



COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the fiscal year ended August 31, 2018

Back of Front Cover

COMPREHENSIVE ANNUAL FINANCIAL REPORT
OF
HARRIS COUNTY DEPARTMENT OF EDUCATION
For the Fiscal Year Ended August 31, 2018

James Colbert, Jr.
County School Superintendent

Jesus J. Amezcua, Ph.D., CPA, RTSBA
Assistant Superintendent for Business Support Services

Rosa Maria Torres, RTSBA
Chief Accounting Officer



Harris County Department of Education
6300 Irvington Blvd.
Houston, Texas 77022



Mission Statement

Harris County Department of Education supports Harris County by enriching educational opportunities and providing value through services.

Goals

HCDE will:

- ❖ Impact education by responding to the evolving needs of Harris County
- ❖ Deliver value to Harris County by utilizing resources in an ethical, transparent, and fiscally responsible manner
- ❖ Advocate for all learners by using innovative methods to maximize students' potential.
- ❖ Provide cost-savings to school districts by leveraging tax dollars
- ❖ Recruit and maintain a high-quality professional staff

HARRIS COUNTY DEPARTMENT OF EDUCATION
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended August 31, 2018

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Introductory Section		
Letter of Transmittal	1	
Certificate of Board.....	7	
Certificate of Achievement for Excellence in Financial Reporting	8	
Certificate of Excellence in Financial Reporting Award	10	
Principal Officials	12	
Organization Chart.....	13	
Financial Section		
Report of Independent Auditors’	15	
Management’s Discussion and Analysis (Unaudited)	19	
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position.....	29	A-1
Statement of Activities	31	A-2
Fund Financial Statements:		
Balance Sheet-Governmental Funds	32	B-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position.....	35	B-2
Statement of Revenues, Expenditures, and Changes in Fund Balances- Governmental Funds	36	B-3
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	38	B-4
Statement of Net Position-Proprietary Funds.....	39	B-5
Statement of Revenues, Expenses, and Changes in Fund Net Position- Proprietary Funds	40	B-6
Statement of Cash Flows-Proprietary Funds.....	41	B-7
Statement of Fiduciary Assets and Liabilities-Fiduciary Fund	42	B-8
Notes to the Basic Financial Statements.....	43	B-9
Required Supplementary Information:		
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual-General Fund.....	83	C-1
Notes to the Required Supplementary Information	84	C-2
Schedule of the Departments Proportionate Share of the Net Pension Liability – TRS	85	C-3
Schedule of the Departments Pension Contributions – TRS	86	C-4
Notes to the Required Supplementary Information - Pensions	87	C-5
Schedule of the Departments Proportionate Share of the Net OPEB Liability - TRS.....	88	C-6
Schedule of the Departments OPEB Contributions - TRS	89	C-7
Notes to the Required Supplementary Information - OPEB	90	C-8
Combining and Individual Fund Statements and Schedules:		
Nonmajor Governmental Funds Overview.....	91	
Combining Balance Sheet-Nonmajor Governmental Funds.....	94	D-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances- Nonmajor Governmental Funds	98	D-2
Internal Service Funds Overview	103	
Combining Statement of Net Position-Internal Service Funds.....	104	D-3

