1,021,778,623</b>	<b>803,546,086</b>	<b>218,232,537</b>
Deferred Inflows of Resources	76,645,329	14,336,858	62,308,471
Net position:			
Net investment in capital assets	255,197,139	229,504,641	25,692,498
Restricted	24,132,494	21,306,056	2,826,438
Unrestricted	(145,789,963)	35,696,524	(181,486,487)
<b>Total net position</b>	<b>\$ 133,539,670</b>	<b>\$ 286,507,221</b>	<b>\$ (152,967,551)</b>

**Governmental activities.** The District's total net position decreased by \$152,967,551 due to the implementation of GASB 75 in the current year for OPEB. Although the District reports a deficit, the deficit is primarily due to reporting the District's proportionate share of the net OPEB liability. The total district liability is reported in the governmental activities; however, the actual liability does not require the use of current resources at the fund level, which results in a timing difference since the TRS-Care plan is funded on a pay-as-you-go basis. The District has made all contractually required contributions as noted in the required supplementary information and has sufficient fund balance to meet the District's ongoing obligations to students and creditors. The total cost of all governmental activities this year was \$330,446,772. The amount that our taxpayers paid for these activities through property taxes was \$111,033,775 or 33.6%.

## Management's Discussion And Analysis

### Changes in the District's Net Position

	2018	2017	Difference
Revenues:			
Program revenues:			
Charges for services	\$ 8,056,933	\$ 8,011,409	\$ 45,524
Operating grants & contributions	31,971,093	98,751,932	(66,780,839)
General revenues:			
Property taxes	111,033,775	101,475,310	9,558,465
State grants	249,142,614	249,529,752	(387,138)
Other	4,222,853	4,897,336	(674,483)
Total revenues	<u>404,427,268</u>	<u>462,665,739</u>	<u>(58,238,471)</u>
Expenses:			
Instruction	175,078,192	249,773,394	(74,695,202)
Instructional resources & media services	4,755,535	6,079,024	(1,323,489)
Curriculum & staff development	3,689,614	5,262,749	(1,573,135)
Instructional leadership	5,962,531	7,662,243	(1,699,712)
School leadership	15,785,601	20,987,904	(5,202,303)
Guidance, counseling & evaluation services	12,821,762	17,125,284	(4,303,522)
Social work services	323,963	569,318	(245,355)
Health services	3,115,350	4,302,691	(1,187,341)
Student (pupil) transportation	4,531,345	5,356,485	(825,140)
Food Services	17,015,668	23,359,127	(6,343,459)
Co-curricular/extracurricular activities	8,646,472	9,700,236	(1,053,764)
General administration	7,550,670	9,005,498	(1,454,828)
Plant maintenance & operations	31,826,308	35,402,396	(3,576,088)
Security and monitoring services	3,216,751	3,441,031	(224,280)
Data processing services	6,522,611	7,983,934	(1,461,323)
Community services	564,060	548,052	16,008
Debt service-interest on long-term debt	22,410,528	20,420,819	1,989,709
Bond issuance costs and fees	1,134,987	1,860,919	(725,932)
Facilities acquisition & construction	1,434,977	980,752	454,225
Payments to juvenile justice alternative education program	63,762	85,308	(21,546)
Payments to tax increment fund	3,627,332	3,416,856	210,476
Other Intergovernmental charges	368,753	344,842	23,911
Total expenses	<u>330,446,772</u>	<u>433,668,862</u>	<u>(103,222,090)</u>
Increase in Net Position	73,980,496	28,996,877	44,983,619
Beginning Net Position	286,507,221	257,510,344	28,996,877
Prior period adjustment - Implement GASB 75 for OPEB	(226,948,047)	-	(226,948,047)
Restatement	<u>59,559,174</u>	<u>257,510,344</u>	<u>(197,951,170)</u>
<b>Ending Net Position</b>	<u>\$ 133,539,670</u>	<u>\$ 286,507,221</u>	<u>\$ (152,967,551)</u>

(a) The restatement of the beginning net position is the result of the District implementing GASB Statement No. 75 in fiscal year . The implementation is discussed previously in MD&A.

## Management's Discussion And Analysis

### Financial Analysis of the District's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$369,831,093, an increase of \$31,784,349. Approximately 29.3 percent or \$108,435,968 constitutes unassigned fund balance. The remainder of fund balance is designated to indicate that it is not available for new spending as follows: non-spendable, inventory \$1,597,409, and prepaid expenditures \$227,444; restricted, debt service \$22,695,583, food service \$6,559,989, capital acquisitions \$227,361,987, and state special revenue, \$127,049; committed, local special revenue, \$196,485; assigned, \$2,629,179.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$108,435,968, while the total fund balance was \$112,296,013. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 29.6 percent of the total general fund expenditures, while total fund balance represents 30.7 percent of that same amount.

**Proprietary funds.** As mentioned earlier, the District's proprietary funds provide detailed information concerning the District's health and workers compensation internal service funds.

Unrestricted net position at August 31, 2018, amounted to \$2,456,899.

### General Fund Budgetary Highlights

The budget was amended several times during the fiscal year 2018. The district made the following amendments to budgeted revenue:

- \$ 3,223,200 increase in local revenue
- \$ 2,142,200 decrease in state revenue
- \$ 514,100 decrease in federal revenue
- \$ 35,300 increase in other resources

Following is a summary of amendments made to appropriations:

- \$ 2,979,780 decrease for instructional services
- \$ 1,177,600 increase for instructional and school leadership
- \$ 1,097,300 increase for student services
- \$ 186,050 decrease for general administration
- \$ 471,550 decrease for support services
- \$ 354,200 decrease for data processing
- \$ 49,500 increase for ancillary services
- \$ 5,369,400 increase for capital outlay
- \$ 22,800 increase for intergovernmental charges and other uses

## Management's Discussion And Analysis

### Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets for its governmental activities as of August 31, 2018, amounts to \$723,942,223 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, furniture and equipment and construction in progress.

#### District's Capital Assets (net of depreciation)

	2018	2017	Difference
Land	\$ 17,954,063	\$ 16,620,265	\$ 1,333,798
Buildings and improvements	492,721,375	424,002,257	68,719,118
Furniture & equipment	67,177,881	58,050,607	9,127,274
Construction in progress	146,088,904	121,280,421	24,808,483
Totals at historical cost	<u>\$ 723,942,223</u>	<u>\$ 619,953,550</u>	<u>\$ 103,988,673</u>

**Long-term debt.** At the end of August 31, 2018, the District had total bonded debt outstanding of \$637,013,142, an increase of \$92,249,740 from the prior year. The District issued \$118,645,000 of new Unlimited School building bonds. The "AAA" long-term rating on the District's Texas' bonds reflects the Texas Permanent School Fund guarantee. The "AA" Standard & Poor's and "AA+" Fitch ratings on the District's unenhanced debt reflects the District's: 1) participation in the strong and growing Dallas area economy, 2) very strong administrative management, and 3) superior cash position.

Assessed values (AVs) have increased an average of 5.4% annually from fiscal 2014-2018, with an increase in 2018 of 10.4%. Top ten taxpayers account for about 6.5% of a diversified tax roll, where residential property comprises roughly 66.8% of the District's AV and commercial property accounts for approximately 33.2%. The economic base includes retail, telecommunications, manufacturing, warehousing, and distribution enterprises

Additional information on the District's OPEB liability can be found in Note 12 to the financial statements as indicated in the table of contents of this report.

### Economic Factors and Next Year's Budgets and Rates

- The District's student attendance rate was 96.3 percent for 2018.
- The District's enrollment has experienced a decrease of less than 1% percent

#### Budget for 2019

- Local revenue increased \$17,561,595, state aid decreased \$3,680,650, federal increased \$246,250 and other sources decreased \$212,900 for a total net increase of \$13,914,295.
- Expenditures for 2019 decreased \$3,321,365 in the general fund due to decreased capital expenditures, increased for debt service \$6,200,000, decreased for capital projects \$25,490,300, increased for special revenue funds \$4,027,595, for a total net decrease of \$18,584,070.

### Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Services Department, Mesquite ISD, 3819 Towne Crossing Blvd, Mesquite, Texas 75150.

**Mesquite Independent School District**  
Statement of Net Position  
August 31, 2018

**Exhibit A-1**

Data  
Control  
Codes

		<u>Governmental Activities</u>
<b>ASSETS</b>		
1110	Cash and cash equivalents	\$ 188,751,260
1120	Investments	121,731,547
1220	Delinquent property taxes receivable	7,714,157
1230	Allowance for uncollectable taxes (credit)	(3,411,258)
1240	Due from other governments	7,831,488
1250	Accrued interest	1,371,310
1290	Other receivables (net)	1,138,424
1300	Inventories	1,757,014
1410	Prepaid expenditures or expenses	227,444
1490	Other current assets	9,758
	Capital assets:	
1510	Land	17,954,063
1520	Buildings and improvements	772,721,628
1530	Furniture and equipment	181,047,588
1570	Accumulated depreciation	(393,869,960)
1580	Construction in progress	146,088,904
1910	Long-term investments	91,954,383
1000	Total Assets	<u>1,143,017,750</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
1701	Accumulated decrease in fair value of hedging derivative	3,613,425
1702	Deferred loss on refunding	46,370,191
1705	Related to TRS Pension	36,861,778
1706	Related to TRS OPEB	2,100,478
1700	Total deferred outflows of resources	<u>88,945,872</u>
<b>LIABILITIES</b>		
2110	Accounts payable	16,943,979
2140	Interest payable	1,415,637
2150	Payroll deductions and withholdings	2,475,969
2160	Accrued wages payable	21,944,479
2180	Due to other governments	15,477
2200	Accrued expenditures or expenses	689,694
2300	Unearned revenue	415,036
2302	Derivative instrument	3,613,425
	Noncurrent liabilities:	
2501	Due within one year	30,543,329
2502	Due in more than one year	740,607,048
2540	Net pension liability (District's share)	74,564,825
2545	Net OPEB liability (District's share)	128,549,725
2000	Total Liabilities	<u>1,021,778,623</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
2605	Related to TRS Pension	22,872,736
2606	Related to TRS OPEB	53,772,593
2600	Total deferred inflows of resources	<u>76,645,329</u>
<b>NET POSITION</b>		
3200	Net investment in capital assets	255,197,139
	Restricted for:	
3820	Food service	7,153,976
3850	Debt service	16,978,518
3900	Unrestricted net position	(145,789,963)
3000	Total net position	<u>\$ 133,539,670</u>

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

**Mesquite Independent School District**  
**Statement of Activities**  
**For the Year Ended August 31, 2018**

**Exhibit B-1**

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		3	4	6	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
<b>GOVERNMENTAL ACTIVITIES:</b>					
11	Instruction	\$ 175,078,192	\$ 398,021	\$ (14,394,740)	\$ (189,074,911)
12	Instructional resources and media services	4,755,535	-	(350,362)	(5,105,897)
13	Curriculum and staff development	3,689,614	-	3,343,714	(345,900)
21	Instructional leadership	5,962,531	-	441,009	(5,521,522)
23	School leadership	15,785,601	-	(1,836,553)	(17,622,154)
31	Guidance, counseling, and evaluation services	12,821,762	-	(538,129)	(13,359,891)
32	Social work services	323,963	-	1,446,875	1,122,912
33	Health services	3,115,350	-	(366,031)	(3,481,381)
34	Student transportation	4,531,345	-	575,402	(3,955,943)
35	Food service	17,015,668	3,394,742	16,510,301	2,889,375
36	Extracurricular activities	8,646,472	3,721,933	(129,927)	(5,054,466)
41	General administration	7,550,670	-	(345,967)	(7,896,637)
51	Plant maintenance and operations	31,826,308	542,237	(33,444)	(31,317,515)
52	Security and monitoring services	3,216,751	-	36,556	(3,180,195)
53	Data processing services	6,522,611	-	(211,980)	(6,734,591)
61	Community services	564,060	-	1,742,713	1,178,653
72	Interest on long-term debt	22,410,528	-	24,619,635	2,209,107
73	Bond issuance costs and fees	1,134,987	-	-	(1,134,987)
81	Facilities acquisition and construction	1,434,977	-	1,462,021	27,044
95	Payments to juvenile justice alternative education programs	63,762	-	-	(63,762)
97	Payments to Tax Increment Fund	3,627,332	-	-	(3,627,332)
99	Other intergovernmental charges	368,753	-	-	(368,753)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>330,446,772</b>	<b>8,056,933</b>	<b>31,971,093</b>	<b>(290,418,746)</b>	
Data Control Codes	General Revenues:				
MT	Taxes				
DT	Property Taxes, Levied for General Purposes				
SF	Property Taxes, Levied for Debt Service				
GC	State Aid - Formula Grants				
IE	Miscellaneous				
TR	Investment Earnings				
CN	Total general revenues				
NB	Change in net position				
PA	Net position-beginning				
NE	Prior period adjustment - implement GASB 75 for OPEB				
	Net position-beginning, as restated				
	Net position-ending				

