

**MCLEAN INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2018**



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2018**

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
CERTIFICATE OF BOARD	1
Independent Auditor's Report	2
Management's Discussion and Analysis (Unaudited)	5
<b><u>Basic Financial Statements</u></b>	
Government-Wide Financial Statements:	
A-1 Statement of Net Position	15
B-1 Statement of Activities	16
Governmental Fund Financial Statements:	
C-1 Balance Sheet	18
C-2 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	20
C-4 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	21
Fiduciary Fund Financial Statements:	
E-1 Statement of Net Position	23
Notes to the Financial Statements	24
<b><u>Required Supplementary Information</u></b>	
G-1 Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund	55
G-2 Schedule of the District's Proportionate Share of the Net Pension Liability (TRS)	56
G-3 Schedule of District Contributions for Pensions (TRS)	57
G-4 Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS)	58
G-5 Schedule of District Contributions for Other Post Employment Benefits (OPEB) (TRS)	59
<b><u>Combining and Other Schedules</u></b>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	60
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	62
Agency Funds:	
H-9 Statement of Changes in Assets and Liabilities	65
<b><u>Required TEA Schedules</u></b>	
J-1 Schedule of Delinquent Taxes Receivable	66
J-4 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - Child Nutrition Program	68
J-5 Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Debt Service Fund	69
<b><u>Reports on Compliance and Internal Control</u></b>	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	71
Schedule of Findings and Questioned Costs	73
Summary Schedule of Prior Audit Findings	74
Corrective Action Plan	75
L Schools First Questionnaire	76



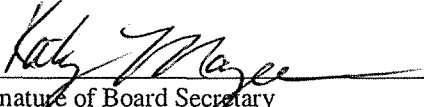
CERTIFICATE OF BOARD

McLean Independent School District  
Name of School District

Gray  
County

090-903  
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 June 30, 2018 at a meeting of the Board of Trustees of such school district on the 19th day of November, 2018.

  
Signature of Board Secretary

  
Signature of Board President



# JOHNSON & SHELDON, PLLC

## CERTIFIED PUBLIC ACCOUNTANTS

---

### UNMODIFIED OPINION ON GOVERNMENTAL BASIC FINANCIAL STATEMENTS, WITH REQUIRED SUPPLEMENTARY INFORMATION, SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

#### Independent Auditor's Report

Board of Trustees  
McLean Independent School District  
McLean, 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 **McLean Independent School District** (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

#### **Auditor's Responsibility**

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

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

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

#### **Opinions**

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

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information, Schedule of the District's Proportionate Share of the Net Pension Liability, Schedule of District Contributions for Pensions, Schedule of the District's Proportionate Share of the Net OPEB Liability and the Schedule of District Contributions for Other Post Employment Benefits on pages 5 through 13 and pages 55 through 59 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 and individual nonmajor fund financial statements and the Texas Education Agency required schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the Texas Education Agency required schedules are the responsibility of management and were derived from and relates 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 and individual nonmajor fund financial statements and the Texas Education Agency required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Johnson & Sheldon PLLC*

**Johnson & Sheldon, PLLC**  
**Amarillo, Texas**  
November 19, 2018



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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

In this section of the Annual Financial and Compliance Report, we, the managers of McLean Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements which follow this section.

**FINANCIAL HIGHLIGHTS**

- The District's total combined net position was \$6,669,194 at June 30, 2018.
- The District's governmental funds financial statements reported combined ending fund balance of \$5,221,743. This balance consists of \$5,080,915 in the General Fund of which \$1,961,269 is committed and \$3,119,646 is unassigned and available for spending at the District's discretion. Restricted fund balance totals \$140,022 and is used by the Debt Service Fund and Non-major Funds. Non-spendable fund balance is \$806.
- For the year ended June 30, 2018, total revenue from all sources was \$2,924,344. Program revenues accounted for (\$84,787) of total revenues. General revenues and special items accounted for \$3,009,131.
- The General Fund had \$2,921,886 in revenues, which primarily consisted of state aid and property taxes and \$2,449,207 in expenditures which resulted in an increase to the fund balance of \$472,679.

**USING THIS ANNUAL REPORT**

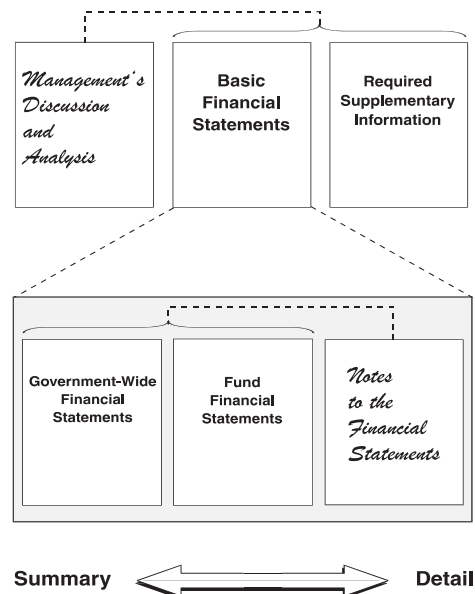
This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 15 and 16). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 18) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 24) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements. The notes provide additional information that is essential in fully understanding the data provided in the government-wide and fund financial statements.

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

**Exhibit I - Required Components of the District's Annual Financial Report**



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

**USING THIS ANNUAL REPORT** (continued)

Exhibit II summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this section explains the structure and contents of each of the statements.

**Exhibit II  
Major Features of the District's Government-Wide and Fund Financial Statements**

Type of Statement	Government-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<b>Scope</b>	Entire Agency's government (except fiduciary funds) and the Agency's component units.	The activities of the District that are not proprietary or fiduciary.	Activities of the District which operate similar to private business.	Instances in which the District is the trustee or agent for someone else's resources.
<b>Required financial statements</b>	- Statement of Net Position - Statement of Activities	- Statement of Revenues, Expenditures and Changes in Fund Balances	- Statement of Net Position - Statement of Revenues, Expenditures and Changes in Net Position - Statement of Cash Flows	- Statement of Net Position - Statement of Changes in Net Position
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
<b>Type of asset/liability information</b>	All assets and liabilities, both financial and capital, short-term and long-term.	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.	All assets and liabilities, both financial and capital, short-term and long-term.	All assets and liabilities, both short-term and long-term.
<b>Type of inflow/outflow information</b>	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenues and expenses during the year, regardless of when cash is received or paid.	All revenues and expenses during the year, regardless of when cash is received or paid.





**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

USING THIS ANNUAL REPORT (continued)

**Reporting the District as a Whole**

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

The analysis of the District's overall financial condition and operations begins on page 15. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, we present the District with only one kind of activity:

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

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

***Fund Financial Statements***

The governmental fund financial statements begin on page 18 and provide detailed information about the most significant funds, not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's governmental fund uses the following accounting approaches:

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

USING THIS ANNUAL REPORT (continued)

**Reporting the District's Most Significant Funds** (continued)

*Fund Financial Statements* (continued)

- Fiduciary funds - Fiduciary funds are used to account for resources held for the benefit of parties outside of the District. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these 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. The District's fiduciary activities are reported in a separate Statement of Fiduciary Fund Net Position and a Statement of Changes in Fiduciary Net Position that can be found on pages 24 and 65.

The notes to the financial statements 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 24 thru 54.

**The District as Trustee**

*Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Fund Net Position and Changes in Fiduciary Net Position on pages 24 and 65. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of the District's financial position. The District's combined net position between fiscal years 2018 and 2017, decreased by \$485,193, as can be seen in Exhibit III. The District's net investment in capital assets is \$2,642,368 and includes its investments in capital assets (e.g., land, buildings, equipment, improvements, and construction in progress) less any debt used to acquire those assets that is still outstanding.

The District uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position of the District's governmental activities decreased from \$7,154,387 to \$6,669,194. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$3,886,804 at June 30, 2018. This decrease in governmental net position was the result of four factors. First, the District's revenues exceeded expenditures by \$757,840. Second, the District acquired capital assets in the amount of \$45,891. Third, the District recorded depreciation and other expenses not recognized in the amount of \$170,779. Fourth, due to the required implementation of GASB 68 and 75 related to the District's participation in TRS, the District was required to record and disclose its share of the District's net pension liability and some deferred resource outflows and resource inflows related to the District's pension plan.