HARRIS COUNTY DEPARTMENT OF EDUCATION
COMPREHENSIVE ANNUAL FINANCIAL REPORT

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Financial Section (continued)		
Combining and Individual Fund Statements and Schedules: (continued)		
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position- Internal Service Funds	105	D-4
Combining Statement of Cash Flows-Internal Service Funds	106	D-5
Fiduciary Funds Overview	107	
Statement of Changes in Assets and Liabilities-Fiduciary Fund	108	D-6
Other Supplementary Information:		
Schedule of Revenues, Expenditures, and Changes in Fund Balances- Budget and Actual-Debt Service Fund	109	E-1
Schedule of Delinquent Taxes Receivable	110	E-2
Statistical Section (Unaudited)		
Table of Contents-Statistical Section.....	111	
Introduction to the Statistical Section.....	112	
Financial Trends:		
Net Position by Component.....	114	Table 1
Changes in Net Position	116	Table 2
Fund Balances of Governmental Funds.....	120	Table 3
Changes in Fund Balances-Governmental Funds.....	122	Table 4
Governmental Funds Revenues	124	Table 5
Governmental Funds Expenditures and Debt Service Ratio	126	Table 6
Revenue Capacity:		
Property Tax Levies and Collections.....	129	Table 7
Property Tax Rates-Direct and Overlapping Governments.....	130	Table 8
Assessed and Estimated Actual Value of Taxable Property.....	132	Table 9
Principal Taxpayers	133	Table 10
Debt Capacity:		
Ratio of Net General Bonded Debt Outstanding to Assessed Property Value, Percent of Personal Income and Debt per Capita	135	Table 11
Ratio of Annual Debt Service Expenditures by Type to Governmental Funds Expenditures	136	Table 12
Estimated County-wide Direct and Overlapping Bonded Debt.....	137	Table 13
Demographic and Economic Information:		
Demographic and Economic Statistics	139	Table 14
Miscellaneous Statistical Data.....	140	Table 15
Principal Employers	141	Table 16
Operating Information:		
Employees by Program.....	144	Table 17
Operational Indicators by Program.....	146	Table 18
Building Information	147	Table 19
Service Area and Locations-Description	148	Table 20
Service Area-Map: Harris County, Texas and 25 School Districts	149	Table 21



Back of Introductory Section Divider

January 10, 2019

Harris County Board of School Trustees,
Taxpayers of the Harris County,
and Other Interested Parties:

Harris County Department of Education (Department, HCDE) is pleased to present its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2018 (CAFR). State law requires an annual audit to be completed within six months of the close of each fiscal year, and this report is published to fulfill that requirement. The purpose of the CAFR is to provide the Board of Trustees, management, staff, grantor agencies, citizens, the business community, and other interested parties with detailed information reflecting the Department's financial condition.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Whitley Penn, L.L.P., have issued an unmodified opinion on the Harris County Department of Education's financial statements for the year ended August 31, 2018. The independent auditors' report is located at the front of the financial section of the report.

Management's discussion and analysis (MD&A) immediately follows the report of the independent auditors and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

Profile of the Department

Harris County Department of Education, incorporated in 1889, is a political subdivision of the State of Texas. HCDE is in Houston, Texas. Originally every county in Texas had its own department of education. Therefore, Harris County Department of Education was the first school district in Harris County, Texas.

While the name 'Harris County Department of Education' may cause some confusion from time to time for the public, it is important for the reader of these financial statements to know and understand that the Department is an entity separate and distinct from county agencies of Harris County, Texas. Also, today HCDE is not a school district but a local governmental entity. It has evolved in response to educational and community needs to provide educational services to students of all ages and school districts primarily within but also outside of Harris County, Texas. Harris County Department of Education is empowered to levy a property tax on both real and personal property located within its boundaries.

The Harris County Board of School Trustees (Board) is elected by voters of Harris County, Texas and has governance responsibilities over all activities and operations of the Department. The Board consists of seven members who serve overlapping six-year terms, with two members elected every two years.

Harris County Board of School Trustees,
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and Other Interested Parties

The Department is required to adopt a final budget by no later than the close of the fiscal year. This annual budget serves as the foundation for the Harris County Department of Education's financial planning and control. The budget is prepared by fund and program. Budget managers may transfer resources within the program budget as they see fit to meet their needs. The Board of Trustees must approve budget amendments that (1) increase or decrease the division budget and/or (2) identify a new revenue source.

The Department is a primary governmental unit and is not included in any other governmental reporting entity. There is a blended component unit, the Harris County Department of Education Public Facility Corporation (PFC), included within the reporting entity. There is also a discretely presented component unit, the Education Foundation of Harris County (EFHC), included in the government-wide statements. The EFHC was created to attract grant revenues from local foundations and other grantors to support the Department's programs.