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

# Mesquite Independent School District

## Balance Sheet

### Governmental Funds

August 31, 2018

Data Control Codes	10	24	50	
	General Fund	Food Service	Debt Service Fund	
<b>ASSETS</b>				
1110	Cash and cash equivalents	\$ 22,443,522	\$ 3,642,633	\$ 2,957,301
1120	Investments	107,591,653	4,079,604	19,613,242
1220	Property taxes delinquent	5,687,806	-	2,026,351
1230	Allowance for uncollectable taxes (credit)	(2,515,190)	-	(896,068)
1240	Due from other governments	592,863	1,076,629	-
1250	Accrued interest	748,051	25,728	95,430
1260	Due from other funds	9,927,405	-	-
1290	Other receivables	288,059	-	31,929
1300	Inventories	1,003,422	593,987	-
1410	Prepaid expenditures	227,444	-	-
1000	Total assets	<u>\$ 145,995,035</u>	<u>\$ 9,418,581</u>	<u>\$ 23,828,185</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCES</b>				
LIABILITIES:				
2110	Accounts payable	\$ 6,153,227	\$ 1,111,264	\$ 2,319
2150	Payroll deductions and withholdings payable	2,475,969	-	-
2160	Accrued wages payable	21,388,323	548,294	-
2170	Due to other funds	314,357	375,535	-
2180	Due to other governments	15,477	-	-
2300	Unearned revenue	179,053	229,512	-
2000	Total liabilities	<u>30,526,406</u>	<u>2,264,605</u>	<u>2,319</u>
DEFERRED INFLOWS:				
2600	Unavailable revenue	3,172,616	-	1,130,283
	Total deferred inflows	<u>3,172,616</u>	<u>-</u>	<u>1,130,283</u>
FUND BALANCES:				
Nonspendable				
3410	Inventories	1,003,422	593,987	-
3430	Prepaid expenditures	227,444	-	-
Restricted				
3480	Debt service	-	-	22,695,583
3470	Capital acquisitions program	-	-	-
3450	Food service	-	6,559,989	-
3450	State Special Revenue	-	-	-
Committed				
3545	Local Special Revenue	-	-	-
3590	Assigned	2,629,179	-	-
3600	Unassigned	108,435,968	-	-
3000	Total fund balances	<u>112,296,013</u>	<u>7,153,976</u>	<u>22,695,583</u>
4000	<b>Total liabilities, deferred inflows, and fund balances</b>	<u>\$ 145,995,035</u>	<u>\$ 9,418,581</u>	<u>\$ 23,828,185</u>

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

60	Non-Major Governmental Funds	98 Total Governmental Funds
Capital Projects		
\$ 153,737,047	\$ -	\$ 182,780,503
82,401,431	-	213,685,930
-	-	7,714,157
-	-	(3,411,258)
-	6,161,996	7,831,488
502,101	-	1,371,310
25,976	201,570	10,154,951
-	100	320,088
-	-	1,597,409
-	-	227,444
<u>\$ 236,666,555</u>	<u>\$ 6,363,666</u>	<u>\$ 422,272,022</u>
\$ 9,304,568	\$ 287,262	\$ 16,858,640
-	-	2,475,969
-	7,862	21,944,479
-	5,738,537	6,428,429
-	-	15,477
-	6,471	415,036
<u>9,304,568</u>	<u>6,040,132</u>	<u>48,138,030</u>
-	-	4,302,899
<u>-</u>	<u>-</u>	<u>4,302,899</u>
-	-	1,597,409
-	-	227,444
-	-	22,695,583
227,361,987	-	227,361,987
-	-	6,559,989
-	127,049	127,049
-	196,485	196,485
-	-	2,629,179
-	-	108,435,968
<u>227,361,987</u>	<u>323,534</u>	<u>369,831,093</u>
<u>\$ 236,666,555</u>	<u>\$ 6,363,666</u>	<u>\$ 422,272,022</u>

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**Mesquite Independent School District****Exhibit C-1R**
 Reconciliation of the Governmental Funds Balance Sheet  
 to the Statement of Net Position  
 August 31, 2018

<b>TOTAL FUND BALANCES - GOVERNMENTAL FUNDS</b>	\$ 369,831,093
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.	2,456,899
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements.	1,117,812,183
Accumulated depreciation has not been included in the governmental fund financial statements.	(393,869,960)
Bonds payable have not been included in the governmental fund financial statements.	(637,013,142)
Accreted interest for capital appreciation bonds have not been included in the governmental fund financial statements.	(28,767,014)
Unavailable revenue in the fund financial statements was recorded as revenue in the district-wide financial statements.	4,302,901
Unused leave is accrued in the district-wide financial statements, whereas in the fund financial statements, an expenditure for unused leave is reported when due.	(1,176,653)
Interest is accrued on outstanding debt in the district-wide financial statements, whereas in the fund financial statements, an interest expenditure is reported when due.	(1,415,637)
Premium on the issuance of bonds reported as net other financing sources on the fund financial statements is capitalized and amortized in the district-wide financial statements.	(104,193,568)
For debt refundings, the difference between the acquisition price and the net carrying amount of the debt has been deferred and amortized in the district-wide financial statements.	46,370,191
Included in the items related to debt is the recognition of the District's proportionate share of the TRS net pension liability (\$74,564,825) and a deferred inflow of resources (\$22,872,736), and a deferred outflow of resources (\$36,861,778). The result is a decrease in net position.	(60,575,783)
Included in the items related to debt is the recognition of the District's proportionate share of the TRS net OPEB liability (\$128,549,725) and a deferred inflow of resources (\$53,772,593), and a deferred outflow of resources (\$2,100,478). The result is a decrease in net position.	(180,221,840)
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<u><u>\$ 133,539,670</u></u>

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

# Mesquite Independent School District

## Statement of Revenues, Expenditures, and Changes in Fund Balance

### Governmental Funds

For the Year Ended August 31, 2018

Data Control Codes		10 General Fund	24 Food Service	50 Debt Service Fund
<b>REVENUES</b>				
5700	Local and intermediate sources	\$ 90,177,275	\$ 3,486,406	\$ 32,799,868
5800	State program revenues	264,513,649	273,673	24,619,635
5900	Federal program revenues	3,448,414	19,155,395	-
5020	Total revenues	<u>358,139,338</u>	<u>22,915,474</u>	<u>57,419,503</u>
<b>EXPENDITURES</b>				
CURRENT:				
0011	Instruction	210,892,304	-	-
0012	Instructional resources and media services	6,000,600	-	-
0013	Curriculum and staff development	3,482,493	-	-
0021	Instructional leadership	6,953,161	-	-
0023	School leadership	18,898,996	-	-
0031	Guidance, counseling, and evaluation services	15,099,777	-	-
0032	Social work services	238,316	-	-
0033	Health services	3,837,760	-	-
0034	Student transportation	5,317,298	-	-
0035	Food service	1,138,656	21,430,111	-
0036	Extracurricular activities	9,921,687	-	-
0041	General administration	8,269,953	-	-
0051	Plant maintenance and operations	33,567,138	-	-
0052	Security and monitoring services	3,305,098	-	-
0053	Data processing services	7,101,945	-	-
0061	Community services	261,670	-	-
DEBT SERVICE:				
0071	Principal on long-term debt	-	-	26,395,260
0072	Interest on long-term debt	-	-	25,708,508
0073	Bond issuance costs and fees	-	-	206,547
CAPITAL OUTLAY				
0081	Facilities acquisition and construction	27,589,504	-	-
INTERGOVERNMENTAL:				
0095	Payments to juvenile justice alternative Ed. Prg	63,762	-	-
0097	Payments to tax increment fund	3,627,332	-	-
0099	Other intergovernmental expenditures	368,753	-	-
6030	Total expenditures	<u>365,936,203</u>	<u>21,430,111</u>	<u>52,310,315</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(7,796,865)</u>	<u>1,485,363</u>	<u>5,109,188</u>
<b>OTHER FINANCING SOURCES (USES) :</b>				
7911	Capital-related debt issued (regular bonds)	-	-	-
7912	Sale of real or personal property	172,334	-	-
7915	Transfers in	391,200	64,224	-
7916	Premium or discount on issuance of bonds	-	-	-
7949	Other resources	-	-	-
8911	Transfers out	(814,256)	(391,200)	-
7080	Total other financing sources (uses)	<u>(250,722)</u>	<u>(326,976)</u>	<u>-</u>
1200	Net change in fund balances	(8,047,587)	1,158,387	5,109,188
0100	Fund balances--beginning	120,343,600	5,995,589	17,586,395
3000	<b>Fund balances--ending</b>	<u>\$ 112,296,013</u>	<u>\$ 7,153,976</u>	<u>\$ 22,695,583</u>

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

60 Capital Projects	Non-Major Governmental Funds	98 Total Governmental Funds
\$ 2,079,530	\$ 913,089	\$ 129,456,168
-	1,215,677	290,622,634
-	20,396,381	43,000,190
<u>2,079,530</u>	<u>22,525,147</u>	<u>463,078,992</u>
4,852	18,502,487	229,399,643
305,199	44,426	6,350,225
-	1,343,795	4,826,288
-	658,416	7,611,577
-	167,457	19,066,453
-	802,809	15,902,586
-	398,839	637,155
-	67,037	3,904,797
713,186	787,381	6,817,865
-	-	22,568,767
60	46,998	9,968,745
348,948	-	8,618,901
640,625	-	34,207,763
312,643	-	3,617,741
358,689	-	7,460,634
-	305,345	567,015
-	-	26,395,260
-	-	25,708,508
928,440	-	1,134,987
101,153,546	-	128,743,050
-	-	63,762
-	-	3,627,332
-	-	368,753
<u>104,766,188</u>	<u>23,124,990</u>	<u>567,567,807</u>
<u>(102,686,658)</u>	<u>(599,843)</u>	<u>(104,488,815)</u>
118,645,000	-	118,645,000
-	-	172,334
-	497,423	952,847
17,311,488	-	17,311,488
396,951	-	396,951
-	-	(1,205,456)
<u>136,353,439</u>	<u>497,423</u>	<u>136,273,164</u>
33,666,781	(102,420)	31,784,349
<u>193,695,206</u>	<u>425,954</u>	<u>338,046,744</u>
<u>\$ 227,361,987</u>	<u>\$ 323,534</u>	<u>\$ 369,831,093</u>

**Mesquite Independent School District**  
 Reconciliation of The Governmental Funds  
 Statement Of Revenues, Expenditures And Changes In  
 Fund Balance To The Statement Of Activities  
 For The Year Ended August 31, 2018

**Exhibit C-2R**

<b>TOTAL NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS</b>	\$ 31,784,349
The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The change in net position of internal service funds is reported as governmental activities.	(697,170)
Current year capital outlays are expenditures in the governmental fund financial statements, but they are shown as an increase in capital assets in the district-wide financial statements.	142,477,393
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources.	(31,932,053)
Current year bond proceeds are other financing sources in the governmental fund financial statements, but are shown as increases in long-term debt in the district-wide financial statements.	(118,645,000)
Current year long-term debt principal payments on bonded debt are expenditures in the governmental fund financial statements, but are shown as reductions in long-term debt in the district-wide financial statements.	26,395,260
Unused leave is accrued in the district-wide financial statements, whereas in the fund financial statements an expenditure for unused leave is reported when due. This amount represents the change from prior year.	167,822
Current year change in the accretion on capital appreciation bonds is not reflected in the governmental fund financial statements, but is shown as an decrease in accreted interest on the district-wide financial statements.	1,468,298
Interest is accrued on outstanding debt in the district-wide financial statements, whereas in the governmental fund financial statements an interest expenditure is reported when due. This amount represents the current year change in accrued interest.	(337,623)
Premiums and discounts associated with bonds payable are reported as other sources/uses in the fund financial statements when bonds are issued. Amounts are reported net of amortization in the district-wide financial statements. The effect of current amortization of bond premiums \$5,689,749 and bond discounts (\$79,152) was to increase net position.	5,610,597
Amortization of deferred loss on refunding amount is not recognized in the governmental funds. The effect of recording current year's amortization is to decrease net position.	(3,443,292)
Current year additions to premium on bonds are reflected in the governmental fund financial statements as other sources, but are shown as a decrease in net position.	(17,311,488)
The net book value of capital assets disposed 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 disposals less cash proceeds is to decrease net position.	(6,556,667)
Revenue from property taxes is deferred in the governmental fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed net of an allowance for uncollectible accounts in the district-wide statements. This amount represents the current year change in deferred property taxes.	55,519
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of an decrease in deferred outflows (\$5,208,587); increase in deferred inflows (\$8,535,878); and decrease in net pension liability (\$11,962,809).	(1,781,656)
The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of an increase in deferred outflows (\$2,100,478); increase in deferred inflows (\$53,772,593); and decrease in net OPEB liability (\$98,398,322).	46,726,207
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES</b>	<u>\$ 73,980,496</u>