Exhibit III provides a summary of the Assets, Liabilities and Net Position for governmental activities for the years ended June 30, 2018 and 2017, respectively.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

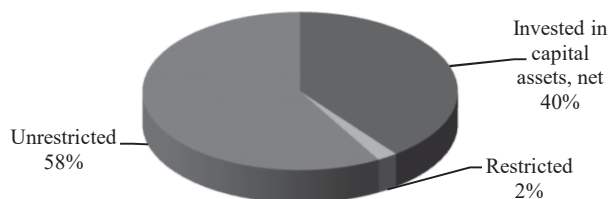
**Net Position (continued)**

**Exhibit III  
The District's Net Position as of June 30, 2018 and 2017**

	<b>Governmental Activities</b>			
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>% Change</b>
<b>Assets</b>				
Cash and investments	\$ 4,944,584	\$ 3,913,630	\$ 1,030,954	26.34%
Property taxes, net	72,973	73,074	(101)	-0.14%
Accounts receivable	437,124	986,338	(549,214)	-55.68%
Other assets	3,769	-	3,769	100.00%
Capital assets, net	4,172,053	4,296,941	(124,888)	-2.91%
<b>Total Assets</b>	<b>9,630,503</b>	<b>9,269,983</b>	<b>360,520</b>	<b>3.89%</b>
<b>Deferred outflows</b>				
Deferred outflows related to TRS	176,888	235,726	(58,838)	-24.96%
<b>Total Deferred Outflows</b>	<b>176,888</b>	<b>235,726</b>	<b>(58,838)</b>	<b>-24.96%</b>
<b>Liabilities</b>				
Accounts payable	22,813	32,368	(9,555)	-29.52%
Accrued expenses	161,607	166,128	(4,521)	-2.72%
Noncurrent liabilities	2,557,739	2,127,328	430,411	20.23%
<b>Total Liabilities</b>	<b>2,742,159</b>	<b>2,325,824</b>	<b>416,335</b>	<b>17.90%</b>
<b>Deferred inflows related to TRS</b>	<b>396,038</b>	<b>25,498</b>	<b>370,540</b>	<b>1453.21%</b>
<b>Net Position</b>				
Invested in capital assets, net	2,642,368	2,612,026	30,342	1.16%
Restricted	140,022	115,214	24,808	21.53%
Unrestricted	3,886,804	4,427,147	(540,343)	-12.21%
<b>Total Net Position</b>	<b>\$ 6,669,194</b>	<b>\$ 7,154,387</b>	<b>\$ (485,193)</b>	<b>-6.78%</b>

On June 30, 2018, the District's net position had decreased by \$485,193, or 6.78%, from June 30, 2017. Unrestricted net position, the part of net position that can be used to finance daily operations of the District, decreased by \$540,343, or 12.21%. Exhibit IV shows the District's allocation of net position as of June 30, 2018.

**Exhibit IV  
Net Position Allocation as of June 30, 2018**



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Year Ended June 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

**Net Position (continued)**

**Exhibit IV**

**The District's Changes in Net Position for the Years Ended June 30, 2018 and 2017**

	<b>Governmental Activities</b>			
	<b>2018</b>	<b>2017</b>	<b>Change</b>	<b>% Change</b>
<b>Revenues - Program</b>				
Charges for services	\$ 37,311	\$ 35,711	\$ 1,600	4.48%
Operating grants and contributions	(122,098)	276,160	(398,258)	-144.21%
<b>Revenues - General</b>				
Taxes - maintenance and operations	998,220	1,036,888	(38,668)	-3.73%
Taxes - interest and sinking	232,505	171,625	60,880	35.47%
State aid - formula grants	1,733,325	1,621,531	111,794	6.89%
Grants and contributions not restricted	2,592	31,602	(29,010)	-91.80%
Investment earnings	24,381	17,787	6,594	37.07%
Miscellaneous local and intermediate	18,108	181,977	(163,869)	-90.05%
<b>Total Revenues</b>	<b>2,924,344</b>	<b>3,373,281</b>	<b>(448,937)</b>	<b>-13.31%</b>
<b>Expenses</b>				
Instruction	1,089,409	1,597,455	(508,046)	-31.80%
Instructional resources and media	19,921	35,989	(16,068)	-44.65%
Curriculum and staff development	5,405	2,700	2,705	100.19%
School leadership	100,190	211,819	(111,629)	-52.70%
Guidance, counseling and evaluation	24,392	29,195	(4,803)	-16.45%
Health services	159	232	(73)	-31.47%
Student transportation	49,584	50,456	(872)	-1.73%
Food services	75,894	113,875	(37,981)	-33.35%
Extracurricular activities	191,650	208,328	(16,678)	-8.01%
General administration	182,976	256,544	(73,568)	-28.68%
Facilities maintenance and operations	265,198	264,401	797	0.30%
Data processing services	49,197	48,416	781	1.61%
Debt service - interest	54,823	58,694	(3,871)	-6.60%
Debt service - issuance costs	806	807	(1)	-0.12%
Payments for shared services	28,970	28,036	934	3.33%
Other intergovernmental charges	27,930	29,295	(1,365)	-4.66%
<b>Total Expenses</b>	<b>2,166,504</b>	<b>2,936,242</b>	<b>(769,738)</b>	<b>-26.22%</b>
<b>Increase (Decrease) in Net Position</b>	<b>757,840</b>	<b>437,039</b>	<b>320,801</b>	<b>73.40%</b>
<b>Net Position at Beginning of Year</b>	<b>7,154,387</b>	<b>6,717,348</b>	<b>437,039</b>	<b>6.51%</b>
<b>Prior Period Adjustment</b>				
Required by GASB 75	(1,243,033)	-	(1,243,033)	-100.00%
<b>Net Position at End of Year</b>	<b>\$ 6,669,194</b>	<b>\$ 7,154,387</b>	<b>\$ (485,193)</b>	<b>-6.78%</b>



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

**Net Position (continued)**

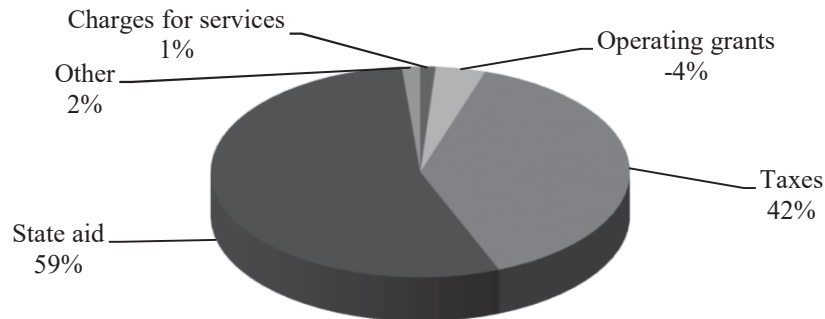
For the year ended June 30, 2018, the District's total revenues decreased \$448,937, or 13.31%, from the prior year mainly driven by negative on-behalf payments related to TRS-Care.

For the year ended June 30, 2018, the District's total expenses decreased by \$769,738, or 26.22%, from the prior year mainly driven by negative on-behalf payments related to TRS-Care and certain cost savings.

**Other Financial Highlights**

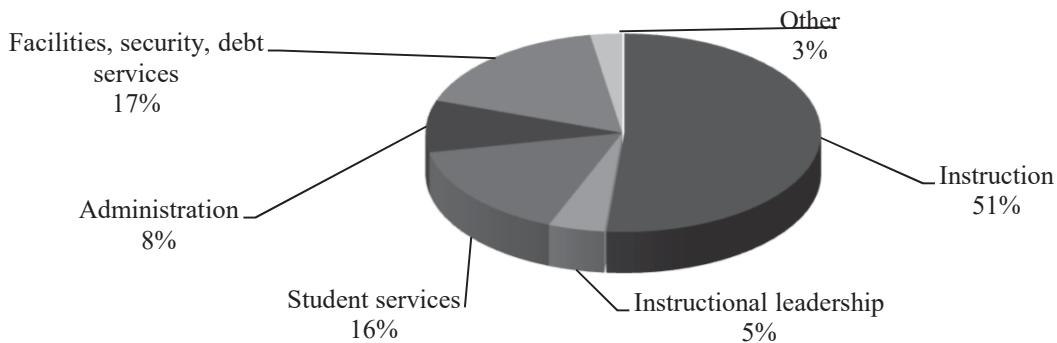
For the year ended June 30, 2018, the District's total revenues were \$2,924,344. Approximately 42% of the District's revenue was generated by property taxes, 59% was generated from state aid grants, -4% was generated from other operating grants, 1% was generated from charges for services and the remaining 2% was generated from miscellaneous revenue sources (see Exhibit V).