Organizational Philosophy

The core ideology of Harris County Department of Education outlines the direction of the Department and the expectation held for all employees. The mission defines what we are. Our core beliefs define our intent; and our goals define how we intend to achieve our mission.

Primary Services

The Department's primary service area geographically covers 1,788 square miles within Harris County, Texas in the upper Texas Gulf Coast region. Harris County's population base includes a wide variety of racial, ethnic, and socio-economic groups that gives the area a rich diversity and cosmopolitan feel. The Department offers services to 25 rural, suburban, and urban school districts entirely or partially within its primary service area of Harris County. It also serves school districts and governmental agencies in surrounding counties, as well as schools, education service centers and other governmental agencies statewide.

Responding to and serving the needs of learners of all ages, socio-economic status, ethnic backgrounds, educational or development delays and at-risk behaviors requires the Department to be an institution of great flexibility as evidenced by the activities described below. Affordable and highly flexible programs and products are developed with clients in mind. Client population examples are:

- Academic and Behavior Schools serve children, youth, and young adults ages 5-22 with severe emotional disturbances, mental retardation, pervasive developmental disorders, and other health impairments. The Department serviced 314 and 254 students during fiscal year 2018 and 2017 respectively. This represents a 23% increase due to higher demand from school districts. The Department projects to serve 276 students for FY 2019.
- Highpoint Schools serve adjudicated youth by providing intensive counseling and a technology-driven curriculum in a strict disciplinary environment. The Department serviced 415 and 442 students during fiscal year 2018 and 2017 respectively. This represents a 6% decrease due to lower demand from school districts and the restructuring of the High Point North School to Fortis Academy. The Department projects to serve 400 students for FY 2019.
- School Based Therapy Services serves individuals ages 0-22 years of age with identified disability groups, diagnosed disabilities, developmental delays or at-risk for delays from diverse socio-economic families. The Department serviced 7,426 and 7,299 students during fiscal year 2018 and 2017 respectively. This represents a 1.7% increase due to higher service contracts. The Department projects to serve 8,000 students for FY 2019.

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- Head Start Program serves 3-5-year old economically disadvantaged children and their families, with over 10 percent of those having an identified disability requiring intervention. The Department serviced 1,545 and 1,647 students during fiscal year 2018 and 2017 respectively. This represents an 6% decrease. The Department projects to serve 1,600 students for FY 2019.
- Adult Education Program prepares age 16-plus youths and adults to read and speak English, and/or to complete a high school General Equivalency Diploma (GED) education. The Department serviced 9,121 and 8,012 students during fiscal year 2018 and 2017 respectively. This represents a 13.8% increase due to service demands. The Department projects to serve 8,400 students for FY 2019.
- Center for After School, Summer and Expanded Learning (CASE) serves elementary, middle, and high school students delivering quality after-school learning opportunities. The Department serviced 14,627 and 17,326 students during fiscal year 2018 and 2017 respectively. This represents a 15% decrease due to change in funding stream priorities which resulted in less funds for direct services. The Department projects to serve over 14,000 students for FY 2019.
- The Teaching & Learning Center provides teaching and learning services to educators, administrators, support personnel, students, parents and the community. The Department delivered services to 9,200 and 6,374 educators during fiscal years 2018 and 2017 respectively. This is a 4.4% increase due to service requirements. The Department projects to service over 9,500 educators in FY 2019.
- Choice Partners Cooperative offers best value resources and vendors, direct facility consulting services and quality, legal procurement and contract solutions to meet the purchasing needs of school districts, institutions of higher education, municipalities, counties and other government and non-profit organizations. In fiscal year 2018 and 2017, the Department serviced 1,293 and 1,294 members respectively. The Department is expected to serve 1,350 members in FY 2019.
- Records Management provides low cost, high tech solutions to store records for governmental entities. Its services include records controls scheduling, secured storage of hard copy records, imaging, microfilming, electronic document storage and eligible records destruction. The Department served 3,930 and 2,004 members in 2018 and 2017 respectively. This is a 96% increase due to client needs. For FY 2019 the Department expects to serve 4,300 members.
- Center for Safe & Secure Schools advances safe and secure environments in schools during emergency operations. It is a partner and participant on the county Emergency Operations System. The Department provides NIMS training, manages system of communication county-wide during school district and conducts safety reviews of school facilities. The Department served 50,397 and 233,191 students in 2018 and 2017 respectively, where facilities were audited for safety. The change service levels in the year depends on the three year audit cycle. For FY 2019 the Department expects to audit facilities where over 70,000 students attend school.