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

**Mesquite Independent School District**  
Statement Of Net Position  
Proprietary Funds  
August 31, 2018

**Exhibit D-1**

	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash and cash equivalents	\$ 5,970,757
Inventory	159,605
Due from other funds	86,811
Other current assets	9,758
	<hr/>
Total assets	6,226,931
	<hr/>
<b>CURRENT LIABILITIES:</b>	
Accounts payable	85,341
Due to other funds	2,994,997
Accrued expenses	689,694
	<hr/>
Total liabilities	3,770,032
	<hr/>
<b>NET POSITION</b>	
Unrestricted	2,456,899
	<hr/>
<b>Total net position</b>	<b>\$ 2,456,899</b>
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**Mesquite Independent School District****Exhibit D-2**Statement Of Revenues, Expenses, And Changes In Net Position  
Proprietary Funds  
For The Year Ended August 31, 2018

	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>OPERATING REVENUES:</b>	
Charges for services	\$ 4,899,472
Total operating revenues	<u>4,899,472</u>
<b>OPERATING EXPENSES:</b>	
Personal services	1,481,141
Contractual services	77,847
Other supplies and expenses	3,168,566
Insurance claims and expenses	948,932
Other operating costs	184,534
Total operating expenses	<u>5,861,020</u>
Operating loss	<u>(961,548)</u>
<b>NONOPERATING REVENUES:</b>	
Earnings from temporary deposits and investments	11,769
Total nonoperating revenue	<u>11,769</u>
<b>TRANSFERS IN</b>	<u>252,609</u>
Change in net position	(697,170)
<b>Total net position—beginning</b>	<u>3,154,069</u>
<b>Total net position—ending</b>	<u><u>\$ 2,456,899</u></u>

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

**Mesquite Independent School District**  
 Statement Of Cash Flows  
 Proprietary Funds  
 For The Year Ended August 31, 2018

**Exhibit D-3**

	<b>Governmental Activities</b>
	<b>Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from transactions with other funds	\$ 5,138,368
Payments to suppliers	(3,316,904)
Payments to employees	(1,558,988)
Claims paid	(948,932)
	<u>(686,456)</u>
Net cash used in operating activities	<u>(686,456)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>	
Transfers in	252,609
	<u>252,609</u>
Net cash provided by non-capital financing activities	<u>252,609</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment earnings	11,769
	<u>11,769</u>
<b>Net cash provided by investing activities</b>	<u>11,769</u>
Net decrease in cash and cash equivalents	(422,078)
<b>Balances—beginning of the year</b>	<u>6,392,835</u>
<b>Balances—end of the year</b>	<u>\$ 5,970,757</u>
<b>Reconciliation of operating loss to net cash used in operating activities:</b>	
Operating loss	\$ (961,548)
Effect of increases and decreases in current assets and liabilities:	
Decrease in inventory	13,595
Decrease in interfund receivables	238,896
Decrease in accounts payable	29,086
Decrease in accrued expenses	(6,485)
	<u>(686,456)</u>
<b>Net cash used in operating activities</b>	<u>\$ (686,456)</u>

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

**Mesquite Independent School District**  
Statement of Fiduciary Fund Net Position  
Fiduciary Funds  
August 31, 2018

**Exhibit E-1**

	<b>Private Purpose Trust Funds</b>	<b>Agency Fund</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 148,130	\$ 1,320,010
Total assets	<u>\$ 148,130</u>	<u>\$ 1,320,010</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 5,000	\$ -
Due to other funds	600	817,736
Due to student groups	-	502,274
Total liabilities	<u>\$ 5,600</u>	<u>\$ 1,320,010</u>
<b>NET POSITION</b>		
Unrestricted net position	<u>142,530</u>	
<b>Total net position and liabilities</b>	<u>\$ 148,130</u>	

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

**Mesquite Independent School District**  
 Statement of Changes in Fiduciary Fund Net Position  
 Fiduciary Funds  
 For the Year Ended August 31, 2018

**Exhibit E-2**

	<b>Private Purpose Trust Funds</b>
<b>ADDITIONS</b>	
Local and intermediate sources	\$ 32,255
Total additions	<u>32,255</u>
<b>DEDUCTIONS</b>	
Other operating costs	<u>31,783</u>
Total deductions	<u>31,783</u>
<b>Change in net position</b>	<u>472</u>
<b>Net position September 1 (Beginning)</b>	<u>142,058</u>
<b>Net position August 31 (Ending)</b>	<u><u>\$ 142,530</u></u>

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# Mesquite Independent School District

## Notes to the Financial Statements

### Note 1. Summary of Significant Accounting Policies

Mesquite 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 promulgated by the Governmental Accounting Standards Board (GASB); 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.

#### A. Reporting Entity

The Board of Trustees (the Board) is elected by the public and 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," as amended by GASB 39 "Determining Whether Certain Organizations Are Component Units." There are no component units included within the reporting entity.

#### B. District-Wide and Fund Financial Statements

The statement of net position and the statement of activities are district-wide financial statements. They report information on all of the Mesquite Independent School District's non-fiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. The District has no business type activities 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 "operating grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational requirements of a given function. Examples include the grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Interfund activities between governmental funds and proprietary funds appear as due to/due from on the governmental fund balance sheet and proprietary fund statement of net position and as other sources and other uses on the governmental fund statement of revenues, expenditures, and changes in fund balance.

Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and transfers out are netted and presented as a single "transfer" line on the district-wide statement of activities, when applicable. Similarly, interfund receivables and payables are netted and presented as a single "internal balances" line of district-wide statement of net position, when applicable.

## **Mesquite Independent School District**

### Notes to the Financial Statements

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 district-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 attributed specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

#### **C. Change in Accounting Principle**

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

The requirements of Statement No. 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to the OPEB plan. Note disclosure and RSI requirements about the OPEB plan also are addressed. The implementation of Statement No. 75 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively. Refer to Note 12 for more information regarding the District's OPEB plan. The implementation of Statement No. 75 resulted in the retroactive reduction of the District's beginning net position by \$226,948,047. See Note 17 for details of the District's prior period adjustment and restatement of beginning net position.

#### **D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The district-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. 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 are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible to accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant and when all eligibility requirements have been met. 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 or if all eligibility requirements have not been met, grantors sometimes require the District to refund all or part of the unused amounts.

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.

#### E. Fund Accounting

##### Governmental Funds:

The District reports the following major governmental funds:

1. **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. **Food Service Special Revenue Fund** – The food service fund is utilized to account for the activities of the school lunch and breakfast programs which are funded by federal grants as well as the summer feeding program which is locally funded.
3. **Debt Service Fund** – The debt service fund is utilized to account for the accumulation of resources and the payment of general long-term debt principal, interest, and related costs arising from general obligation bonds.
4. **Capital Projects Fund** – The capital projects fund is utilized to account for financial resources to be used for the acquisition or construction of major capital facilities. Such resources are derived from proceeds of general obligation bonds and interest earned on such monies and local sources designated for such purposes.

Additionally, the District reports the following nonmajor fund types:

1. **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 and Local 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.

##### Proprietary Funds:

1. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Funds are Employee Health Center and Worker's Compensation.

##### Fiduciary Funds:

1. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District as Private Purpose Trust Funds. The District's Private Purpose Trust Funds are the Meadows-O'Donnell Foundation and the Scholarship Fund.

## **Mesquite Independent School District**

### Notes to the Financial Statements

- Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are the Student Activity Fund and the Payroll Clearing Fund.

#### **F. Cash and Cash Equivalents**

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.

#### **G. 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 they were 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 and (2) when they are expected to be collected during a 60-day period after the close of the District fiscal year.

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 and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

#### **H. Investments**

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes.

#### **I. Supplies, Materials and Commodities**

Supplies, materials and commodities to be utilized in governmental funds are recorded as expenditures under the consumption method. Under the consumption method, costs are recorded as an expenditure in the period the items are utilized. Inventories are stated at cost utilizing the first-in, first-out method.

#### **J. Capital Assets**

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

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### Notes to the Financial Statements

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements with total project costs of \$100,000 or greater are capitalized as they are constructed.

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

Assets	Years
Buildings	10-40
Building improvements	10-40
Furniture and equipment	5-10

#### K. Liability for Compensated Absences

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 vacation since the District does not have a policy to pay any amounts when employees separate from service with the District. Sick leave days are accumulated from year to year; however, only qualified employees are paid for sick leave days not taken upon retirement. Qualified employees are employees that have worked for the District five or more years and have met all other retirement age criteria. 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.

#### L. Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Gains or losses on refunding are deferred and amortized over the lesser of the remaining life of the old debt or the life of the new debt using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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.

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### Notes to the Financial Statements

#### M. Net Position and Fund Balance

##### District-Wide Financial Statements

When the District incurs an expense for which it may use either restricted or unrestricted net position, it uses restricted net position first unless unrestricted net position will have to be returned because it was not used. Net position on the Statement of Net Position includes the following:

Net investment in capital assets – The component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding unspent proceeds, that is directly attributable to the acquisition, construction or improvement of these capital assets.

Restricted for Food Service – The component of net position that reports the difference between assets and liabilities of the Food Service Fund that consists of assets with constraints placed on their use by the U.S. Department of Agriculture.

Restricted for Debt Service – The component of net position that reports the financial resources restricted to pay debt service on capital related debt less current accrual of interest.

Unrestricted – The component of net position that is not reported in Net investment in capital assets, Restricted for Food Service or Restricted for Debt Service.

##### Governmental Fund Financial Statements

The District has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying governmental fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned. These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

In accordance with GASB 54, the District classifies governmental fund balances as follows:

Nonspendable – includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid items and long term receivables.

Restricted – includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts restricted due to constitutional provisions or enabling legislation. This classification includes amounts restricted under the child nutrition program, amounts restricted for retirement of long term debt, capital acquisitions and other state grants.

Committed – includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Trustees. This classification includes campus activity funds, and local special revenue funds.

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### Notes to the Financial Statements

Assigned – includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. Fund balance can be assigned by the District's Board, the Superintendent, or the Assistant Superintendent of Business Services. This classification includes insurance deductibles, encumbrances, program start-up costs, projected budget deficit for subsequent years and other legal uses.

Unassigned – includes residual positive fund balance within the General Fund which has not been classified within the other above mentioned categories. It may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

#### N. Encumbrance Accounting

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 canceled or appropriately provided for in the subsequent year's budget. Encumbrances are classified as restricted, committed or assigned in accordance with purpose restrictions. Special revenue fund and capital project fund encumbrances are included in restricted fund balance. General fund encumbrances are included in assigned fund balance.

Encumbrances outstanding at August 31, 2018 that were provided for in the subsequent year's budget are:

General fund	\$	2,629,179
Non-major special revenue		180,624
Major special revenue		1,385,114
Capital project funds		2,401,428
<b>Total</b>	<b>\$</b>	<b>6,596,345</b>

#### O. Data Codes

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

#### P. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2018 will change.

#### Q. Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through January 11, 2019, the date the financial statements were available to be issued.

## Mesquite Independent School District

### Notes to the Financial Statements

#### Note 2. Cash and Investments

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At August 31, 2018, the carrying amount of the District's cash deposits held at the depository bank was \$2,007,741 and the bank balance was \$5,665,036. The District's cash deposits at August 31, 2018 and during the year ended August 31, 2018 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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

- a. Depository: Prosperity Bank.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$75,573,384.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$28,367,594 and occurred during the month of November 2017.
- d. Total amount of FDIC coverage at the time of the highest combined balance was limited to \$250,000.

Legal and contractual provisions governing deposits and investments:

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 the District 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.

## Mesquite Independent School District

### Notes to the Financial Statements

Statutes and the District's investment policy authorized the District to invest in the following investments as summarized in the table below:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S. treasury obligations	2 Years	None	None
U.S. agencies securities	2 Years	None	None
Certificates of deposits	n/a	None	None
Repurchase agreements	90 Days	None	None
Securities lending program	1 Year	None	None
Banker's acceptance	270 Days	None	None
Commercial paper	270 Days	None	None
Money market mutual funds	90 Days	None	None
Mutual funds	2 Years	None	None
Guaranteed investment contracts	2 Years	None	None
Investment pools	n/a	None	None

The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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

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

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

## Mesquite Independent School District

### Notes to the Financial Statements

The District participates in investment pools which are not subject to fair value measurement as presented in the table below. The District's remaining investments are in certificates of deposit and U.S. Government Obligations. The District's investment balances and weighted average maturity of such investments are as follows:

Investment Type	August 31, 2018	Fair Value Measurements Using			Percent of Total Investments	Weighted Average Maturity (Days)
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Investments Measured at Amortized Cost:</b>						
Investment Pools:						
TexPool	\$ 14,634,928	\$ -	\$ -	\$ -	4%	28 days
<b>Investments Measured at Net Asset Value (NAV), Fair Value:</b>						
Texstar	140,615,368	-	-	-	35%	24 days
Lonestar	32,930,723	-	-	-	8%	20 days
Certificates of Deposit	52,765,849	-	-	-	12%	159 days
<b>Investments by Fair Value level:</b>						
Commercial Paper	83,026,352	83,026,352	-	-	20%	196 days
U.S. Government Obligations	77,893,729	77,893,729	-	-	20%	162 days
Investment Derivative Instrument						
Interest rate swap	(3,613,425)	-	(3,613,425)	-	-	-
<b>Total value</b>	<u>\$ 398,253,524</u>	<u>\$ 160,920,081</u>	<u>\$ (3,613,425)</u>	<u>\$ -</u>		

Investment Pools and certificates of deposit are measured at amortized cost or net asset value and are exempt for fair value reporting.