**Exhibit V - Sources of Revenues for the Year Ended June 30, 2018**



For the year ended June 30, 2018, the District's total cost of all programs and services was \$2,166,504. Approximately 51% of the District's governmental activities were dedicated to instructional areas. Direct student services, such as counseling, nursing and transportation services comprised 16% of governmental expenses. The costs to operate facilities, including utilities, security services and debt payments comprised 17% of the cost of all programs (see Exhibit VI).

**Exhibit VI - Expenditure Allocation for the Year Ended June 30, 2018**



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS** (continued)

**Other Financial Highlights** (continued)

The District took actions this year to compensate for some expected increases in cost and avoid the loss of state revenue due to changes in the provisions related to accelerated, intensive, compensatory education (State Comp Ed) and student attendance accounting (Leavers).

- The District total property tax rate was set at \$1.282 per hundred dollar valuation in 2018, which increased from 2017. The tax rate will decrease to \$1.271 per hundred dollar valuation for the 2018-2019 school year.
- The cost of all governmental activities this year was \$2.167 million compared to \$2.936 million last year. However, as shown in the Statement of Activities on Exhibit B-1 (page 16), the amount that our taxpayers ultimately financed for these activities through District taxes was only \$1.231 million because some of the costs were paid by those who directly benefited from the programs (\$.04 million) or by other governments and organizations that subsidized certain programs with grants and contributions (\$.12 million) or by State equalization funding (\$1.7 million).
- The District's management and budget managers were conservative in spending allocated resources.

**THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in the balance sheet on page 18) reported a combined fund balance of \$5.2 million, which is significantly higher than last year's total of \$4.7 million. Included in this year's total change in fund balance is an increase of \$472,679 in the District's General Fund and an increase of \$24,808 in the District's Non-Major funds. The primary reasons for the increase include an increase in foundation school allotment received and reduced expenditures spent on capital outlays.

Over the course of the year, the Board of Trustees revised the District's budget. The budget amendments involved moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs, and adjusting for changes in planned purchases.

The District's General Fund balance of \$5,080,915 reported on page 18 differs from the General Fund's budgetary fund balance of \$4,301,262 reported in the budgetary comparison schedule on page 55. This is principally due to cost savings and added revenues described above.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

At the end of fiscal 2018 the District had a net of \$4,172,053 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease of \$124,888, or 3 percent, from last year.

This year's major additions included:

Suspended Basketball Goals	\$	16,661
Ethernet Switch and Optics Components		10,952
Phone System		8,157
Other Capital Asset Additions		10,121
Total Additions	\$	45,891



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

**CAPITAL ASSET AND DEBT ADMINISTRATION (continued)**

Debt Administration

At year-end, the District had \$1,529,685 in outstanding long-term debt, related to various Bonds issued by the District. For more information on the District's long-term debt, see Notes H and I in the financial statements.

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

The District is located in Gray County, Texas. The primary economic activity of Gray County is agriculture and oil and gas activities. The majority of the District's property tax base is derived from agriculture and oil and gas property and activities.

The District's student enrollment increased as enrollment was 240 at the beginning of fiscal year 2017-2018 and enrollment was 245 at the beginning of 2018-2019.

The District's elected and appointed officials considered many factors when setting the fiscal-year 2018-2019 budget and tax rates. The District approved to maintain the operating tax rate at \$1.04 per hundred dollar valuation, for the fiscal year 2018-2019. The District's interest and sinking tax rate decreased to \$0.231 per hundred dollar valuation for the fiscal year 2018-2019.

These indicators were taken into account when adopting the General Fund budget for 2019. Amounts available for appropriation in the General Fund budget are \$2.6 million, and budgeted expenditures are expected to be \$2.6 million. The District has added no new major programs or initiatives to the 2019 budget.

For the 2018-2019 year, the District budgeted for Federal funding to remain constant and an increase of approximately \$221,000 in State funding.

There are additional funding challenges in the future for all school districts, but with the strong support of the District's citizens and great leadership of the Board of Trustees, the District's management is very confident that the District will remain financially sound.

**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 show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at McLean Independent School District, 4<sup>th</sup> and Rowe Street, PO Box 90, McLean, Texas 79057.



**BASIC FINANCIAL STATEMENTS**





**GOVERNMENT-WIDE FINANCIAL STATEMENTS**



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

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 844,428
1120 Current Investments	4,100,156
1220 Property Taxes Receivable (Delinquent)	85,710
1230 Allowance for Uncollectible Taxes	(12,737)
1240 Due from Other Governments	434,895
1250 Accrued Interest	2,963
1290 Other Receivables, net	2,229
1410 Prepayments	806
Capital Assets:	
1510 Land	16,500
1520 Buildings, Net	3,934,996
1530 Furniture and Equipment, Net	129,472
1540 Other Capital Assets, Net	91,085
1000 Total Assets	9,630,503
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1703 Deferred Resource Outflow to TRS OPEB	10,106
1705 Deferred Outflow Related to TRS Pension	166,782
1700 Total Deferred Outflows of Resources	176,888
<b>LIABILITIES</b>	
2110 Accounts Payable	2,127
2140 Interest Payable	20,686
2160 Accrued Wages Payable	159,275
2200 Accrued Expenses	2,332
Noncurrent Liabilities:	
2501 Due Within One Year	155,000
2502 Due in More Than One Year	1,374,685
2540 Net Pension Liability (District's Share)	319,930
2545 Net OPEB Liability (District's Share)	708,124
2000 Total Liabilities	2,742,159
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	99,828
2606 Deferred Inflow Related to TRS OPEB	296,210
2600 Total Deferred Inflows of Resources	396,038
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	2,642,368
3820 Restricted for Federal and State Programs	47
3850 Restricted for Debt Service	139,975
3900 Unrestricted	3,886,804
3000 Total Net Position	\$ 6,669,194

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



MCLEAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
	Expenses	3	4	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities

**Primary Government:**

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 1,089,409	\$ 7,670	\$ (106,964)	\$ (1,188,703)
12 Instructional Resources and Media Services	19,921	-	(5,635)	(25,556)
13 Curriculum and Staff Development	5,405	-	-	(5,405)
23 School Leadership	100,190	-	(24,701)	(124,891)
31 Guidance, Counseling and Evaluation Services	24,392	-	(7,038)	(31,430)
33 Health Services	159	-	-	(159)
34 Student (Pupil) Transportation	49,584	-	(1,857)	(51,441)
35 Food Services	75,894	16,618	75,057	15,781
36 Extracurricular Activities	191,650	11,523	(12,260)	(192,387)
41 General Administration	182,976	-	(23,327)	(206,303)
51 Facilities Maintenance and Operations	265,198	1,500	(15,373)	(279,071)
53 Data Processing Services	49,197	-	-	(49,197)
72 Debt Service - Interest on Long Term Debt	54,823	-	-	(54,823)
73 Debt Service - Bond Issuance Cost and Fees	806	-	-	(806)
93 Payments related to Shared Services Arrangements	28,970	-	-	(28,970)
99 Other Intergovernmental Charges	27,930	-	-	(27,930)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 2,166,504	\$ 37,311	\$ (122,098)	\$ (2,251,291)

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		998,220
DT	Property Taxes, Levied for Debt Service		232,505
SF	State Aid - Formula Grants		1,733,325
GC	Grants and Contributions not Restricted		2,592
IE	Investment Earnings		24,381
MI	Miscellaneous Local and Intermediate Revenue		18,108
TR	Total General Revenues		3,009,131
CN	Change in Net Position		757,840
NB	Net Position - Beginning		7,154,387
PA	Prior Period Adjustment		(1,243,033)
NE	Net Position--Ending		\$ 6,669,194