Local Economy

Harris County Department of Education is in Harris County (County), Texas in the Gulf Coast region of Texas, approximately 50 miles north from the Gulf of Mexico. The county covers over 1,700 square miles and, with over 4.6 million people. Harris County is the third largest county in population and houses the fourth largest city in the nation.

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Harris County and the Houston metropolitan area comprise a leading region of business development in the nation. Houston continues to be a leader in aerospace, industrial engineering, and medical research; diversification is fueling the local economy. The county's major hospitals, many of these concentrated just south of downtown Houston around the Texas Medical Center, offer world-class facilities for general and specialized medical needs. Houston is the fourth largest city in the nation, and even though it suffered job losses during the Recession between September 2008 and January 2010 and the effects of Hurricane Harvey in August 2017, it has seen consistent job growth. In terms of economic impact, Harvey lingered over Houston for 4 days and ranks as the second most costly Hurricane in U.S. history. The Greater Houston Partnership estimates 97,000 homes suffered significant damage, another 64,000 sustained minor damage, and approximately 16,000 apartment units were destroyed, about 7% of Houston's housing inventory. Over 15.5 million square feet of office space was affected or 7.2% of Houston's market inventory. Media reports about 300,000 vehicles were damaged by Harvey. The aftermath of Harvey on the short term affected restaurants and most commerce while the City dried out. Job losses occurred in retail, wholesale and restaurants. In the midterm, as residents began repairs and construction, it reactivated the economy in hotels, hardware stores and construction, restaurants and employment service sectors and replaced some of the jobs lost after the storm. There was a jump in sales of furniture, appliances and clothing. There was an impact in home sales, apartments for rent and hotels and the port also saw an increase in transportation after Harvey. Car sales is the only area where the loss of 300,000 vehicles was only replaced by 163,531 cars sold by dealers in the Houston area after Harvey. Many purchases outside Houston and probably used cars purchased instead of new cars. In general, Houston has recovered from the Harvey effect and the economy is back in growth mode. All major economic indices are projected to remain strong. These positive economic indicators, however, are offset by growing numbers of property appraisal protests in Harris County, Texas, and bankruptcies by major local corporations and the uncertainty of the resulting impact upon the Department's tax base.

There are 25 public school districts entirely or partially within Harris County, as well as numerous charter, private, and parochial schools. The county is also home to many colleges, universities, institutes, and technical schools.

Long-Term Financial Planning

There are several division plans that make up the Department's overall financial plan. The Department maintains a five-year technology plan and has a long-range facilities plan. Resources for the accomplishment of these goals will be identified in the Department's annual budget. Estimated taxable values are a major factor in forecasting, as the Department currently generates 42 percent in general fund revenues from customer fees and changes and 45 percent from local property taxes. Other major factors in the development of a long-range financial plan include payroll costs, the cost of inflationary items such as insurance, utilities, and fuel. Financial factors are analyzed and updated annually during the process of budget development.