The District is a voluntary participant in TexPool. The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool.

TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. TexPool is rated AAAM by Standard & Poor's rating agency. This rating is the highest principal stability fund rating assigned by Standard & Poor's.

TEXSTAR: JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TEXSTAR under an agreement with the TEXSTAR board of directors. JPMorgan Fleming Asset Management (USA), Inc. provides investment services, and First Southwest Asset Management, Inc. provides participant services and marketing. Custodial, transfer agency, fund accounting and depository services are provided by JPMorgan Chase Bank and/or its subsidiary J.P. Morgan Investor Services Co. The primary objectives of TEXSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet participants' needs, diversification to avoid unreasonable or avoidable risks, and yield.

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### Notes to the Financial Statements

The Lone Star Investment Pool is an investment pool available to governmental entities. The pool was established under the guidance of the Texas Public Funds Investment Act. A board of directors made up of members of the pool is responsible for the overall operation of the pool. The Board has employed various third party organizations to assist in the operations. These third parties are as follows: American Beacon Advisors- Investment Managers, CAPTRUST Financial Advisors- Investment Consultant, State Street Bank- Custodian, and First Public- Administration. In combination with these third party organizations, the pool has received an AAA rating from Standard & Poor's. This rating allows the pool to meet the standards required by the Texas Public Funds Investment Act.

Cash and investments as of August 31, 2018 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and cash equivalents	\$ 188,751,260
Current investments	121,731,547
Long-term investments	91,954,383
Fiduciary funds:	
Cash and cash equivalents	<u>1,468,140</u>
<b>Total cash and investments</b>	<b><u><u>\$ 403,905,330</u></u></b>

Cash and investments as of August 31, 2018 consist of the following:

Cash on hand	\$ 30,640
Deposits with financial institutions	2,007,741
Investments	<u>401,866,949</u>
<b>Total cash and investments</b>	<b><u><u>\$ 403,905,330</u></u></b>

#### A. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 60 days thus reducing the interest rate risk. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The District has no specific limitations with respect to this metric.

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As of August 31, 2018, the District had the following investments:

Investment Type		Weighted Average Maturity
U.S. Government Obligations	\$ 77,893,729	162 days
Certificates of Deposit	52,765,849	159 days
Commercial Paper	83,026,352	196 days
Investment Pool -LoneStar	32,930,723	20 days
Investment Pool -TexPool	14,634,928	28 days
Investment Pool -Texstar	140,615,368	24 days
<b>Total</b>	<b>\$ 401,866,949</b>	

As of August 31, 2018 the District did not invest in any securities which are highly sensitive to interest rate fluctuations.

#### B. Disclosures Relating To Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the District's investment policy, or debt agreements, and the actual rating as of August 31, 2018 for each investment type.

Investment Type		Minimum Legal Rating	Rating as of Year End
U.S. Government Obligations	\$ 77,893,729	N/A	N/A
Certificates of Deposit	52,765,849	N/A	N/A
Commercial Paper	83,026,352	N/A	N/A
Investment Pool -LoneStar	32,930,723	N/A	AAA
Investment Pool -TexPool	14,634,928	N/A	AAAm
Investment Pool -Texstar	140,615,368	N/A	AAAm
<b>Total</b>	<b>\$ 401,866,949</b>		

#### C. Concentration of Credit Risk

Concentration of credit risk is the risk associated with holding investments that are not in pools and in excess of 5% of the total portfolio. As of August 31, 2018, the District held 34% of their portfolio in certificates of deposit and 35% in U.S. government obligations. The District controls this risk by laddering the portfolio, limiting the final maturity of each investment between six months and three years through its investment policy with most purchases with maturities less than two years.

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## Notes to the Financial Statements

### D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is 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 its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

As of August 31, 2018, the District deposits with financial institutions in excess of federal depository insurance limits were fully collateralized.

### Note 3. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2018, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

Furthermore, there are times when overpayment is received from a State Agency and money may be due to other governments.

	General Fund	Food Service Fund	Non-Major Special Revenue Funds	Total
State entitlement	\$ 555,049	\$ -	\$ -	\$ 555,049
State grants	-	45,413	233,400	278,813
Federal grants	37,814	1,031,216	5,928,596	6,997,626
	<u>\$ 592,863</u>	<u>\$ 1,076,629</u>	<u>\$ 6,161,996</u>	<u>\$ 7,831,488</u>

# Mesquite Independent School District

## Notes to the Financial Statements

### Note 4. Other Receivables

Other receivables as of August 31, 2018, for the District's individual major funds and internal service funds in the aggregate are as follows:

	General Fund	Debt Service Fund	Non-Major Governmental Funds	Total
City Transportation	\$ 16,853	\$ -	\$ -	\$ 16,853
Taxes receivable	85,567	31,929	-	117,496
Houghton Mifflin Refund	145,550	-	-	145,550
Cedar Valley Community College	12,621	-	-	12,621
Scoreboard	3,000	-	-	3,000
Refunds/miscellaneous	4,785	-	100	4,885
Masters reimbursement	19,683	-	-	19,683
	<u>\$ 288,059</u>	<u>\$ 31,929</u>	<u>\$ 100</u>	<u>\$ 320,088</u>

District-wide other receivables includes \$817,736 due to the Agency Funds and \$600 due to Private Purpose Trust Funds, as these funds are not presented as part of the District's operations.

### Note 5. Interfund Receivables, Payables and Transfers

Interfund balances at August 31, 2018 consisted of the following individual fund receivables and payables:

Due to Fund	Due from Fund	Amount
General Fund	Internal Service	\$ 2,994,997
General Fund	Major Special Revenue	375,535
General Fund	Non-major Special Revenue	5,738,537
General Fund	Trust and Agency	818,336
Capital Projects	General Fund	25,976
Non-major Special Revenue	General Fund	201,570
Internal Service	General Fund	86,811
		<u>\$ 10,241,762</u>

All amounts due are scheduled to be repaid within one year.

# Mesquite Independent School District

## Notes to the Financial Statements

Interfund transfers for the year ended August 31, 2018 were as follows:

Transfer From	Transfer To	Amount	Reason
General	Food Service	\$ 64,224	Food Service Transfer
General	Internal Service	252,609	Internal Service Transfer
Food Service	General	391,200	Food Service Transfer
General	Non-Major Governmental	497,423	RDSD Member District Share Transfer
		<u>\$ 1,205,456</u>	

### Note 6. Capital Asset Activity

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

Governmental Activities:	Primary Government				
	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Non-depreciable assets					
Land	\$ 16,620,265	\$ 1,462,646	\$ (128,848)	\$ -	\$ 17,954,063
Construction in progress	121,280,421	116,746,971	-	(91,938,488)	146,088,904
Total non-depreciable assets	<u>137,900,686</u>	<u>118,209,617</u>	<u>(128,848)</u>	<u>(91,938,488)</u>	<u>164,042,967</u>
Depreciable assets					
Buildings and improvements	696,804,551	-	(16,021,411)	91,938,488	772,721,628
Furniture and equipment	171,551,415	24,267,776	(14,771,603)	-	181,047,588
Total depreciable assets	<u>868,355,966</u>	<u>24,267,776</u>	<u>(30,793,014)</u>	<u>91,938,488</u>	<u>953,769,216</u>
Less accumulated depreciation for:					
Buildings and improvements	272,802,294	17,258,959	(10,061,000)	-	280,000,253
Furniture and equipment	113,500,808	14,673,094	(14,304,195)	-	113,869,707
Total accumulated depreciation	<u>386,303,102</u>	<u>31,932,053</u>	<u>(24,365,195)</u>	<u>-</u>	<u>393,869,960</u>
<b>Total capital assets, net</b>	<u>\$ 619,953,550</u>	<u>\$ 110,545,340</u>	<u>\$ (6,556,667)</u>	<u>\$ -</u>	<u>\$ 723,942,223</u>

# Mesquite Independent School District

## Notes to the Financial Statements

Depreciation expense was charged to governmental functions as follows:

Governmental Function	Depreciation
Instruction	\$ 21,356,829
Instructional resources and media services	506,533
Curriculum development and instructional staff development	343,960
Instructional leadership	739,453
School leadership	1,922,562
Guidance, counseling and evaluation services	1,577,830
Social work services	64,803
Health services	389,917
Student (pupil) transportation	416,051
Food services	1,009,230
Cocurricular/extracurricular activities	405,421
General administration	607,665
Plant maintenance and operations	1,661,790
Security and monitoring service	174,399
Data processing services	526,173
Community services	194,767
Construction	34,670
<b>Total depreciation expense</b>	<b>\$ 31,932,053</b>

### Note 7. Unearned/Unavailable Revenue

Unearned/unavailable revenue reported in the governmental funds at year end consisted of the following:

	General Fund	Food Service Fund	Debt Service Fund	Non-Major Governmental Funds	Total
Tax revenue	\$ 3,172,616	\$ -	\$ 1,130,283	\$ -	\$ 4,302,899
Total unavailable	<u>\$ 3,172,616</u>	<u>\$ -</u>	<u>\$ 1,130,283</u>	<u>\$ -</u>	<u>\$ 4,302,899</u>
Cheerleader receipts	\$ 176,629	\$ -	\$ -	\$ -	\$ 176,629
Athletic ticket sales	2,424	-	-	-	2,424
State grant awards	-	-	-	6,471	6,471
Prepaid PAMS	-	229,512	-	-	229,512
<b>Total unearned</b>	<u>\$ 179,053</u>	<u>\$ 229,512</u>	<u>\$ -</u>	<u>\$ 6,471</u>	<u>\$ 415,036</u>

Tax revenue reported as unearned revenue in the governmental funds is recorded as revenue in the district-wide financial statements. Accordingly, unearned tax revenue is excluded in the district-wide financial statements.

# Mesquite Independent School District

## Notes to the Financial Statements

### Note 8. Long-Term Debt

#### A. Unlimited Tax Bonds

The District issues unlimited tax bonds for the governmental activities to provide funds for the acquisition and construction of major capital facilities. Unlimited tax bonds are direct obligations and pledge the full faith and credit of the District. Bonded indebtedness of the District is reflected in the government-wide financial statements. Current requirements for principal and interest expenditures are payable solely from future revenues of the Debt Service Fund which consists principally of property taxes collected by the District and interest earnings.

The District has several issues containing zero coupon bonds. Accordingly, the accretion of interest on these zero coupon bonds has been recorded in the district-wide financial statements. Accreted interest decreased on these bonds during the current year in the net amount of \$1,468,298.

Unlimited tax bonds outstanding as of August 31, 2018 are as follows:

Purpose and Lawful Authority	Interest Rate	Final Maturity	Amount of Original Issue	Amounts Outstanding 08/31/18
Unlimited Tax School Building Bonds, Series 2000	4.45 to 6.00%	2021	\$ 40,000,000	\$ 6,575,000
Unlimited Tax School Building Bonds, Series 2003A	4.46%	2029	30,000,000	28,535,000
Unlimited Tax School Building and Refunding Bonds, Series 2008	3.00 to 4.00%	2019	13,090,000	670,000
Unlimited Tax School Building Bonds, Series 2009	2.50 to 4.63%	2033	24,735,000	500,000
Unlimited Tax School Building Bonds, Series 2010-A	2.00 to 5.00%	2035	45,965,000	11,485,000
Unlimited Tax Refunding Bonds, Series 2010-B	2.25 to 5.00%	2025	27,978,394	11,880,000
Unlimited Tax Refunding Bonds, Series 2012	2.00 to 5.00%	2031	36,409,259	28,049,259
Unlimited Tax Refunding Bonds, Series 2013	3.00 to 3.50%	2026	8,760,000	8,660,000
Unlimited Tax School Building Bonds, Series 2014-A	2.5 to 5.00%	2025	24,045,000	19,435,000
Unlimited Tax Refunding Bonds, Series 2014-B	2.00 to 5.00%	2030	54,200,000	16,000,000
Unlimited Tax School Building Bonds, Series 2015-A	2.00 to 4.00%	2026	27,020,000	22,390,000
Unlimited Tax Refunding Bonds, Series 2015-B	2.00 to 4.00%	2031	21,309,996	19,105,000
Unlimited Tax Refunding Bonds, Series 2015-C	2.00 to 5.00%	2032	27,496,135	26,952,943
Unlimited Tax Refunding Bonds, Series 2015-D	4.00 to 5.00%	2031	27,068,535	22,415,000
Unlimited Tax School Building Bonds, Series 2015-E	3.00 to 5.00%	2038	71,870,000	70,495,000
Unlimited Tax Refunding Bonds, Series 2016-A	2.00 to 5.00%	2033	16,890,000	16,890,000
Unlimited Tax Refunding Bonds, Series 2016-B	4.00 to 5.00%	2035	22,270,000	22,270,000
Unlimited Tax School Building Bonds, Series 2016-C	2.00 to 5.00%	2042	91,375,000	90,925,000
Unlimited Tax Refunding Bonds, Series 2017-A	3.00 to 5.00%	2032	12,803,008	12,500,940
Unlimited Tax School Building Bonds, Series 2017-B	3.00 to 5.00%	2042	88,350,000	82,635,000
Unlimited Tax School Building Bonds, Series 2018	5.00%	2048	118,645,000	118,645,000
<b>Total bonded debt principal payable</b>				<b>\$ 637,013,142</b>

## Mesquite Independent School District

### Notes to the Financial Statements

#### B. Interest Rate Swap

As a means to lower its borrowing costs when compared against fixed-rate bonds at the time of issuance in August 2003, the District entered into an interest rate swap in connection with its \$30 million Series 2003-A variable-rate school building unlimited tax bonds. The intention of the swap was to effectively change the District's variable interest rate on the bonds to a synthetic fixed rate of 4.458%.