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



**GOVERNMENTAL FUND FINANCIAL STATEMENTS**



MCLEAN INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 646,790	\$ 197,638	\$ 844,428
1120 Investments - Current	4,100,156	-	4,100,156
1220 Property Taxes - Delinquent	72,009	13,701	85,710
1230 Allowance for Uncollectible Taxes (Credit)	(10,809)	(1,928)	(12,737)
1240 Receivables from Other Governments	433,040	1,855	434,895
1250 Accrued Interest	2,963	-	2,963
1260 Due from Other Funds	60,995	-	60,995
1290 Other Receivables	699	1,530	2,229
1410 Prepayments	-	806	806
1000 Total Assets	<u>\$ 5,305,843</u>	<u>\$ 213,602</u>	<u>\$ 5,519,445</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 2,127	\$ -	\$ 2,127
2160 Accrued Wages Payable	159,275	-	159,275
2170 Due to Other Funds	-	60,995	60,995
2200 Accrued Expenditures	2,326	6	2,332
2000 Total Liabilities	<u>163,728</u>	<u>61,001</u>	<u>224,729</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	61,200	11,773	72,973
2600 Total Deferred Inflows of Resources	<u>61,200</u>	<u>11,773</u>	<u>72,973</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3430 Prepaid Items	-	806	806
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	47	47
3480 Retirement of Long-Term Debt	-	139,975	139,975
Committed Fund Balance:			
3510 Construction	1,610,335	-	1,610,335
3530 Capital Expenditures for Equipment	50,934	-	50,934
3545 Other Committed Fund Balance	300,000	-	300,000
3600 Unassigned Fund Balance	3,119,646	-	3,119,646
3000 Total Fund Balances	<u>5,080,915</u>	<u>140,828</u>	<u>5,221,743</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 5,305,843</u>	<u>\$ 213,602</u>	<u>\$ 5,519,445</u>

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



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

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	5,221,743
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$5,702,858 and the accumulated depreciation was (\$1,405,917). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		2,589,243
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2018 capital outlays and debt principal payments is to increase net position.		203,218
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$166,782, a deferred resource inflow in the amount of \$99,828, and a net pension liability in the amount of \$319,930. This resulted in a decrease in net position.		(252,976)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$10,106, a deferred resource inflow in the amount of \$296,210, and a net OPEB liability in the amount of \$708,124. This resulted in a decrease in net position.		(994,228)
5 The 2018 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(170,779)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		72,973
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>6,669,194</b>

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



MCLEAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 1,058,882	\$ 251,743	\$ 1,310,625
5800	State Program Revenues	1,846,978	37,257	1,884,235
5900	Federal Program Revenues	16,026	156,460	172,486
5020	Total Revenues	<u>2,921,886</u>	<u>445,460</u>	<u>3,367,346</u>
EXPENDITURES:				
Current:				
0011	Instruction	1,360,389	101,873	1,462,262
0012	Instructional Resources and Media Services	30,345	-	30,345
0013	Curriculum and Instructional Staff Development	5,405	-	5,405
0023	School Leadership	155,005	-	155,005
0031	Guidance, Counseling and Evaluation Services	38,322	-	38,322
0033	Health Services	159	-	159
0034	Student (Pupil) Transportation	17,255	-	17,255
0035	Food Services	-	105,823	105,823
0036	Extracurricular Activities	207,702	-	207,702
0041	General Administration	232,198	-	232,198
0051	Facilities Maintenance and Operations	291,536	-	291,536
0053	Data Processing Services	49,197	-	49,197
Debt Service:				
0071	Principal on Long Term Debt	-	150,000	150,000
0072	Interest on Long Term Debt	-	62,150	62,150
0073	Bond Issuance Cost and Fees	-	806	806
Capital Outlay:				
0081	Facilities Acquisition and Construction	4,794	-	4,794
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	28,970	-	28,970
0099	Other Intergovernmental Charges	27,930	-	27,930
6030	Total Expenditures	<u>2,449,207</u>	<u>420,652</u>	<u>2,869,859</u>
1200	Net Change in Fund Balances	472,679	24,808	497,487
0100	Fund Balance - July 1 (Beginning)	<u>4,608,236</u>	<u>116,020</u>	<u>4,724,256</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 5,080,915</u>	<u>\$ 140,828</u>	<u>\$ 5,221,743</u>

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



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

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	497,487
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2018 capital outlays and debt principal payments is to increase net position.		203,218
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(170,779)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(100)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$27,132. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$28,015. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$19,908. The net result is a decrease in the change in net position.		(20,791)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$9,997. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$7,125. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense increased the change in net position by \$245,933. The net result is an increase in the change in net position.		248,805
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>757,840</b>

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





**FIDUCIARY FUND FINANCIAL STATEMENTS**



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

	Agency Fund
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 36,871
Total Assets	<u>\$ 36,871</u>
<b>LIABILITIES</b>	
Due to Student Groups	\$ 36,871
Total Liabilities	<u>\$ 36,871</u>

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



**NOTES TO THE FINANCIAL STATEMENTS**



**MCLEAN INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

**A. REPORTING ENTITY**

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

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS** (continued)

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

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

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.



**MCLEAN INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION** (continued)

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with operations are included on the Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

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

**D. FUND ACCOUNTING**

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

Governmental Funds:

- 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 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.
- 2. Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.



**MCLEAN INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**D. FUND ACCOUNTING** (continued)

Fiduciary Funds:

- 1. Agency Fund** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund. Financial resources for the agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. The student activity organizations exist with the explicit approval of, and are subject to revocation by, the District's Board of Trustees.

**E. FUND BALANCE POLICY**

The District reports fund balances for governmental funds in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The **nonspendable** classification represents assets that will be consumed or “must be maintained intact” and therefore will never convert to cash, such as inventories or supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the **restricted** classification. The nature of these two classifications preclude a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classifications - committed, assigned and unassigned.

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board’s commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balance since that practice would commit funds that the District does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions (rainy day funds), and other purposes determined by the Board.

The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board may modify or rescind its delegation or authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board by majority vote in a scheduled meeting.

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the District incurs expenditures that can be made from either committed, assigned or unassigned balances, the expenditures should be charged to committed balances, then assigned balances, with any remainders to be charged to unassigned balances.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**E. FUND BALANCE POLICY** (continued)

As of June 30, 2018, the District reports the following governmental fund balance classifications:

Nonspendable		
Prepaid	\$	806
Total Nonspendable		806
Restricted		
Federal or State Funds Grant Restriction		47
Retirement of Long-Term Debt		139,975
Total Restricted		140,022
Committed		
Construction		1,610,335
Capital Expenditures for Equipment		50,934
Other Committed Fund Balance		300,000
Total Committed		1,961,269
Unassigned		3,119,646
Total Fund Balance	\$	5,221,743

**F. PENSIONS AND OTHER POST RETIREMENT BENEFITS**

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

**G. OTHER ACCOUNTING POLICIES**

1. The District reports purchases of supplies as expenditures when they are purchased. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as revenues and expenditures in equal amounts. If a material amount of supplies or commodities are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount. At June 30, 2018, the amount of supplies and commodities on hand was not material.
2. Capital assets, which include land, buildings, building improvements, furniture and equipment, and vehicles, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.





**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**G. OTHER ACCOUNTING POLICIES** (continued)

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

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	15-25
Vehicles	8-10
Office Equipment	5-20

3. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's Board. Assignments of fund balance are amounts set aside by the District's Superintendent or their designee with the intent they be used for specific purposes.
4. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financial 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.

As of June 30, 2018, the District had outstanding long term debt in the net amount of \$1,480,000, and an unamortized discount on bonds of \$49,685.

5. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
6. The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2018, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

**G. OTHER ACCOUNTING POLICIES** (continued)

7. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide database for policy development and funding plans.
8. The preparation of basic 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.
9. The amounts on the statements have been rounded individually, consequently, some columns may not total and some schedules may not agree because of this rounding.
10. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expenses/expenditure) until then.
11. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Child Nutrition Program. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1, the Child Nutrition Program Budget report is in Exhibit J-4 and the Debt Service Fund is in Exhibit J-5.

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

1. Prior to June 15 the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY** (continued)

**A. BUDGETARY DATA** (continued)

3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can 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. The following amendments were considered by management to be significant:
- Total General Fund budget amendments to function 11 (instruction) amounted to a decrease of \$50,500.
  - Total General Fund budget amendments to function 34 (student (pupil) transportation) amounted to an increase of \$30,000.
  - Total General Fund budget amendments to function 51 (facilities maintenance and operations) amounted to an increase of \$19,000.
  - Total General Fund budget amendments to function 81 (facilities acquisition and construction) amounted to an increase of \$18,000.
  - Total General Fund budget amendments to function 36 (extracurricular activities) amounted to an increase of \$15,000.
  - Total Debt Service Fund budget amendments to function 72 (interest on long term debt) amounted to an increase of \$8,000.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

The District's management attempts to budget expenditures as accurately as possible during the budget process and to make necessary budget amendments throughout the year as needed. However, sometimes expenditures in the functional categories will exceed budgeted estimates. Actual expenditures on the fund financial statements do not exceed the final amended budget.