Capital Projects Funding

Harris County Department of Education Public Facility Corporation (PFC) issues bonds to provide for the acquisition of and the construction and renovation of educational facilities in accordance with the Public Facility Corporation Act. In January 2006, the PFC issued lease revenue bonds that funded construction of the new Highpoint school and the acquisition, renovation, and equipping of the records management warehouse/administrative North Post Oak facility.

The Department issued maintenance tax notes in May 2009 and qualified zone academy bonds (QZAB) in July 2009 to fund energy and instructional-related building repairs and renovations, along with accompanying equipment and furniture. On August 30, 2016, the department issued \$7,000,000 of PFC Revenue Bonds towards the construction of a new AB West Campus. The closure of the bonds was completed in November 2017. In FY 2018, the Department had several smaller construction projects that totaled \$405,614. This includes building

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and Other Interested Parties

renovations and improvements at the Academic Behavior School-East and Head Start – La Porte and other improvements at the North Post Oak building, Fontis Academy.

Major Initiatives

Major programs and construction projects for the coming fiscal year include the minor improvements for \$2,000,000, replacement of technology assets in the amount of \$1,625,000, and the completion of the Baytown Head Start Center for \$569,000.

The Department has also planned for the replacement of Academic & Behavior West School. The Capital Project Fund is estimated at \$12,500,000 to be implemented in FY18-19.

Awards and Acknowledgments

Harris County Department of Education embraces its fiscal responsibility and endeavors to be financially sound and publicly accountable.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Department for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2017. This is the sixteenth consecutive year that the Department has achieved this prestigious award. To be awarded a Certificate of Achievement, the Department had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

The Department received its fourteenth consecutive Certificate of Excellence in Financial Reporting from the Association of School Business Officials International (ASBO) for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2017. This award, the highest recognition for school system financial operations offered by ASBO, is only conferred to school systems that have met or exceeded the standards of the Certificate of Excellence in Financial Reporting Program.

In addition, Harris County Department of Education also received the GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting for its Popular Annual Financial Report for the fiscal year ended August 31, 2017, (PAFR), for the eleventh consecutive year. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports. To receive an Award for Outstanding Achievement in Popular Annual Financial Reporting a governmental unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understand-ability, and reader appeal.

HCDE also participates in the Texas Comptroller's Office Transparency Star Program. For fiscal year 2011, HCDE was the first entity to receive the perfect score in implementing the transparency criteria by the state. HCDE is a current transparency star recipient of this program. The Department has earned this award for the last seven years. Since 2017, the department also participated in the Texas Comptroller Star Transparency Program and earned 3 stars for traditional finances, obligations, and contracts and procurement.

Each of these awards is valid for a period of one year. We believe that our current CAFR and PAFR continues to meet both programs' requirements and we will submit it for determination of eligibility for certificates from both programs again this year.

Harris County Board of School Trustees,
Taxpayers of the Harris County,
and Other Interested Parties

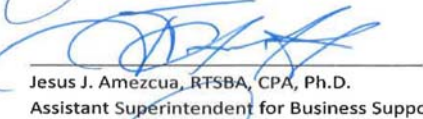
The preparation of this report in a timely manner was made possible by the efficient and dedicated services of the staff of the Business Support Services Division. We would like to express our appreciation to all Department employees for maintaining the highest standards of professionalism in the management of the Department's finances and for their assistance in the preparation of this report.

Special appreciation is expressed to the members of the Board of Trustees and Department administration for their interest and support in planning and conducting the financial operations of the Department in a progressive and responsible manner.

Respectfully submitted,



James Colbert, Jr.
County School Superintendent



Jesus J. Amezcua, RTSBA, CPA, Ph.D.
Assistant Superintendent for Business Support Services



Rosa Maria Torres, RTSBA
Chief Accounting Officer

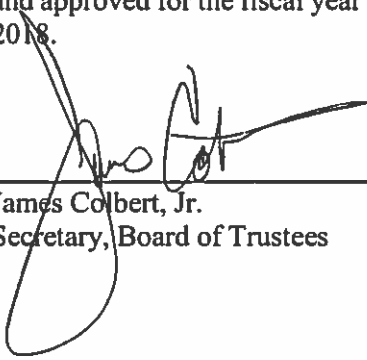
CERTIFICATE OF BOARD

Harris County Department of Education

Harris County

101-000

We, the undersigned, certify that the attached auditors' reports of the above-named government were reviewed and approved for the fiscal year August 31, 2017, at a meeting of the Board of Trustees on the 24th day of January 2018.