The bonds and the related swap agreement mature on August 1, 2029, and the swap's notional amount of \$30 million matches the \$30 million variable-rate bonds. The swap was entered at the same time the bonds were issued (August 2003).

Under the swap, the District pays the counterparty a fixed payment of 4.458% and receives a variable payment based on The Bond Market Association Municipal Swap Index (BMA), which was 1.56% at August 31, 2018.

Because interest rates have declined since execution of the swap, the swap had a negative fair value of \$3,613,425 as of August 31, 2018. The swap's negative fair value may be countered by a reduction in total interest payments required under the variable-rate bonds, creating a lower synthetic interest rate. Because the coupons on the District's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value was estimated using the zero-coupon method. This method calculates the future net settlement payments required by the swap, assuming that the current forward rates implied by the yield curve correctly anticipate future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for hypothetical zero-coupon bonds due on the date of each future net settlement on the swap.

As of August 31, 2018, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, the District would be exposed to credit risk in the amount of the derivative's fair value. The swap counterparty was rated A+ by Fitch Ratings, A- by Standard & Poor's and A3 by Moody's Investor Service as of August 31, 2018. To mitigate the potential for credit risk, if the counterparty's credit quality falls below BBB/Baa3, the fair value of the swap will be fully collateralized by the counterparty with U.S. government securities. Collateral would be posted with a third-party custodian.

The District shall have the right to optionally terminate the swap agreement at any time over the term of the agreement at the then prevailing market value of the swap. The counterparty shall not have the elective right to terminate the swap agreement as no termination option was priced into the terms of the swap at inception. As rates vary, variable-rate bond interest payments and net swap payments will vary.

The District implemented GASB 53, Accounting and Financial Reporting for Derivative Instruments. This standard established a comprehensive framework for measurement, recognition, and disclosure of derivatives. Under this guidance, derivative instruments associated with hedgeable items that are determined to be effective in reducing exposures to identified financial risks are considered hedging derivative instruments. Effectiveness is determined by considering whether changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item. In these instances, hedge accounting should be applied.

## Mesquite Independent School District

### Notes to the Financial Statements

Under hedge accounting, the changes in fair values of the hedging derivative instrument are reported as either deferred inflows or deferred outflows in the District's statement of net position. The following table summarizes the fair value balances and notional amounts of the District's derivative instruments:

	Changes in Fair Value		Fair Value at August 31, 2018		
	Classification	Amount	Classification	Amount	Notional
Governmental activities					
2003-A Swap					
(Cash flow hedge)	Deferred outflow	\$ 1,828,119	Debt	\$ (3,613,425)	\$ 28,535,000

The consistent critical terms method was utilized to determine the effectiveness of this instrument.

### C. Debt Service Requirements

Debt service requirements are as follows:

Year Ending August 31	Variable - Rate Bonds			Total Requirements
	Principal	Interest	Interest Rate Swaps, Net	
2019	\$ 2,315,000	\$ 673,576	\$ 598,514	\$ 3,587,090
2020	2,420,000	618,930	549,958	3,588,888
2021	2,520,000	561,805	499,199	3,581,004
2022	2,630,000	502,319	446,343	3,578,662
2023	2,735,000	440,238	391,180	3,566,418
2024-2028	15,590,000	1,174,242	1,043,388	17,807,630
2029	325,000	95,483	84,843	505,326
	<u>\$ 28,535,000</u>	<u>\$ 4,066,593</u>	<u>\$ 3,613,425</u>	<u>\$ 36,215,018</u>

Debt service requirements to maturity are as follows (excluding maturities on the 2003-A issue, which is reflected above):

Year Ending August 31	General Obligation		Total Requirements
	Principal	Interest	
2019	\$ 22,343,375	\$ 32,703,201	\$ 55,046,576
2020	25,870,378	32,016,177	57,886,555
2021	20,836,113	30,788,142	51,624,255
2022	15,663,707	29,927,748	45,591,455
2023	14,844,980	29,275,824	44,120,804
2024-2028	107,597,927	108,069,200	215,667,127
2029-2033	132,746,662	83,450,664	216,197,326
2034-2038	121,835,000	52,112,469	173,947,469
2039-2043	107,535,000	22,851,163	130,386,163
2044-2048	39,205,000	6,072,000	45,277,000
	<u>\$ 608,478,142</u>	<u>\$ 427,266,588</u>	<u>\$ 1,035,744,730</u>

## Mesquite Independent School District

### Notes to the Financial Statements

There are a number of limitations and restrictions contained in the unlimited tax school building and refunding bond indenture. The District is in compliance with all significant limitations and restrictions at August 31, 2018.

#### D. Current Debt Issuances

In prior years, the District defeased certain unlimited tax school building bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As of August 31, 2018, \$44,285,000 of bonds considered defeased are still outstanding.

During the year ended August 31, 2018, the District issued \$118,645,000 in Unlimited School Building Bonds plus a premium of \$17,311,488.

Changes in Long-Term Liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Government activities					
Bonded debt payable	\$ 544,763,402	\$ 118,645,000	\$ (26,395,260)	\$ 637,013,142	\$ 24,658,375
	544,763,402	118,645,000	(26,395,260)	637,013,142	24,658,375
Net pension liability	86,527,634	9,748,356	(21,711,165)	74,564,825	-
Net OPEB liability	226,948,047	21,754	(98,420,076)	128,549,725	-
Accreted interest	30,235,312		(1,468,298)	28,767,014	5,431,713
Premium on bonds	92,571,829	17,311,488	(5,689,749)	104,193,568	-
Bond discount	(79,152)	-	79,152	-	-
Compensated absences	1,344,475	-	(167,822)	1,176,653	453,241
<b>Long-term liabilities</b>	<b>\$ 982,311,547</b>	<b>\$ 145,726,598</b>	<b>\$ (153,773,218)</b>	<b>\$ 974,264,927</b>	<b>\$ 30,543,329</b>

Compensated absences are liquidated in the General Fund and all bonded debt liabilities are liquidated in the Debt Service Fund. Pension and OPEB liabilities are liquidated in the General Fund as required contributions are made.

## Mesquite Independent School District

### Notes to the Financial Statements

#### Note 9. General Fund Federal Source Revenues

During the current year, General Fund federal source revenues consisted of the following:

Program or Source	CFDA Number	Amount	Total Grant or Entitlement
Medicaid and administrative consortium	N/A	\$ 46,877	\$ 46,877
Selective reserve educational assistance	N/A	511,976	511,976
School health and related services	N/A	2,889,561	2,889,561
		\$ 3,448,414	\$ 3,448,414

#### Note 10. Revenue from Local and Intermediate Sources

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

	General Fund	Food Service Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental	Total
Taxes, current	\$ 77,518,020	\$ -	\$ 31,305,319	\$ -	\$ -	\$ 108,823,339
Taxes, prior years	690,850	-	257,984	-	-	948,834
Penalties and interest	858,335	-	347,748	-	-	1,206,083
Investment earnings	3,053,432	91,664	888,817	2,072,984	-	6,106,897
Insurance recovery	522,484	-	-	-	-	522,484
Tuition from patrons	272,761	-	-	-	-	272,761
Athletic activities	823,156	-	-	-	-	823,156
Rent	542,237	-	-	-	-	542,237
Food service activities	125,260	3,325,457	-	-	-	3,450,717
Gifts and bequests	249,274	-	-	-	233,085	482,359
Extra/cocurricular	2,898,777	-	-	-	-	2,898,777
Other	2,622,689	69,285	-	6,546	680,004	3,378,524
	\$ 90,177,275	\$ 3,486,406	\$ 32,799,868	\$ 2,079,530	\$ 913,089	\$ 129,456,168

#### Note 11. Defined Benefit Pension Plan

##### A. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is 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.

## **Mesquite Independent School District**

### Notes to the Financial Statements

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

#### **B. Pension Plan Fiduciary Net Position**

Detail 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 [https://www.trs.texas.gov/TRS%20Documents/cafr\\_2016.pdf](https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

#### **C. Benefits Provided**

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

#### **D. Contributions**

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

## Mesquite Independent School District

### Notes to the Financial Statements

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

<b><u>Contribution Rates</u></b>		
	<b><u>2018</u></b>	<b><u>2017</u></b>
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2018 Employer Contributions	\$ 7,642,938	
2018 Member Contributions	\$ 19,285,036	
2018 NECE On-behalf Contributions	\$ 8,844,383	

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

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

Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

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

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

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

## Mesquite Independent School District

### Notes to the Financial Statements

#### E. Actuarial Assumptions

The total pension liability in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2018
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	8.00%
Long-term expected rate	8.00%
Municipal bond rate	N/A*
Last year ending August 31 in the 2017 to 2116 projection period (100 years)	2116
Inflation	2.50%
Salary increases	3.50% to 9.50% including inflation
Ad hoc post-employment benefit changes	None

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

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

# Mesquite Independent School District

## Notes to the Financial Statements

### F. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2017 are summarized below:

	<b>Target Allocation</b>	<b>Long-Term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-Term Portfolio Returns*</b>
<b>Global Equity</b>			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked-Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<b>100.0%</b>		<b>8.7%</b>

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

## Mesquite Independent School District

### Notes to the Financial Statements

#### Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$125,701,563	\$74,564,825	\$31,985,191

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

At August 31, 2018, the District reported a liability of \$74,564,825 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	\$ 74,564,825
State's proportionate share that is associated with District	<u>115,952,342</u>
<b>Total</b>	<u><u>\$ 190,517,167</u></u>

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

At August 31, 2017 the employer's proportion of the collective net pension liability was .02332001% which was an increase of .00042214% from its proportion measured as of August 31, 2016.

For the fiscal year ended August 31, 2018, the District recognized pension expense of \$10,626,039 and revenue of \$8,844,383 for support provided by the State.



## Mesquite Independent School District

### Notes to the Financial Statements

#### 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.

#### Benefits Provided

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

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

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

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

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

\* or surviving spouse

# Mesquite Independent School District

## Notes to the Financial Statements

### Contributions

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% 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% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

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

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

District contributions	\$ 1,536,880
Member contributions	1,594,153
NECE on-behalf contributions (state)	3,293,289

In addition, the State of Texas contributed \$767,374, \$738,992 and \$914,495 in 2018, 2017, and 2016, respectively, for on-behalf payments for Medicare Part D.

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

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

# Mesquite Independent School District

## Notes to the Financial Statements

### Actuarial Assumptions

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

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

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

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

\*Source: Fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.

\*\*Includes inflation at 2.50%

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

# Mesquite Independent School District

## Notes to the Financial Statements

### Discount Rate

A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to *not be able* to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

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

# Mesquite Independent School District

## Notes to the Financial Statements

### Sensitivity of the Net OPEB Liability

#### Discount Rate

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

1% Decrease (2.42%)	Current Single Discount Rate (3.42%)	1% Increase (4.42%)
\$ 151,720,589	\$ 128,549,725	\$ 109,925,576

#### Healthcare Cost Trend Rates

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 1% lower or 1% higher than the assumed health-care cost trend rate:

1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
\$ 107,030,489	\$ 128,549,725	\$ 156,785,676

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

At August 31, 2018, the District reported a liability of \$128,549,725 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the net OPEB liability	\$ 128,549,725
State's proportionate share of the net OPEB liability associated with the District	188,384,155
<b>Total</b>	<b>\$ 316,933,880</b>

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

At August 31, 2017 the employer's proportion of the collective net OPEB liability was .295610% which was the same proportion measured as of August 31, 2016.