**C. DEFICIT FUND EQUITY**

There were no fund deficits during the year ended June 30, 2018.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITS AND INVESTMENTS**

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**A. DEPOSITS AND INVESTMENTS** (continued)

*Foreign Currency Risk* - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not allowing any deposits denominated in a foreign currency.

**Compliance with the Public Funds Investment Act**

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

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

As of June 30, 2018, the District had the following cash and investments.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Cash and Cash Equivalents	\$ 881,299	\$ 881,299	-	-	-
Certificates of Deposit (included in Investments)	3,546,576	3,546,576	-	-	-
Investment Pools - TexSTAR	<u>553,580</u>	<u>553,580</u>	-	-	-
Total	<u>\$ 4,981,455</u>	<u>\$ 4,981,455</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Additional policies and contractual provisions governing deposits and investments for the District are specified below:

*Credit Risk* - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to public funds investment pools, certificates of deposit, and savings accounts with its depository bank.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**A. DEPOSITS AND INVESTMENTS** (continued)

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

*Concentration of Credit Risk* - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District requires the depository bank to pledge securities held by the District's agent bank in the District's name 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.

*Interest Rate Risk* - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District has established weighted average maturity limits and diversification standards.

Throughout the year and as of June 30, 2018, the District's bank deposits were fully insured by FDIC insurance coverage and pledged securities held by the District's bank in the District's name. As of June 30, 2018, the District's bank deposits consisted of the following collateral coverage:

Total bank deposits	\$ 4,427,875
FDIC insurance coverage	(500,000)
Fair market value of pledged securities	<u>(4,209,783)</u>
Over collateralized deposits	<u>\$ (281,908)</u>

The District's investments as of June 30, 2018 are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Credit Rating</u>
Cash in Bank	\$ 881,299	\$ 881,299	n/a
Certificate of Deposit in Bank (included in Investments)	3,546,576	3,546,576	n/a
Investment Pool - TexSTAR	<u>553,580</u>	<u>553,580</u>	n/a
Totals	<u>\$ 4,981,455</u>	<u>\$ 4,981,455</u>	

**B. PROPERTY TAXES**

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**C. DELINQUENT TAXES RECEIVABLE**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General 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.

**D. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at June 30, 2018, consisted of the following amounts:

Due to General Fund from:	
Non-Major Governmental Funds	\$ <u>60,995</u>
Total Due to General Fund	\$ <u>60,995</u>

**E. DEFERRED INFLOWS OF RESOURCES**

Deferred inflows of resources in the fund financial statements excluding amounts related to TRS (See Notes J and K) at year-end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Unavailable revenue - property taxes	\$ 61,200	\$ 11,773	\$ 72,973

**F. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables in the Fund Financial Statements at June 30, 2018, were as follows:

	<u>Property Taxes</u>	<u>Due from Other Govts</u>	<u>Due from Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 72,009	\$ 433,040	\$ 60,995	\$ 3,662	\$ 569,706
Non-Major Governmental Funds	<u>13,701</u>	<u>1,855</u>	<u>-</u>	<u>1,530</u>	<u>17,086</u>
Total - Governmental Activities	<u>\$ 85,710</u>	<u>\$ 434,895</u>	<u>\$ 60,995</u>	<u>\$ 5,192</u>	<u>\$ 586,792</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ (12,737)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (12,737)</u>

Payables in the Fund Financial Statements at June 30, 2018, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Govt.</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	\$ 2,127	\$ 159,275	\$ -	\$ -	\$ 161,402
Non-Major Governmental Funds	<u>-</u>	<u>-</u>	<u>60,995</u>	<u>-</u>	<u>60,995</u>
Total - Governmental Activities	<u>\$ 2,127</u>	<u>\$ 159,275</u>	<u>\$ 60,995</u>	<u>\$ -</u>	<u>\$ 222,397</u>
Fiduciary Activities:					
Agency Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,871</u>	<u>\$ 36,871</u>
Total - Fiduciary Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,871</u>	<u>\$ 36,871</u>



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**G. CAPITAL ASSET ACTIVITY**

Capital asset activity for the District for the year ended June 30, 2018, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 16,500	\$ -	\$ -	\$ 16,500
Total capital assets not being depreciated	16,500	-	-	16,500
Capital assets, being depreciated:				
Building and improvements	4,873,341	-	-	4,873,341
Furniture and equipment	335,035	45,891	11,651	369,275
Vehicles	477,982	-	-	477,982
Total capital assets being depreciated	5,686,358	45,891	11,651	5,720,598
Less accumulated depreciation for:				
Building and improvements	830,583	107,762	-	938,345
Furniture and equipment	221,084	30,370	11,651	239,803
Vehicles	354,250	32,647	-	386,897
Total accumulated depreciation	1,405,917	170,779	11,651	1,565,045
Total capital assets being depreciated, net	4,280,441	(124,888)	-	4,155,553
Governmental activities capital assets, net	\$ 4,296,941	\$ (124,888)	\$ -	\$ 4,172,053

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 85,458
Student (Pupil) Transportation	35,860
Co-curricular/Extracurricular Activities	24,561
General Administration	5,973
Plant Maintenance and Operations	18,927
Total Depreciation Expense	\$ 170,779

**H. BONDS AND LONG-TERM NOTES PAYABLE**

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Interest is payable on the bonds semiannually with interest rates ranging from 2.00% to 4.00%. The bonds mature through February 15, 2027.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**H. BONDS AND LONG-TERM NOTES PAYABLE** (continued)

A summary of changes in general long-term liabilities for the year ended June 30, 2018 is as follows:

<u>Description</u>	<u>Average Interest Rate Payable</u>	<u>Amounts Originally Issued</u>	<u>Interest Current Year</u>	<u>Amounts Outstanding 7/1/2017</u>	<u>Issued &amp; Accreted Interest</u>	<u>Retired</u>	<u>Outstanding 6/30/2018</u>
2011 Unlimited Tax Refunding Bond	2.00% to 4.00%	\$ 2,445,000	\$ 62,150	\$ 1,630,000	\$ -	\$ 150,000	\$ 1,480,000
Unamortized (Premium) Discount	N/A		-	54,915	-	5,230	49,685
Total Noncurrent Liabilities			\$ 62,150	\$ 1,684,915	\$ -	\$ 155,230	\$ 1,529,685

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions as of June 30, 2018.

**I. DEBT SERVICE REQUIREMENTS - BONDS PAYABLE**

Debt service requirements for bonds are as follows:

Year ended June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 155,000	\$ 55,325	\$ 210,325
2020	160,000	49,800	209,800
2021	165,000	43,300	208,300
2022	175,000	36,500	211,500
2023	180,000	29,400	209,400
2024-2027	<u>645,000</u>	<u>44,100</u>	<u>689,100</u>
Total Bonds Payable	\$ 1,480,000	\$ 258,425	\$ 1,738,425
Less Future Accretions	-	-	-
Total Noncurrent Liabilities	<u>\$ 1,480,000</u>	<u>\$ 258,425</u>	<u>\$ 1,738,425</u>





**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**J. DEFINED BENEFIT PENSION PLAN**

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

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

**Pension Plan Fiduciary Net Position.** Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2017 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2017.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 179,336,534,819
Less: Fiduciary Net Position	(147,361,922,120)
Net Pension Liability	<u>\$ 31,974,612,699</u>
Net Position as percentage of Total Pension Liability	82.17%

**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.

**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.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**J. DEFINED BENEFIT PENSION PLAN** (continued)

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>rd</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. The 85<sup>th</sup> Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	Contributions Required and Made
Member (Employee)	\$ 116,312
Non-employer contributing entity (State)	86,914
District	31,910

Contribution rates for Plan fiscal year (September to August) 2017 and 2018 follow:

	Contribution Rates Plan Fiscal Year	
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employer	6.8%	6.8%

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

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

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

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

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**J. DEFINED BENEFIT PENSION PLAN** (continued)

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases *	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post Employment Benefit Changes	None
* Includes Inflation	

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

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**J. DEFINED BENEFIT PENSION PLAN** (continued)

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

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

**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 2017 Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportional share of the net pension liability	\$ 539,339	\$ 319,930	\$ 137,237
Plan net pension liability (in millions from TRS CAFR)	\$ 53,902,879,534	\$ 31,974,612,699	\$ 13,715,771,590

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2018, the District reported a liability of \$319,930 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:



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**J. DEFINED BENEFIT PENSION PLAN** (continued)

District's proportionate share of the collective net pension liability	\$	319,930
State's proportionate share that is associated with the District		<u>849,717</u>
 Total		 <u>\$ 1,169,647</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 0.0010005747%, which was an decrease of 0.0001701850% from its proportion measured as of August 31, 2016.