James Colbert, Jr.
Secretary, Board of Trustees



Josh Flynn
President, Board of Trustees

HARRIS COUNTY DEPARTMENT OF EDUCATION

CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Harris County Department of Education of Harris County, Texas for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended August 31, 2017.

To be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and the Department will submit it to the GFOA to determine its eligibility for another certificate.



Government Finance Officers Association

**Award for
Outstanding
Achievement in
Popular Annual
Financial Reporting**

Presented to

**Harris County
Department of Education
Texas**

For its Annual
Financial Report
for the Fiscal Year Ended

August 31, 2017

Christopher P. Morill

Executive Director/CEO

HARRIS COUNTY DEPARTMENT OF EDUCATION

CERTIFICATE OF EXCELLENCE IN FINANCIAL REPORTING AWARD

The Association of School Business Officials International (ASBO) awarded a Certificate of Excellence in Financial Reporting (Award) to Harris County Department of Education for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2017.

The Award, the highest recognition for school system financial operations offered by ASBO, is only conferred to school systems that have met or exceeded the standards of the Certificate of Excellence in Financial Reporting Program.

Since its inception in 1972 the program has gained the distinction of being a prestigious national award recognized by accounting professionals, underwriters, securities analysts, bond-rating agencies, state and federal agencies, and education, teacher and citizen groups.

ASBO International, founded in 1910, is a professional association which provides programs and services to promote the highest standards of school business management practices, professional growth, and the effective use of educational resources.

By preparing and presenting a CAFR, the Department validates the credibility of its system's operations, measures the integrity and technical competence of the business staff, and provides professional recognition.



ASSOCIATION OF
SCHOOL BUSINESS OFFICIALS
INTERNATIONAL

The Certificate of Excellence in Financial Reporting
is presented to

Harris County Department of Education

for its Comprehensive Annual Financial Report (CAFR)
for the Fiscal Year Ended August 31, 2017.

The CAFR has been reviewed and met or exceeded
ASBO International's Certificate of Excellence standards.



A handwritten signature in black ink that reads 'Charles E. Peterson, Jr.' The signature is written in a cursive style.

Charles E. Peterson, Jr., SFO, RSBA, MBA
President

A handwritten signature in black ink that reads 'John D. Musso'. The signature is written in a cursive style.