## Mesquite Independent School District

### Notes to the Financial Statements

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

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

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

GASB 75 requires the District to record OPEB expense for the amount of the State's proportionate share of collective OPEB expense that is associated with the District, and record revenue in the same amount for the support provided by the State. For the measurement period ended August 31, 2017, the State's proportionate share of collected OPEB expense was a negative expense of \$8,504,163,580 and the District's proportionate share is a negative \$46,726,207. This amount is recorded as a negative revenue and negative expense for the District's year ended August 31, 2018.

For the District's year ended August 31, 2018, the District recognized total negative OPEB expense of \$109,764,554, which includes both the District's proportionate share of collective OPEB expense and the portion of the State's proportionate share of collective OPEB expense that is associated with the District, as described above.

## Mesquite Independent School District

### Notes to the Financial Statements

At August 31, 2018, the District reported the District's contribution after the measurement date and its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ (2,683,573)
Changes of assumptions	-	(51,089,020)
Net difference between projected and actual earnings on pension plan investments	19,527	-
Changes in proportion and differences between District contributions and proportionate share of contributions (cost-sharing plan)	594	-
District contributions after measurement date	2,080,357	-
<b>Totals</b>	<u>\$ 2,100,478</u>	<u>\$ (53,772,593)</u>

\$2,080,357 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended August 31, 2019. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to OPEB will be recognized in OPEB expense as follows:

Year Ending Aug 31,	
2019	\$ (7,092,701)
2020	(7,092,701)
2021	(7,092,701)
2022	(7,092,701)
2023	(7,097,582)
Thereafter	<u>(18,284,086)</u>
<b>Total</b>	<u>\$ (53,752,472)</u>

### Note 13. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

#### A. Health Care Coverage

The District employees are eligible to purchase health insurance through TRS-Active Care which is the statewide health plan for public education employees established by the 77th Texas Legislature and is a fully insured plan administered by Blue Cross and Blue Shield of Texas.

During the year ended August 31, 2018, the District funded benefit credits of \$297 per month per participating employee to the health insurance internal service fund.

## Mesquite Independent School District

### Notes to the Financial Statements

The District contribution, along with the employee contribution made through payroll deduction, was used to pay the premiums for the insurance plans chosen by the employee.

#### B. Workers' Compensation Coverage

Beginning September 1, 1993, the District established a self-insurance plan for workers' compensation benefits. Prior to this time, the District was a member of the Texas Association of School Boards Workers' Compensation Self-Insurance Fund (the Fund). The Fund will continue to be liable for all claims before September 1, 1993.

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. According to state statute, the District is protected against unanticipated catastrophic claims and aggregate loss by coverage carried through Midwest Employers Casualty, a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code.

Coverage was in effect for specific occurrences exceeding \$500,000.

The costs associated with these self-insurance plans are reported as interfund transactions to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the Internal Service Funds and operating expenditures of the General Fund and the Special Revenue Funds. The liabilities of the workers' compensation self-insurance plan totaled \$689,694 and includes incurred but not reported claims. These liabilities reported in the funds at August 31, 2018 are based on the requirements of Governmental Accounting Standards Board No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

These liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Workers' compensation liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time were computed by an actuary and are reported at their present value using expected future investment yield assumption of 3%.

Changes in the medical and workers' compensation claims liability amounts in fiscal 2018 and 2017 were:

Self-Insurance Liability	Beginning of Fiscal Year Liability	Claims and Changes in Estimates	Less: Claim Payments	Balance at Fiscal Year-End
2017 - workers' compensation	\$ 663,723	759,733	727,277	\$ 696,179
2018 - workers' compensation	\$ 696,179	915,323	921,808	\$ 689,694

#### Note 14. Commitments and Contingencies

##### A. Litigation

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying basic financial statements and accordingly, no provision for losses has been recorded.

## Mesquite Independent School District

### Notes to the Financial Statements

#### B. Grant Programs

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at August 31, 2018 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

#### C. Future Construction

The funds in the Capital Projects Fund will be used for future school construction and renovation. Commitments on outstanding construction contracts for future school construction and renovations totaled \$50,518,321 at August 31, 2018.

### Note 15. Shared Service Agreements

#### A. Deaf Education

The District is the fiscal agent for the Deaf Education program with the following member districts: Garland Independent School District, Forney Independent School District, Kaufman Independent School District, Red Oak Independent School District, Rockwall Independent School District, Royse City Independent School District, Sunnyvale Independent School District, Terrell Independent School District, and Wills Point Independent School District. Mesquite Independent School District acts as the fiscal agent and provides services for the member districts. The District's expenditures for the year ended August 31, 2018, totaled \$2,314,008. The District is reimbursed by the other member districts for their portion of the expenditures.

### Note 16. New Accounting Pronouncements

**GASB Statement No. 75: Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. Statement 75** was issued in June 2015. This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This standard becomes effective for the District in fiscal year 2018. See Note 12 and 17 for the effect of this statement.

**GASB Statement No. 81: Irrevocable Split-Interest Agreements. Statement 81** was issued in March 2016. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This standard becomes effective for the District in fiscal year 2018. The implementation had no significant effect on the District's financial statements.

## Mesquite Independent School District

### Notes to the Financial Statements

**GASB Statement No. 83: Certain Asset Retirement Obligations. Statement 83** was issued in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. This standard becomes effective for the District in fiscal year 2019. The District has not yet determined the impact of this statement.

**GASB Statement No. 84: Fiduciary Activities. Statement 84** was issued in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. This standard becomes effective for the District in fiscal year 2020. The District has not yet determined the impact of this statement.

**GASB Statement No. 85: Omnibus 2017. Statement 85** was issued in March 2017. This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). This standard becomes effective for the District in fiscal year 2018. The implementation had no effect on the District's financial statements.

**GASB Statement No. 86: Certain Debt Extinguishment Issues. Statement 86** was issued in May 2017. This Statement establishes standards of accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources – that is, resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the purpose of extinguishing debt. This Statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. Finally, this Statement establishes an additional disclosure requirement related to debt that is defeased in substance, regardless of how the cash and other monetary assets were acquired. This standard became effective for the District in fiscal year 2018. The implementation had no effect on the District's financial statements.

**GASB Statement No. 87: Leases. Statement 87** was issued in June 2017. This Statement establishes standards of accounting and financial reporting for lease by lessees and lessors. This standard becomes effective for the District in fiscal year 2021. The District has not yet determined the impact of this statement.

### Note 17. Prior Period Adjustment

Net position at September 1, 2017 was restated per the following table related to implementation of GASB 75:

	<u>Governmental Activities</u>
Beginning net position, as originally reported	\$ 286,507,221
Implementation of GASB 75 for OPEB	<u>(226,948,047)</u>
<b>Beginning net position, restated</b>	<b><u>\$ 59,559,174</u></b>

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## **Required Supplementary Information**

**Mesquite Independent School District**  
 Budgetary Comparison Schedule  
 General Fund  
 For the Year Ended August 31, 2018

**Exhibit G-1**

Data Control Codes		Budgeted Amounts		Actual	Variance With
		Original	Final	Amounts GAAP BASIS	Final Budget Under or (Over)
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ 85,868,000	\$ 89,091,200	\$ 90,177,275	\$ 1,086,075
5800	State program revenues	265,805,300	263,663,100	264,513,649	850,549
5900	Federal program revenues	4,025,000	3,510,900	3,448,414	(62,486)
5020	Total revenues	355,698,300	356,265,200	358,139,338	1,874,138
<b>EXPENDITURES</b>					
CURRENT:					
0011	Instruction	215,306,780	213,201,200	210,892,304	2,308,896
0012	Instructional resources and media services	6,095,500	6,176,500	6,000,600	175,900
0013	Curriculum and staff development	4,560,100	3,604,900	3,482,493	122,407
0021	Instructional leadership	6,867,900	7,122,300	6,953,161	169,139
0023	School leadership	18,420,800	19,344,000	18,898,996	445,004
0031	Guidance, counseling, and evaluation service	15,127,100	15,319,600	15,099,777	219,823
0032	Social work services	219,550	254,600	238,316	16,284
0033	Health services	3,809,050	3,904,100	3,837,760	66,340
0034	Student transportation	5,402,000	5,511,800	5,317,298	194,502
0035	Food service	1,275,200	1,237,700	1,138,656	99,044
0036	Extracurricular activities	9,304,800	10,007,200	9,921,687	85,513
0041	General administration	8,529,250	8,343,200	8,269,953	73,247
0051	Plant maintenance and operations	34,940,250	34,535,300	33,567,138	968,162
0052	Security and monitoring services	3,742,600	3,676,000	3,305,098	370,902
0053	Data processing services	7,908,800	7,554,600	7,101,945	452,655
0061	Community services	245,500	295,000	261,670	33,330
CAPITAL OUTLAY					
0081	Facilities acquisition and construction	23,373,800	28,743,200	27,589,504	1,153,696
INTERGOVERNMENTAL:					
0095	Payments to juvenile justice alternative ed. pr	130,000	72,900	63,762	9,138
0097	Payments to tax increment fund	3,500,000	3,541,100	3,627,332	(86,232)
0099	Other intergovernmental	355,000	368,800	368,753	47
6030	Total expenditures	369,113,980	372,814,000	365,936,203	6,877,797
1100	Excess (deficiency) of revenues over expenditures	(13,415,680)	(16,548,800)	(7,796,865)	8,751,935
<b>OTHER FINANCING SOURCES (USES):</b>					
7912	Sale of real or personal property	80,000	80,000	172,334	92,334
7915	Transfers in	400,000	435,300	391,200	(44,100)
8911	Transfers out	(975,000)	(950,000)	(814,256)	135,744
7080	Total other financing sources (uses)	(495,000)	(434,700)	(250,722)	183,978
1200	Net change in fund balances	(13,910,680)	(16,983,500)	(8,047,587)	8,935,913
0100	Fund balances--beginning	120,343,600	120,343,600	120,343,600	-
3000	<b>Fund balances--ending</b>	<b>\$ 106,432,920</b>	<b>\$ 103,360,100</b>	<b>\$ 112,296,013</b>	<b>\$ 8,935,913</b>

**Mesquite Independent School District**  
 Budgetary Comparison Schedule  
 Food Service Fund  
 For the Year Ended August 31, 2018

**Exhibit G-2**

Data Control Codes	Budgeted Amounts		Actual Amounts GAAP BASIS	Variance With Final Budget Under or (Over)	
	Original	Final			
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ 3,699,900	\$ 3,219,415	\$ 3,486,406	\$ 266,991
5800	State program revenues	343,700	202,085	273,673	71,588
5900	Federal program revenues	18,603,500	19,428,400	19,155,395	(273,005)
5020	Total revenues	<u>22,647,100</u>	<u>22,849,900</u>	<u>22,915,474</u>	<u>65,574</u>
<b>EXPENDITURES</b>					
CURRENT:					
0035	Food service	22,307,100	22,161,700	21,430,111	731,589
6030	Total expenditures	<u>22,307,100</u>	<u>22,161,700</u>	<u>21,430,111</u>	<u>731,589</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers in	-	-	64,224	(64,224)
8911	Transfers out	<u>(340,000)</u>	<u>(335,700)</u>	<u>(391,200)</u>	<u>55,500</u>
7080	Total other financing sources (uses)	<u>(340,000)</u>	<u>(335,700)</u>	<u>(326,976)</u>	<u>(8,724)</u>
1200	Net change in fund balances	-	352,500	1,158,387	805,887
0100	Fund balances--beginning	<u>5,995,589</u>	<u>5,995,589</u>	<u>5,995,589</u>	<u>-</u>
3000	<b>Fund balances--ending</b>	<u><u>\$ 5,995,589</u></u>	<u><u>\$ 6,348,089</u></u>	<u><u>\$ 7,153,976</u></u>	<u><u>\$ 805,887</u></u>

**Mesquite Independent School District**  
Schedule of the District's Proportionate  
Share of the Net Pension Liability – TRS  
For the Year Ended August 31, 2018

**Exhibit G-3**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
District's Proportion of the Net Pension Liability	0.02320010%	0.02289787%	0.02364673%	0.01668410%
District's Proportionate Share of Net Pension Liability	74,564,825	\$ 86,527,634	\$ 83,588,043	\$ 44,565,618
States Proportionate Share of the Net Pension Liability associated with the District	<u>115,952,342</u>	<u>136,764,303</u>	<u>131,061,596</u>	<u>111,712,185</u>
Total	<u>\$ 190,517,167</u>	<u>\$ 223,291,937</u>	<u>\$ 214,649,639</u>	<u>\$ 156,277,803</u>
District's Covered Employee Payroll	245,254,302	233,853,900	225,025,506	216,195,466
District's Proportionate Share of the Net Pension Liability as a percentage of its Covered Employee Payroll	30%	37%	37%	21%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

Note: GASB 68, 81.2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2017 - the period from September 1, 2016 - August 31, 2017.