**Changes Since the Prior Actuarial Valuation.** There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the measurement period June 30, 2018, the District recognized pension expense of \$112,736 and revenue of \$64,813 for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,681	\$ 17,253
Changes in actuarial assumptions	14,573	8,343
Difference between projected and actual investment earnings	-	23,315
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	120,396	50,917
Contributions paid to TRS subsequent to the measurement date	<u>27,132</u>	<u>-</u>
 Total	 <u>\$ 166,782</u>	 <u>\$ 99,828</u>



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**J. DEFINED BENEFIT PENSION PLAN** (continued)

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

Year ended <u>June 30</u>	\$	
2019	\$	10,119
2020		30,541
2021		8,549
2022		1,452
2023		(3,908)
Thereafter		(6,931)

**K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**

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

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

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

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 43,885,784,621
Less: Fiduciary Net Position	(399,535,986)
Net Pension Liability	<u>\$ 43,486,248,635</u>
Net Position as percentage of Total Pension Liability	0.91%

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

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS** (continued)

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

TRS-Care Plan Premium Rates Effective Sept. 1, 2016 - Dec. 31, 2017			
	TRS Care-1 <u>Basic Plan</u>	TRS Care-2 <u>Optional Plan</u>	TRS Care-3 <u>Optional Plan</u>
Retiree*	\$ 0	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children Only *or surviving spouse	28	62	82

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.0% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	Contributions Required and Made
Member (Employee)	\$ 9,819
Non-employer contributing entity (State)	14,137
District	11,338

Contribution rates for Plan fiscal year (September to August) 2017 and 2018 follow:

	Contribution Rates Plan Fiscal Year	
	<u>2017</u>	<u>2018</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employer	0.55%	0.75%
Federal/private Funding Remitted by Employers	1.00%	1.25%



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS** (continued)

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

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

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

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

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

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

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

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





**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS** (continued)

Additional Actuarial Methods and Assumptions:

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

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

*\*\*Includes inflation at 2.50%*

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

**Discount Rate.** A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. The Discount Rate can be found in the 2017 TRS CAFR on page 83. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-year Municipal GO AA Index" as of August 31, 2017.

**Sensitivity of the Net OPEB Liability:**

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS** (continued)

	1% Decrease <u>2.42%</u>	Current Discount Rate <u>3.42%</u>	1% Increase <u>4.42%</u>
District's proportional share of the net OPEB liability	\$ 835,762	\$ 708,124	\$ 605,532
Plan net OPEB liability (in millions from TRS CAFR)	\$ 51,324,568,976	\$ 43,486,248,635	\$ 37,186,006,400

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

	1% Decrease <u>          </u>	Current Healthcare Cost Trend Rate <u>          </u>	1% Increase <u>          </u>
District's proportional share of the net OPEB liability	\$ 589,584	\$ 708,124	\$ 863,664

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At June 30, 2018, the District reported a liability of \$708,124 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 708,124
State's proportionate share that is associated with the District	<u>1,182,466</u>
Total	<u>\$ 1,890,590</u>

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

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was 0.0016283866%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2016. The Notes to the Financial Statements for August 31, 2016 for TRS stated that the change in proportion was immaterial and, therefore, disregarded this year.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS** (continued)

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

- Significant plan changes were adopted during fiscal year ending June 30, 2018. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- The August 31, 2016 valuation had assumed that the savings related to the Medicare Part D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
- The discount rate changed from 2.98 percent as of August 31, 2016 to 3.42 percent as of August 31, 2017. This change lowered the total OPEB liability.

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

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

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

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

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

For the year ended June 30, 2018, the District recognized OPEB expense (revenue) of \$(634,493) and revenue (expense) of \$(395,685) for support provided by the State

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS** (continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 14,783
Changes in actuarial assumptions	-	281,427
Difference between projected and actual investment earnings	108	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1	-
Contributions paid to TRS subsequent to the measurement date	9,997	-
<b>Total</b>	<b>\$ 10,106</b>	<b>\$ 296,210</b>

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

Year ended June 30	
2019	\$ (39,070)
2020	(39,071)
2021	(39,071)
2022	(39,071)
2023	(39,098)
Thereafter	(100,720)

**L. HEALTH CARE COVERAGE**

During the year ended June 30, 2018, the District provided medical benefits coverage (the Plan) to its employees through the TRS. The Plan was created and is operated under the provisions of the Texas Active School Employees Uniform Group Benefits Act (H.B. 3343) enacted by the 77th Legislature. H.B. 3343 established a new statewide health coverage program for public school employees and their dependents. The TRS began administering the Plan, known as the TRS-ACTIVECARE, as of September 1, 2003. The Plan includes employees of most small to mid-size districts, charter schools, education service centers, and certain other employees.

Participants in the Plan can choose from several different benefit options, and must meet certain eligibility requirements. Currently, participants must either be an active, contributing, TRS member or must be employed for 10 or more hours each week to be eligible for coverage under the Plan.

Each member district is billed monthly based upon the number of employees participating in the Plan. The District contributed \$273 per month per full time employee to the Plan. For the year ended June 30, 2018, total payments to the Plan by the District were \$258,124, of which \$160,819 was paid by the District's employees, resulting in a net cost to the District for health benefit coverage of \$97,305.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**L. HEALTH CARE COVERAGE** (continued)

According to the Plan's administrator, Plan participants retain the risk associated with the Plan, with no risks being transferred or assumed by the TRS, member districts, or by the State of Texas. Additional information pertaining to the Plan can be obtained by contacting the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, by calling the TRS at 1-800-223-8778, or by downloading information from the TRS website at [www.trs.state.tx.us](http://www.trs.state.tx.us).

**M. ACCOUNTING FOR EMPLOYEE BENEFITS - ON-BEHALF PAYMENTS**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. For the years ending June 30, 2018, 2017, and 2016, the District's portion of subsidy reimbursements received by TRS and recognized as equal expenditures/expenses was \$4,578, \$4,353, and \$5,451, respectively. The plan covering these retired employees is the Teacher Retirement System of Texas, and these on-behalf payments are being made by the federal government to the State of Texas as a pass through grant to the Texas Education Agency on behalf of the District.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**N. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS**

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

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities.

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

Functional Allocation	Operating Grants & Contributions - Statement of Activities	GASB 75 Negative Government- Wide On- Behalf Accrual AJE #21	Operating Grants & Contributions - Statement of Activities (excluding the effects of GASB 75 negative on- behalf accrual)
6011 Instruction	\$ (106,964)	\$ (273,361)	\$ 166,397
6012 Instructional Resources and Media Services	(5,635)	(6,850)	1,215
6013 Curriculum Development	-	-	-
6021 Instructional Leadership	-	-	-
6023 School Leadership	(24,701)	(30,027)	5,326
6031 Guidance, Counseling and Evaluation Services	(7,038)	(8,557)	1,519
6032 Social Work Services	-	-	-
6033 Health Services	-	-	-
6034 Student (Pupil) Transportation	(1,857)	(2,258)	401
6035 Food Services	75,057	(12,681)	87,738
6036 Extracurricular Activities	(12,260)	(14,904)	2,644
6041 General Administration	(23,327)	(28,358)	5,031
6051 Facilities Maintenance and Operations	(15,373)	(18,689)	3,316
6052 Security and Monitoring Services	-	-	-
6053 Data Processing Services	-	-	-
6061 Community Services	-	-	-
6062 School District Administrative Support Services	-	-	-
6081 Facilities Acquisition and Construction	-	-	-
6092 Incremental Costs Associated with Chapter 41	-	-	-
6099 Other Intergovernmental Charges	-	-	-
	<u>\$ (122,098)</u>	<u>\$ (395,685)</u>	<u>\$ 273,587</u>



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**O. DUE FROM STATE AGENCIES**

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

Amounts due from state agencies at year end consisted of the following:

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$ 433,040	\$ -	\$ 433,040
Non-Major Governmental Funds	<u>1,855</u>	<u>-</u>	<u>1,855</u>
Total	<u>\$ 434,895</u>	<u>\$ -</u>	<u>\$ 434,895</u>

**P. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>
Property taxes	\$ 999,891	\$ 230,934	\$ 1,230,825
Penalties, interest and other	12,869	3,711	16,580
Investment income	23,900	480	24,380
Food sales	-	16,618	16,618
Co-curricular student activities	11,523	-	11,523
Other	<u>10,699</u>	<u>-</u>	<u>10,699</u>
Total	<u>\$ 1,058,882</u>	<u>\$ 251,743</u>	<u>\$ 1,310,625</u>

**Q. LITIGATION AND CONTINGENCIES**

At June 30, 2018, the District had no known or threatened pending litigation that would materially affect the District's financial condition.