John D. Musso, CAE
Executive Director

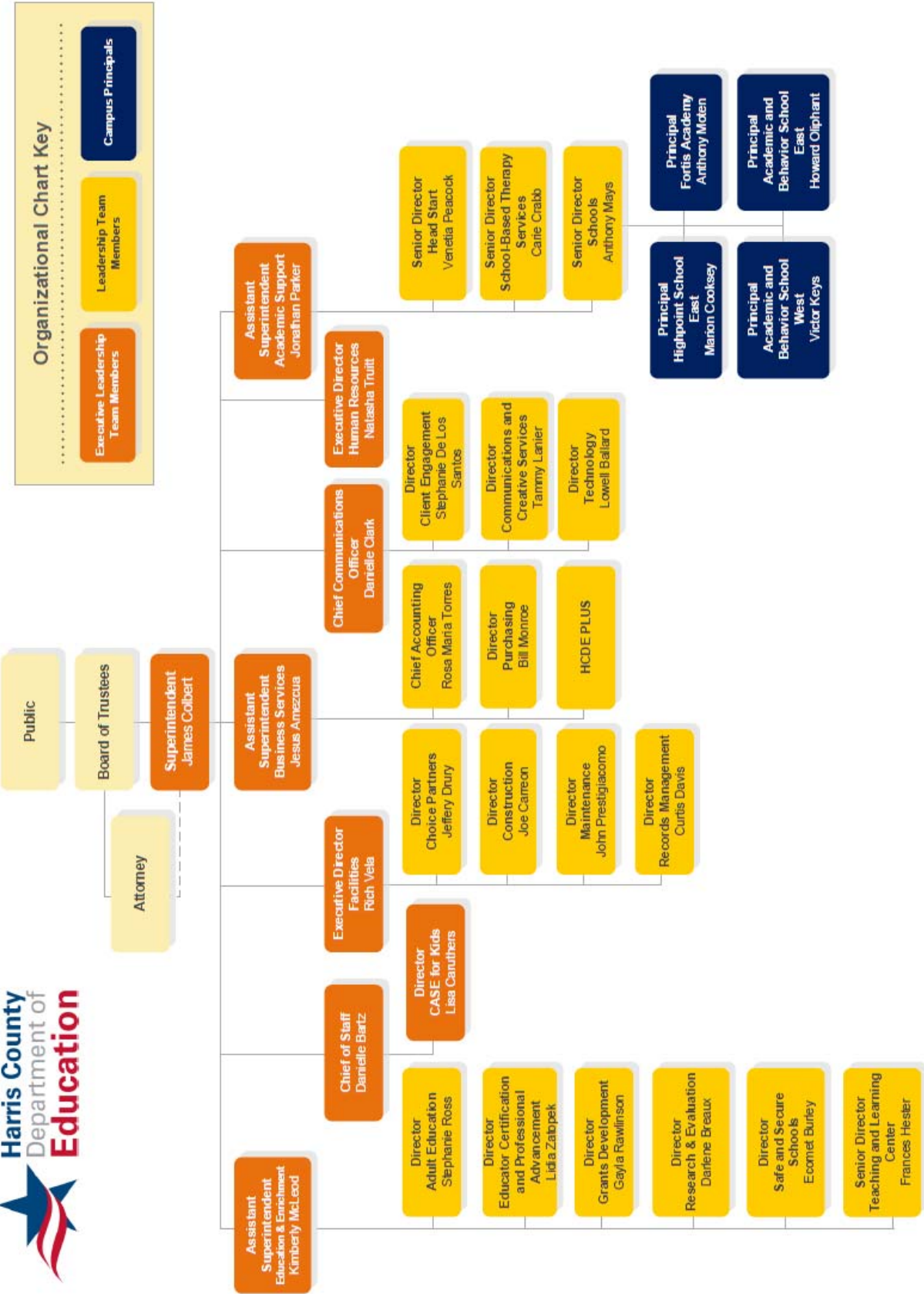
**HARRIS COUNTY DEPARTMENT OF EDUCATION
PRINCIPAL OFFICIALS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018**

County Board of School Trustees

NAME	TITLE	LENGTH OF SERVICE	TERM EXPIRES
Louis D. Evans, III	President	2015	12/31/2018
Eric Dick	Vice President	2017	12/31/2022
James Colbert, Jr.	Secretary	2014	Appointed
Erica S. Lee Carter	Member	2013	12/31/2018
Dr. George Moore	Member	2017	12/31/2022
Don Sumners	Member	2015	12/31/2020
Dr. Diane Trautman	Member	2013	12/31/2018
Michael Wolfe	Member	2015	12/31/2020

Executive Leadership Team

NAME	POSITION
James Colbert, Jr.	County School Superintendent
Jesus Amezcua, RTSBA, CPA, Ph.D.	Assistant Superintendent - Business Services
Richard Vela	Executive Director – Facilities Support Services
Kimberly McLeod, Ed.D.	Assistant Superintendent - Education and Enrichment
Jonathan Parker	Assistant Superintendent - Academic Support Services
Danielle Clark	Chief Communications Officer
Natasha Truitt, MBA	Executive Director - Human Resources
Lisa Caruthers	Director – Case for Kids
Danielle Bartz	Chief of Staff





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FINANCIAL SECTION

Back of Financial Section Divider

INDEPENDENT AUDITOR'S REPORT

To The Board of Trustees
Harris County Department of Education
6300 Irvington Blvd.
Houston, Texas 77022

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Harris County Department of Education (the "Department"), as of and for the year ended August 31, 2018, and the related notes to the financial statements, which collectively comprise the Department'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 fraud or error.