Note: Ten years of data not available

**Mesquite Independent School District**  
Schedule of the District's Contributions – TRS  
For the Year Ended August 31, 2018

**Exhibit G-4**

	2018	2017	2016	2015
Contractually Required Contribution	\$ 3,693,151	\$ 3,257,314	\$ 2,995,797	\$ 2,902,999
Contribution in Relation to the Contractually Required Contribution	<u>(3,693,151)</u>	<u>(3,257,314)</u>	<u>(2,995,797)</u>	<u>(2,902,999)</u>
Contribution Deficiency (Excess)	-	-	-	-
District's Covered Employee Payroll	\$ 250,455,014	\$ 245,254,302	\$ 233,853,857	\$ 225,025,506
Contributions as a percentage of Covered Employee Payroll	1.47%	1.33%	1.28%	1.29%

Note: GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2016 - August 31, 2017.

Note: Ten years of data not available

**Mesquite Independent School District****Exhibit G-5**

Schedule of the District's Proportionate Share of the Net OPEB Liability of a Cost-Sharing Multiple-Employer OPEB Plan – TRS Last Fiscal Year\*

	<u>2018</u>
District's Proportion of the Net OPEB Liability	0.29561006%
District's Proportionate Share of Net OPEB Liability	\$ 128,549,725
District's Covered Employee Payroll	245,254,302
District's Proportionate Share of the Net OPEB Liability as a percentage of its Covered Employee Payroll	52%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	0.91%

Note: GASB 75 ,a requires that the information on this schedule be data from the period corresponding with the period covered as of the Plan's fiscal year end, August 31, of the prior year.

Note: Ten years of data not available

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

**Exhibit G-6**

	<u>2018</u>
Contractually Required Contribution	\$ 2,080,357
Contribution in Relation to the Contractually Required Contribution	<u>(2,080,357)</u>
Contribution Deficiency (Excess)	-
District's Covered Employee Payroll	\$ 245,254,302
Contributions as a percentage of Covered Employee Payroll	0.85%

Note: GASB 75 ,a requires that the information on this schedule be data from the period corresponding with the period covered as of the Plan's fiscal year end, August 31 , of the prior year.

Note: Ten years of data not available

# Mesquite Independent School District

## Notes To The Required Supplementary Information

### Note 1. Stewardship, Compliance, and Accountability

#### Budgetary Information

The Board of Education adopts an "appropriated budget" on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund and the Food Service Fund. This District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data:

1. Prior to August 20 of the preceding fiscal year, 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 of Education is then called for the purpose of adopting the proposed budget after ten days public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board of Education. 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. Significant amendments were made to the following functional areas:

<u>Function</u>	<u>Increase (Decrease)</u>
Revenue:	
Local Revenues	\$ (3,223,200)
State Revenues	2,142,200
Expense:	
Instruction	(2,105,580)
Curriculum and Staff Development	(955,200)
School Leadership	923,200
Co curricular/Extracurricular	702,400
Facilities Acquisition and Construction	5,369,400

The District expended more than the final budget for the following functions:

<u>Type of Expenditures</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Actual Over Budget</u>
Payments to tax increment fund	\$ 3,541,100	\$ 3,627,332	\$ (86,232)

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

**Mesquite Independent School District**  
Notes To The Required Supplementary Information

- 5. The Texas Education Agency requires these budgets to be filed with the Texas Education Agency on a designated date through the Public Education Information Management System (PEIMS). The budget should not exceed any functional expenditure category under the TEA requirements. The original and final amended versions of these budgets are used in this report.

**Note 2. Pension Liability**

**TRS – Actuarial Assumptions for Contribution Rate**

Actuarial assumptions – The information presented in the following table was used in the actuarial valuation for determining the actuarially determined contribution rate. The assumptions are as follows:

Valuation Date	August 31, 2017
Actuarial Cost Method	Ultimate entry age normal
Amortization Method	Level Percentage of Payroll, Floating
Remaining Amortization Period	34 years
Asset Valuation Method	5 Year Smoothed
Market Actuarial Assumptions:	
Inflation	2.50%
Salary Increases	3.50% to 9.50% including inflation
Investment Rate of Return	8.00%

\*\* Actuarial determined contribution rates are calculated as of August 31, of the preceding fiscal year. Members and employees are based upon statutorily fixed rates.

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# **Combining Statements and Schedules**

**Mesquite Independent School District**

Combining Balance Sheet  
 Nonmajor Governmental Funds  
 August 31, 2018

**Exhibit H-1**

	<b>289</b> <b>Other Federal</b> <b>Special</b> <b>Revenue</b> <b>Funds</b>	<b>429</b> <b>Other State</b> <b>Special</b> <b>Revenue</b> <b>Funds</b>	<b>499</b> <b>Local</b> <b>Special</b> <b>Revenue</b> <b>Funds</b>	<b>Total</b> <b>Nonmajor</b> <b>Governmental</b> <b>Funds</b>
<b>ASSETS</b>				
Due from other governments	\$ 5,928,596	\$ 233,400	\$ -	\$ 6,161,996
Due from other funds	-	-	201,570	201,570
Other receivables	-	-	100	100
Total assets	<u>\$ 5,928,596</u>	<u>\$ 233,400</u>	<u>\$ 201,670</u>	<u>\$ 6,363,666</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities</b>				
Accounts payable	\$ 212,664	\$ 69,413	\$ 5,185	\$ 287,262
Accrued wages payable	7,862	-	-	7,862
Due to other funds	5,708,070	30,467	-	5,738,537
Unearned revenues	-	6,471	-	6,471
Total liabilities	<u>5,928,596</u>	<u>106,351</u>	<u>5,185</u>	<u>6,040,132</u>
<b>Fund balances</b>				
<b>Restricted</b>				
State Special Revenue	-	127,049	-	127,049
<b>Committed</b>				
Local Special Revenue	-	-	196,485	196,485
Total fund balances	<u>-</u>	<u>127,049</u>	<u>196,485</u>	<u>323,534</u>
<b>Total liabilities and fund balances</b>	<u>\$ 5,928,596</u>	<u>\$ 233,400</u>	<u>\$ 201,670</u>	<u>\$ 6,363,666</u>

**Mesquite Independent School District**  
Combining Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Nonmajor Governmental Funds  
For the Year Ended August 31, 2018

**Exhibit H-2**

	<b>289</b>	<b>429</b>	<b>499</b>	
	<b>Other Federal</b>	<b>Other State</b>	<b>Local</b>	<b>Total</b>
	<b>Special</b>	<b>Special</b>	<b>Special</b>	<b>Nonmajor</b>
	<b>Revenue</b>	<b>Revenue</b>	<b>Revenue</b>	<b>Governmental</b>
	<b>Funds</b>	<b>Funds</b>	<b>Funds</b>	<b>Funds</b>
<b>REVENUES</b>				
Total local and intermediate sources	\$ -	\$ -	\$ 913,089	\$ 913,089
State program revenues	-	1,215,677	-	1,215,677
Federal program revenues	20,396,381	-	-	20,396,381
Total revenues	<u>20,396,381</u>	<u>1,215,677</u>	<u>913,089</u>	<u>22,525,147</u>
<b>EXPENDITURES</b>				
Current:				
11 Instruction	16,207,015	1,200,510	1,094,962	18,502,487
12 Instructional resources and media services	32,264	-	12,162	44,426
13 Curriculum and staff development	1,330,187	7,324	6,284	1,343,795
21 Instructional leadership	395,753	-	262,663	658,416
23 School leadership	167,457	-	-	167,457
31 Guidance, counseling, and evaluation services	704,155	84,868	13,786	802,809
32 Social work services	398,839	-	-	398,839
33 Health services	67,037	-	-	67,037
34 Student transportation	787,381	-	-	787,381
36 Extracurricular activities	1,456	-	45,542	46,998
61 Community services	304,837	270	238	305,345
Total expenditures	<u>20,396,381</u>	<u>1,292,972</u>	<u>1,435,637</u>	<u>23,124,990</u>
Excess (deficiency) of revenues over expenditures	-	(77,295)	(522,548)	(599,843)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	497,423	497,423
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>497,423</u>	<u>497,423</u>
Net change in fund balances	-	(77,295)	(25,125)	(102,420)
<b>Fund balances—beginning</b>	<u>-</u>	<u>204,344</u>	<u>221,610</u>	<u>425,954</u>
<b>Fund balances—ending</b>	<u>\$ -</u>	<u>\$ 127,049</u>	<u>\$ 196,485</u>	<u>\$ 323,534</u>

**Mesquite Independent School District**

Exhibit H-3

Combining Statement of Net Position

Internal Service Funds

August 31, 2018

	<b>781</b>	<b>790</b>	<b>Total</b>
	<b>Employee</b>	<b>Workers</b>	<b>Internal</b>
	<b>Health Center</b>	<b>Compensation</b>	<b>Service fund</b>
	<b>Fund</b>	<b>Fund</b>	
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 666,782	\$ 5,303,975	\$ 5,970,757
Inventory	159,605	-	159,605
Due from other funds	86,811	-	86,811
Other current assets	-	9,758	9,758
	<u>          </u>	<u>          </u>	<u>          </u>
Total assets	<u>913,198</u>	<u>5,313,733</u>	<u>6,226,931</u>
<b>LIABILITIES</b>			
CURRENT LIABILITIES:			
Accounts payable	85,313	28	85,341
Due to other funds	-	2,994,997	2,994,997
Accrued expenses	-	689,694	689,694
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	<u>85,313</u>	<u>3,684,719</u>	<u>3,770,032</u>
<b>NET POSITION</b>			
Unrestricted	<u>827,885</u>	<u>1,629,014</u>	<u>2,456,899</u>
<b>Total net position</b>	<u><u>\$ 827,885</u></u>	<u><u>\$ 1,629,014</u></u>	<u><u>\$ 2,456,899</u></u>

**Mesquite Independent School District**  
Combining Statement of Revenues, Expenses  
and Changes in Net Position  
Internal Service Funds  
For the Year Ended August 31, 2018

**Exhibit H-4**

	<b>781</b>	<b>790</b>	
	<b>Employee</b>	<b>Workers</b>	<b>Total</b>
	<b>Health Center</b>	<b>Compensation</b>	<b>Internal</b>
	<b>Fund</b>	<b>Fund</b>	<b>Service Fund</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 3,799,474	\$ 1,099,998	\$ 4,899,472
Total operating revenues	<u>3,799,474</u>	<u>1,099,998</u>	<u>4,899,472</u>
<b>OPERATING EXPENSES</b>			
Personal services	1,263,750	217,391	1,481,141
Professional and contractual services	64,185	13,662	77,847
Supplies and materials	3,160,642	7,924	3,168,566
Insurance claims and expenses	33,608	915,324	948,932
Other operating costs	5,457	179,077	184,534
Total operating expenses	<u>4,527,642</u>	<u>1,333,378</u>	<u>5,861,020</u>
Operating loss	<u>(728,168)</u>	<u>(233,380)</u>	<u>(961,548)</u>
<b>NONOPERATING REVENUES</b>			
Earnings from temporary deposits and investments	11,553	216	11,769
Total nonoperating revenue	<u>11,553</u>	<u>216</u>	<u>11,769</u>
<b>LOSS BEFORE TRANSFERS</b>	(716,615)	(233,164)	(949,779)
Transfers in	252,609	-	252,609
Total transfers	<u>252,609</u>	<u>-</u>	<u>252,609</u>
Change in net position	(464,006)	(233,164)	(697,170)
<b>Net position—beginning</b>	<u>1,291,891</u>	<u>1,862,178</u>	<u>3,154,069</u>
<b>Net position—ending</b>	<u>\$ 827,885</u>	<u>\$ 1,629,014</u>	<u>\$ 2,456,899</u>

**Mesquite Independent School District**  
Combining Statement of Cash Flows  
Internal Service Funds  
For the Year Ended August 31, 2018

**Exhibit H-5**

	<b>781</b>	<b>790</b>	<b>Total</b>
	<b>Employee</b>	<b>Workers</b>	<b>Internal</b>
	<b>Health Center</b>	<b>Compensation</b>	<b>Service Fund</b>
	<b>Fund</b>	<b>Fund</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from transactions with other funds	\$ 3,739,122	\$ 1,399,246	\$ 5,138,368
Payments to suppliers	(3,122,226)	(194,678)	(3,316,904)
Payments to employees	(1,327,935)	(231,053)	(1,558,988)
Claims paid	(33,608)	(915,324)	(948,932)
Net cash provided by (used in) operating activities	<u>(744,647)</u>	<u>58,191</u>	<u>(686,456)</u>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>			
Transfers in	252,609	-	252,609
Net cash provided by non-capital financing activities	<u>252,609</u>	<u>-</u>	<u>252,609</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment earnings	11,553	216	11,769
Net cash provided by investing activities	<u>11,553</u>	<u>216</u>	<u>11,769</u>
Net increase (decrease) in cash and cash equivalents	(480,485)	58,407	(422,078)
<b>Balances—beginning of the year</b>	<u>1,147,267</u>	<u>5,245,568</u>	<u>6,392,835</u>
<b>Balances—end of the year</b>	<u>\$ 666,782</u>	<u>\$ 5,303,975</u>	<u>\$ 5,970,757</u>
<b>Reconciliation of operating loss to net cash provided by (used in) operating activities:</b>			
Operating loss	\$ (728,168)	\$ (233,380)	\$ (961,548)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Decrease in inventory	13,595	-	13,595
Increase in interfund receivables	(60,352)	299,248	238,896
Decrease in accounts payable	30,278	(1,192)	29,086
Increase in accrued expenses	-	(6,485)	(6,485)
<b>Net cash provided by (used in) operating activities</b>	<u>\$ (744,647)</u>	<u>\$ 58,191</u>	<u>\$ (686,456)</u>