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



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**R. CONSTRUCTION, SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

The District has no significant construction projects or other commitments and contingencies as of June 30, 2018.

**S. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS**

The District participates in a shared services arrangement for Special Education. The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, Shamrock ISD (242902), nor a net equity interest in the fiscal agent. The District accounts for its share of the revenues and expenditures of the shared service arrangement in the General Fund. The fiscal agent is responsible for all financial activities of the shared service arrangement. The District contributed \$28,970 to the shared services agreement during the current year.

**T. PRIOR PERIOD ADJUSTMENTS**

Due to the required implementation of new GASB 75 “Accounting and Financial Reporting for Other Post Retirement Benefits”, related to the District’s participation in TRS, during 2018, the District was required under GASB 75 to record and disclose its share of the District’s net OPEB liability and deferred resource outflows and resource inflows related to the District’s OPEB plan. During the year ended June 30, 2018 the District recorded a prior period adjustment of \$(1,243,033) (see Exhibit B-1) related to GASB 75. The beginning restated net position was \$5,911,354.

**U. GENERAL FUND FEDERAL SOURCE REVENUE**

Federally financed programs are generally accounted for in the Special Revenue Funds of the District, except for indirect and other costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA. The District recognized in the General Fund such revenues for the year ended June 30, 2018, from various federal sources as follows:

Program or Source	CFDA Number	Amount
SHARS reimbursements	93.774	\$ 16,026

**V. PROPERTY PROGRAM**

During the year ended June 30, 2018, the District participated in the TASB Risk Management Fund’s (the “Fund”) Property Program with coverage in: crime; equipment breakdown; and property. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop loss coverage for protection against catastrophic and larger than anticipated claims for the Property Program. The terms and limits of the stop loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended June 30, 2018, the Fund anticipates the District has no additional liability beyond the contractual obligation for payment of contributions.





**MCLEAN INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**V. PROPERTY PROGRAM** (continued)

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018, which is the most current report provided to the public, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**W. SERVICE CONTRACT WITH REGION 16 EDUCATION SERVICE CENTER**

The District has contracted with Region 16 Education Service Center (Region 16) to perform certain accounting duties for the District for the 2018-2019 fiscal year. The contracted amount of \$25,200 includes the reconciliation of the general fund bank accounts; review of accounting records including balance sheet accounts, revenue and expense accounts, due to/due from accounts, journal and budget entries and payroll balancing; and assisting with budget preparation, journal entries and payroll. The contract with Region 16 may be renewed annually. The District also pays Region 16 for the use of its accounting software, approximately \$14,800 annually. Also, the District pays Region 16 consulting services for certain compliance and administrative services, approximately \$74,000 annually.

**X. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In November 2016, the GASB issued Statement 83, *Certain Asset Retirement Obligations* (GASB 83) This Statement will only enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain Asset Retirement Obligations (AROs), including obligations that may not have been previously reported. This Statement will also enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. Management is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

In January 2017, the GASB issued Statement 84, *Fiduciary Activities*. The requirements of this identifying Statement will enhance consistency and comparability by (1) establishing specific criteria for activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in the financial statements for assessing government accountability and stewardship. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early application is encouraged. Management is currently evaluating the impact of the adoption of this Statement on the District's financial statements.



**MCLEAN INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**Year Ended June 30, 2018**

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS** (continued)

**X. RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS** (continued)

In June 2017 the GASB issued Statement 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation or, if applied to earlier periods, the beginning of the earliest period restated.) However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets. Management is currently evaluating the impact of the adoption of this Statement on the District's financial statements.

**Y. SUBSEQUENT EVENTS**

Management of the District has evaluated subsequent events through November 19, 2018, the date the financial statements were available to be issued.



**REQUIRED SUPPLEMENTARY INFORMATION**



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - GENERAL FUND  
 FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 930,000	\$ 930,000	\$ 1,058,882	\$ 128,882
5800	State Program Revenues	1,399,781	1,399,781	1,846,978	447,197
5900	Federal Program Revenues	10,000	10,000	16,026	6,026
5020	Total Revenues	2,339,781	2,339,781	2,921,886	582,105
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	1,434,825	1,384,325	1,360,389	23,936
0012	Instructional Resources and Media Services	38,168	38,168	30,345	7,823
0013	Curriculum and Instructional Staff Development	5,000	7,000	5,405	1,595
0023	School Leadership	150,304	157,304	155,005	2,299
0031	Guidance, Counseling and Evaluation Services	43,673	43,673	38,322	5,351
0033	Health Services	500	1,000	159	841
0034	Student (Pupil) Transportation	46,654	76,654	17,255	59,399
0036	Extracurricular Activities	195,880	210,880	207,702	3,178
0041	General Administration	252,671	252,671	232,198	20,473
0051	Facilities Maintenance and Operations	272,952	291,952	291,536	416
0053	Data Processing Services	48,410	51,410	49,197	2,213
Capital Outlay:					
0081	Facilities Acquisition and Construction	5,000	23,000	4,794	18,206
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	28,970	28,970	28,970	-
0099	Other Intergovernmental Charges	43,500	43,500	27,930	15,570
6030	Total Expenditures	2,566,507	2,610,507	2,449,207	161,300
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(226,726)	(270,726)	472,679	743,405
<b>OTHER FINANCING SOURCES (USES):</b>					
8911	Transfers Out (Use)	(36,248)	(36,248)	-	36,248
1200	Net Change in Fund Balances	(262,974)	(306,974)	472,679	779,653
0100	Fund Balance - September 1 (Beginning)	4,608,236	4,608,236	4,608,236	-
3000	Fund Balance - August 31 (Ending)	\$ 4,345,262	\$ 4,301,262	\$ 5,080,915	\$ 779,653



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED JUNE 30, 2018

	FY 2018 Plan Year 2017	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.001000575%	0.00117076%	0.0011201%	0.0005241%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 319,930	\$ 442,413	\$ 395,940	\$ 139,994
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	849,717	1,064,535	1,075,127	847,393
Total	<u>\$ 1,169,647</u>	<u>\$ 1,506,948</u>	<u>\$ 1,471,067</u>	<u>\$ 987,387</u>
District's Covered Payroll	\$ 1,463,296	\$ 1,464,459	\$ 1,503,346	\$ 1,363,238
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	21.86%	30.21%	26.34%	10.27%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	82.17%	78.00%	78.43%	83.25%

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

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



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT CONTRIBUTIONS FOR PENSIONS  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR FISCAL YEAR 2018

	2018	2017	2016	2015
Contractually Required Contribution	\$ 31,910	\$ 34,065	\$ 36,234	\$ 29,963
Contribution in Relation to the Contractually Required Contribution	(31,910)	(34,065)	(36,234)	(29,963)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-	\$ -0-
District's Covered Payroll	\$ 1,510,550	\$ 1,468,158	\$ 1,466,442	\$ 1,477,182
Contributions as a Percentage of Covered Payroll	2.11%	2.32%	2.47%	2.03%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

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



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR THE YEAR ENDED JUNE 30, 2018

	FY 2018 Plan Year 2017
District's Proportion of the Net Liability (Asset) for Other Post Employment Benefits	0.001628387%
District's Proportionate Share of Net Post Employment Benefit Liability (Asset)	\$ 708,124
State's Proportionate Share of the Net Post Employment Benefit Liability (Asset) associated with the District	1,182,466
Total	\$ 1,890,590
District's Covered Payroll	\$ 1,463,296
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	48.39%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	0.91%

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

This schedule shows only the year for which this information is available. Additional information will be added until 10 years of data are available and reported.



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DISTRICT CONTRIBUTIONS FOR OTHER POST EMPLOYMENT BENEFITS (OPEB)  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 FOR FISCAL YEAR 2018

	2018
Contractually Required Contribution	\$ 11,338
Contribution in Relation to the Contractually Required Contribution	(11,338)
Contribution Deficiency (Excess)	\$ -0-
District's Covered Payroll	\$ 1,510,550
Contributions as a Percentage of Covered Payroll	0.75%

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

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.