**Mesquite Independent School District**  
Combining Statement of Net Position  
Private Purpose Trust Funds  
August 31, 2018

**Exhibit H-6**

	<b>806 Meadows O'Donnell Foundation</b>	<b>810 Scholarship Fund</b>	<b>Total Private Purpose Trust Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 121	\$ 148,009	\$ 148,130
Total assets	<u>\$ 121</u>	<u>\$ 148,009</u>	<u>\$ 148,130</u>
<b>LIABILITIES</b>			
Accounts payable	\$ -	\$ 5,000	\$ 5,000
Due to other funds	-	600	600
Total liabilities	<u>-</u>	<u>5,600</u>	<u>5,600</u>
<b>NET POSITION</b>			
Unrestricted net position	<u>121</u>	<u>142,409</u>	<u>142,530</u>
Total net position	<u>121</u>	<u>142,409</u>	<u>142,530</u>
<b>Total liabilities and net position</b>	<u>\$ 121</u>	<u>\$ 148,009</u>	<u>\$ 148,130</u>

**Mesquite Independent School District**  
Combining Statement of Revenues, Expenses  
and Changes in Fund Net Position  
Private Purpose Trust Funds  
For the Year Ended August 31, 2018

**Exhibit H-7**

	<b>806 Meadows O'Donnell Foundation</b>	<b>810 Scholarship Fund</b>	<b>Total Private Purpose Trust Funds</b>
<b>ADDITIONS</b>			
Local and intermediate sources	\$ -	\$ 32,255	\$ 32,255
Total additions	-	32,255	32,255
<b>DEDUCTIONS</b>			
Other operating costs	-	31,783	31,783
Total deductions	-	31,783	31,783
Changes in net position	-	472	472
Net position September 1 (beginning)	121	141,937	142,058
<b>Net position August 31 (ending)</b>	<u>\$ 121</u>	<u>\$ 142,409</u>	<u>\$ 142,530</u>

## **Required TEA Schedules**

**Mesquite Independent School District**  
 Schedule of Delinquent Taxes Receivable  
 Fiscal Year Ended August 31, 2018

Last Ten Years Ended August 31	Tax Rates		3 Net Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2009 and prior years	various	various	\$ various
2010	1.0067	0.3700	6,557,685,613
2011	1.0400	0.36	6,230,166,386
2012	1.0400	0.3800	6,108,497,389
2013	1.0400	0.3800	5,974,344,054
2014	1.0400	0.3700	6,026,805,180
2015	1.0400	0.3700	6,292,645,410
2016	1.0400	0.3700	6,349,928,151
2017	1.0400	0.4200	7,006,189,277
2018 (School year under audit)	1.0400	0.4200	7,733,696,015

**1000 TOTALS**

9000 - Portion of Row 1000 for Taxes Paid  
 into Tax Increment Zone Under Chapter 311, Tax Code (Function 97)

**Exhibit J-1**

<b>10</b> Beginning Balance 09/01/17	<b>20</b> Current Year's Total Levy	<b>31</b> Maintenance Total Collections	<b>32</b> Debt Service Total Collections	<b>40</b> Entire Year's Adjustments	<b>50</b> Ending Balance 08/31/18
3,142,538 \$		\$ 77,872	\$ 24,612	(95,595) \$	2,944,459
321,392		15,266	5,578	(6,653)	293,895
330,256		20,482	7,484	(5,496)	296,794
310,131		25,232	9,219	(4,518)	271,162
375,123		35,584	13,002	17,602	344,139
431,892		41,555	14,784	1,848	377,401
569,354		68,997	24,547	(4,569)	471,241
660,981		107,071	38,093	(7,138)	508,679
1,352,337		298,791	120,665	(197,847)	735,034
-	112,707,756	77,518,020	31,305,319	(2,413,064)	1,471,353
<u>\$ 7,494,004</u>	<u>\$ 112,707,756</u>	<u>\$ 78,208,870</u>	<u>\$ 31,563,303</u>	<u>\$ (2,715,430)</u>	<u>\$ 7,714,157</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,583,853</u>	<u>\$ 1,043,479</u>	<u>\$ -</u>	<u>\$ -</u>

**Mesquite Independent School District**  
 Budgetary Comparison Schedule  
 Debt Service Fund  
 For the Year Ended August 31, 2018

**Exhibit J-2**

Data Control Codes	Budgeted Amounts		Actual Amounts	Variance With Final Budget Under or (Over)	
	Original	Final	GAAP BASIS		
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ 31,787,000	\$ 32,142,600	\$ 32,799,868	\$ 657,268
5800	State program revenues	22,140,500	24,619,700	24,619,635	(65)
5020	Total revenues	53,927,500	56,762,300	57,419,503	657,203
<b>EXPENDITURES</b>					
CURRENT:					
DEBT SERVICE:					
0071	Principal on long-term debt	26,400,000	26,400,000	26,395,260	4,740
0072	Interest on long-term debt	25,900,000	25,519,300	25,708,508	(189,208)
0073	Bond issuance costs and fees	600,000	600,000	206,547	393,453
6030	Total expenditures	52,900,000	52,519,300	52,310,315	208,985
1100	Excess (deficiency) of revenues over expenditures	1,027,500	4,243,000	5,109,188	866,188
<b>OTHER FINANCING SOURCES (USES) :</b>					
7901	Refunding bonds issued	-	-	-	-
7916	Premium or discount on issuance of bonds	-	-	-	-
7949	Other resources	-	-	-	-
8940	Payment to bond refunding fund	-	-	-	-
7080	Total other financing sources (uses)	-	-	-	-
1200	Net change in fund balances	1,027,500	4,243,000	5,109,188	866,188
0100	Fund balances--beginning	17,586,395	17,586,395	17,586,395	-
3000	Fund balances--ending	\$ 18,613,895	\$ 21,829,395	\$ 22,695,583	\$ 866,188

## **Federal Awards Section**

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

Board of Trustees  
Mesquite Independent School District  
Mesquite, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Mesquite Independent School District (the District), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 11, 2019.

**Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

Board of Trustees  
Mesquite Independent School District

**Purpose of this Report**

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

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 11, 2019

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

Board of Trustees  
Mesquite Independent School District  
Mesquite, Texas

**Report on Compliance for Each Major Federal Program**

We have audited Mesquite Independent School District's (the District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of District's major federal programs for the year ended August 31, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**Management's Responsibility**

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

**Auditor's Responsibility**

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

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

**Opinion on Each Major Federal Program**

In our opinion, the District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2018.

### **Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

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

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
January 11, 2019

**Mesquite Independent School District**  
 Schedule of Findings and Questioned Costs  
 Year Ended August 31, 2018

**I. Summary of the Auditor's Results:**

Financial Statements

- a. An unmodified opinion was issued on the financial statements.
- b. Internal control over financial reporting:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered a material weakness?  Yes  None Reported
- c. Noncompliance material to financial statements noted  Yes  No

Major Programs

- d. Internal control over major programs:
  - Material weakness(es) identified?  Yes  No
  - Significant deficiency(ies) identified that are not considered a material weakness?  Yes  None Reported
- e. An unmodified opinion was issued on compliance for major programs.
- f. Any audit findings disclosed that were required to be in accordance with Uniform Guidance  Yes  No
- g. Identification of major programs:
 

Child Nutrition Cluster	10.553, 10.555
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- h. The dollar threshold used to distinguish between Type A and Type B programs. \$1,203,319
- i. Auditee qualified as a low-risk auditee.  Yes  No

**Mesquite Independent School District**

Schedule of Findings and Questioned Costs

Year Ended August 31, 2018

**II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.**

None were noted in current year.

**III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above**

None were noted in current year.

## **Mesquite Independent School District**

Summary Schedule of Prior Audit Findings

Year Ended August 31, 2018

### **Finding 2017-001**

#### **10.553, 10.555— Child Nutrition Cluster Department of Agriculture, passed through the State Department of Agriculture**

**Condition** — During our special tests and provisions testing, we identified 21 instances where the original free and reduced applications were lost due to a data breach and improper backup of online submission data. The data breach effected the entire District and required shutting down various systems to protect data. In order to bring the systems back online, data was recovered from a prior date. At that time, it was noted that several sets of data were not being properly backed up according to the control structure implemented by the District's IT department. One of the systems not being properly backed up was the online process for free and reduced price applications. Data related to any original application that was not manually submitted to the District was lost. This breach occurred well after most of the submissions were sampled and verified by the District. Therefore, the likelihood of questioned costs related to this breach is mitigated by the timing.

#### **Corrective Action —**

- All Primero servers and other related equipment has been configured for automated updates and software patches.
- All Primero servers have been configured for automated back-ups. The data is retained in the Primero database for the current and three previous days, and each day's data is copied from the Primero database to the hard drive of our server. That data is backed up nightly through an automated process.
- Updating the Primero server software helped to improve security.
- We are currently working on automating a notification process which will keep key staff informed when back-ups are successfully performed.

**Status** — Corrective action plan implemented during 2018.

**Mesquite Independent School District**  
 Schedule of Expenditures of Federal Awards  
 For the Year Ended August 31, 2018

**Exhibit K-1**

{1}	{2}	{3}	{4}
Federal/ State Grantor	CFDA Number	Pass-Through Grantor/ Program Title	Federal Expenditures
<b>U.S. Department of Defense</b>			
Direct Program:			
Selective Reserve Educational Assistance Program	12.609	N/A	\$ 511,976
 <b>U.S. Department of Education</b>			
<b>Passed Through State Department of Education:</b>			
Carl D. Perkins Basic Formula Grant	84.048	16420006057914	505,442
ESEA Title I Part A-Improving Basic Programs	84.010	16610101057914	10,282,568
ESEA Title I Part C-Education of Migratory Children	84.011	16615001057950	2,953
Special Education Cluster (IDEA)			
IDEA -Part B, Formula	84.027	166600010579146600	7,716,779
IDEA -Part B, Discretionary (Deaf)	84.027	166600020579146673	191,044
IDEA -Part B, Preschool	84.027	166610010579146610	92,790
Total Special Education Cluster			<u>8,000,613</u>
IDEA -Part C, Early Intervention Deaf	84.181	163911010579143911	2,978
ESEA Title II, Part A	84.367	16694501057950	538,243
Title III - Part A - English Language Acquisitions and Enhancement	84.365	16671001057950	939,768
Grants for State Assessments and Related Activities	84.369	69550902	21,369
Education Jobs	84.410		102,447
Total Passed Through State Department of Education			<u>20,396,381</u>
 <b>U.S. Department of Health and Human Services</b>			
Direct Program:			
Medicaid Administrative Claiming Program (MAC)	93.778	N/A	46,877
 <b>U.S. Department of Agriculture</b>			
<b>Passed Through State Department of Agriculture:</b>			
Child Nutrition Cluster			
National School Lunch Program - Cash	10.555	71301601	14,013,847
National School Lunch Program - Commodities	10.555	N/A	1,717,639
School Breakfast Program	10.553	71401601	3,423,909
Total Child Nutrition Cluster			<u>19,155,395</u>
Total Passed Through State Department of Agriculture			<u>19,155,395</u>
Total Federal Assistance			<u>\$ 40,110,629</u>

## Mesquite Independent School District

### Notes on Accounting Policies for Federal Awards

**Note 1.** For all Federal programs, the District uses the fund types specified in Texas Education Agency's **Financial Accountability System Resource Guide**. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.

**Note 2.** The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for interest not matured on long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

**Note 3.** The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Performance of Federal Funds, 2 CFR 200 Uniform Guidance.

**Note 4.** School Health and Related Services-NHIC reimbursements of \$2,889,561, which are recorded as federal revenue in the general fund, are not considered federal awards for purpose of this schedule.

**Note 5.** The District has not elected to use the 10% de minimus cost rate allowable by Uniform Guidance.

## Mesquite Independent School District

School First Questionnaire (Unaudited)

For the Year Ended August 31, 2018

Data Control Codes		Response
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ 28,767,014
SF11	Net Pension Assets (1920) at fiscal year end.	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 74,564,825