**COMBINING AND OTHER SCHEDULES**



**NONMAJOR GOVERNMENTAL FUNDS**



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 1,065	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	-	-	-	-
1290	Other Receivables	-	1,530	-	-
1410	Prepayments	-	-	-	-
1000	<b>Total Assets</b>	<u>\$ -</u>	<u>\$ 1,530</u>	<u>\$ 1,065</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
2170	Due to Other Funds	\$ -	\$ 1,477	\$ 1,065	\$ -
2200	Accrued Expenditures	-	6	-	-
2000	<b>Total Liabilities</b>	<u>-</u>	<u>1,483</u>	<u>1,065</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	<b>Total Deferred Inflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES</b>					
Nonspendable Fund Balance:					
3430	Prepaid Items	-	-	-	-
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	47	-	-
3480	Retirement of Long-Term Debt	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>47</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities, Deferred Inflows &amp; Fund Balances</b>	<u>\$ -</u>	<u>\$ 1,530</u>	<u>\$ 1,065</u>	<u>\$ -</u>



270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Textbook Fund	427 TXVSN Spanish Grant	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 79	\$ -	\$ 1,144	\$ 196,494	\$ 197,638
-	-	-	-	-	13,701	13,701
-	-	-	-	-	(1,928)	(1,928)
-	-	-	-	-	1,855	1,855
-	-	-	-	1,530	-	1,530
-	-	-	-	-	806	806
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 2,674</u>	<u>\$ 210,928</u>	<u>\$ 213,602</u>
\$ -	\$ -	\$ 79	\$ -	\$ 2,621	\$ 58,374	\$ 60,995
-	-	-	-	6	-	6
-	-	79	-	2,627	58,374	61,001
-	-	-	-	-	11,773	11,773
-	-	-	-	-	11,773	11,773
-	-	-	-	-	806	806
-	-	-	-	47	-	47
-	-	-	-	-	139,975	139,975
-	-	-	-	47	140,781	140,828
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79</u>	<u>\$ -</u>	<u>\$ 2,674</u>	<u>\$ 210,928</u>	<u>\$ 213,602</u>



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ 16,618	\$ -	\$ -
5800 State Program Revenues	-	4,333	-	-
5900 Federal Program Revenues	25,878	84,919	3,096	4,959
5020 Total Revenues	25,878	105,870	3,096	4,959
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	25,878	-	3,096	4,959
0035 Food Services	-	105,823	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	25,878	105,823	3,096	4,959
1200 Net Change in Fund Balance	-	47	-	-
0100 Fund Balance - July 1 (Beginning)	-	-	-	-
3000 Fund Balance - June 30 (Ending)	\$ -	\$ 47	\$ -	\$ -



270 ESEA VI, Pt B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Textbook Fund	427 TXVSN Spanish Grant	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 16,618	\$ 235,125	\$ 251,743
-	-	5,532	24,800	34,665	2,592	37,257
31,754	5,854	-	-	156,460	-	156,460
31,754	5,854	5,532	24,800	207,743	237,717	445,460
31,754	5,854	5,532	24,800	101,873	-	101,873
-	-	-	-	105,823	-	105,823
-	-	-	-	-	150,000	150,000
-	-	-	-	-	62,150	62,150
-	-	-	-	-	806	806
31,754	5,854	5,532	24,800	207,696	212,956	420,652
-	-	-	-	47	24,761	24,808
-	-	-	-	-	116,020	116,020
\$ -	\$ -	\$ -	\$ -	\$ 47	\$ 140,781	\$ 140,828



**AGENCY FUNDS**



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 AGENCY FUND  
 FOR THE YEAR ENDED JUNE 30, 2018

	BALANCE JULY 1 2017	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30 2018
<b>STUDENT ACTIVITY ACCOUNT</b>				
Assets:				
Cash and Temporary Investments	\$ 47,611	\$ 52,606	\$ 63,346	\$ 36,871
Liabilities:				
Due to Student Groups	\$ 47,611	\$ 52,606	\$ 63,346	\$ 36,871
<b>TOTAL AGENCY FUNDS</b>				
Assets:				
Cash and Temporary Investments	\$ 47,611	\$ 52,606	\$ 63,346	\$ 36,871
Liabilities:				
Due to Student Groups	\$ 47,611	\$ 52,606	\$ 63,346	\$ 36,871





**REQUIRED TEA SCHEDULES**



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

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2009 and prior years	Various	Various	\$ Various
2010	1.040000	0.180000	162,484,737
2011	1.040000	0.180000	142,585,410
2012	1.040000	0.180000	109,124,862
2013	1.040000	0.189000	107,585,924
2014	1.040000	0.174000	126,619,724
2015	1.040000	0.160000	149,881,784
2016	1.040000	0.172000	138,297,176
2017	1.040000	0.172000	103,605,055
2018 (School year under audit)	1.040000	0.242000	97,382,992
1000 TOTALS			



(10) Beginning Balance 7/1/2017	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2018
\$ 5,197	\$ -	\$ 77	\$ 11	\$ (1,809)	\$ 3,300
1,667	-	34	6	(72)	1,555
2,000	-	35	6	(57)	1,902
2,095	-	34	6	(56)	1,999
1,707	-	74	13	(57)	1,563
7,613	-	2,343	392	(58)	4,820
8,376	-	1,860	286	(58)	6,172
16,162	-	4,940	817	(57)	10,348
40,937	-	16,149	2,671	(289)	21,828
-	1,248,450	974,345	226,726	(15,156)	32,223
<u>\$ 85,754</u>	<u>\$ 1,248,450</u>	<u>\$ 999,891</u>	<u>\$ 230,934</u>	<u>\$ (17,669)</u>	<u>\$ 85,710</u>



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 25,500	\$ 25,500	\$ 16,618	\$ (8,882)
5800 State Program Revenues	3,679	3,679	4,333	654
5900 Federal Program Revenues	46,240	46,240	84,919	38,679
5020 Total Revenues	<u>75,419</u>	<u>75,419</u>	<u>105,870</u>	<u>30,451</u>
EXPENDITURES:				
0035 Food Services	<u>111,667</u>	<u>111,667</u>	<u>105,823</u>	<u>5,844</u>
6030 Total Expenditures	<u>111,667</u>	<u>111,667</u>	<u>105,823</u>	<u>5,844</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(36,248)	(36,248)	47	36,295
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	<u>36,248</u>	<u>36,248</u>	<u>-</u>	<u>(36,248)</u>
1200 Net Change in Fund Balances	-	-	47	47
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47</u>	<u>\$ 47</u>



MCLEAN INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 213,150	\$ 213,150	\$ 235,125	\$ 21,975
5800	State Program Revenues	-	-	2,592	2,592
5020	Total Revenues	213,150	213,150	237,717	24,567
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	150,000	150,000	150,000	-
0072	Interest on Long Term Debt	62,150	70,150	62,150	8,000
0073	Bond Issuance Cost and Fees	1,000	1,000	806	194
6030	Total Expenditures	213,150	221,150	212,956	8,194
1200	Net Change in Fund Balances	-	(8,000)	24,761	32,761
0100	Fund Balance - September 1 (Beginning)	116,020	116,020	116,020	-
3000	Fund Balance - August 31 (Ending)	\$ 116,020	\$ 108,020	\$ 140,781	\$ 32,761



**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**





# JOHNSON & SHELDON, PLLC

## CERTIFIED PUBLIC ACCOUNTANTS

---

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

#### Independent Auditor's Report

Board of Trustees  
McLean Independent School District  
McLean, 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 **McLean Independent School District** (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 19, 2018.

#### **Internal Control over Financial Reporting**

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

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

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

**Compliance and Other Matters**

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

**Purpose of this Report**

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

*Johnson & Sheldon PLLC*

**Johnson & Sheldon, PLLC**  
**Amarillo, Texas**  
November 19, 2018





**MCLEAN INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2018**

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

1. The type of report issued on the basic financial statements was an unmodified opinion.
2. There were no significant deficiencies in internal control disclosed by the audit of the basic financial statements and there were no material weaknesses.
3. The audit did not disclose noncompliance which is material to the basic financial statements of the District.

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

None noted.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
Year Ended June 30, 2018**

(Prepared by the District's Administration)

There was no requirement for a summary schedule of prior audit findings since there were no audit findings for the prior year.



**MCLEAN INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
Year Ended June 30, 2018**

(Prepared by the District's Administration)

There was no requirement for a corrective action plan since there were no audit findings for the current year.



SCHOOLS FIRST QUESTIONNAIRE

McLean Independent School District

Fiscal Year 2018

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the 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.	0
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	319,930
SF13	Pension Expense (6147) at fiscal year-end.	0