Auditor's Responsibility

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

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

To The Board of Trustees
Harris County Department of Education

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, business-type activities, each major fund and the aggregate remaining fund information of the Department as of August 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Notes 1 E 12; Note 13 and Note 17 to the financial statements, the District adopted the provisions of Government Accounting Standards Board (“GASB”) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions, as of August 31, 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management’s discussion and analysis on pages 19 through 27, analysis, budgetary comparison information on pages 83 through 84, pension information on pages 85 through 87 and the other-post employment benefit information on pages 88 through 90 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 the 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 Department’s basic financial statements. The accompanying supplementary information, such as the combining and individual fund statements and schedules, other supplementary information and other information, such as the introductory and statistical sections, are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

To The Board of Trustees
Harris County Department of Education

opinion, the combining and individual fund statements and schedules and other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2019, on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 Department's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
January 10, 2019

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

As management of Harris County Department of Education (Department), we offer readers of the Department's financial statements this narrative overview and analysis of the financial activities of the Department for the fiscal year ended August 31, 2018. It should be read in conjunction with our letter of transmittal at the front of this report and the basic financial statements which follow this section.

Financial Highlights

- The assets and deferred outflow of resources of the Department exceeded the liabilities and deferred inflows of resources at the close of the fiscal year by \$23,490,333.
- The Department's net position decreased by \$35,127,377. The primary cause of this decrease is due to the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* and reflecting the Department's proportionate share of the post-employment benefit liability in the financials. This change does not affect the financial stability of the Department nor does it change how the Department conducts financial decision making. Rather, the Department is reflecting its portion of the liability that the State of Texas manages and operates.
- As of August 31, 2018, the Department's governmental funds reported combined ending fund balances of \$40,631,552, an increase of \$1,635,059. The increase in governmental fund balances was primarily due to an increase of \$1,289,678 in the General fund and \$345,381 in the Capital Projects fund. This increase was due to the transfer in from the General Fund of \$1.5 million. Divisions were also conservative in their expenditures in FY 2018.
- At the end of the fiscal year, the unassigned fund balance in the General Fund was \$17,769,755 or 67 percent of the General Fund's total expenditures for this fiscal year.
- The Department's total bonded debt decreased by \$2,836,126 (15 percent) during the fiscal year due to principal payments.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Harris County Department of Education's basic financial statements. The Department's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

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

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

The *Statement of Activities* presents information showing how the Department's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

The government-wide financial statements distinguish programs of the Department that are principally supported by taxes and intergovernmental revenues (governmental activities) from other programs that are intended to recover all or a portion of their costs through user fees and charges (business-type activities). The Department reports no business-type activities in its government-wide statements. The governmental activities of the Department include Adult Education Program, Center of After School, Summer and Expanded Learning, Digital Learning and Instructional Learning Program, Head Start Program/Early Head Start, Special Education Program, Special Schools Program, Teaching & Learning Center, School Based Therapy Services, the Texas Virtual Schools Network Program and other miscellaneous projects.

The government-wide financial statements include not only Harris County Department of Education itself, but also a legally separate blended component unit, the Harris County Department of Education Public Facility Corporation (PFC Capital Projects Fund), for which it is financially accountable. The government-wide financial statements are referenced as Exhibits A-1 and A-2.

Fund Financial Statements- A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Department uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the Department's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds- Governmental funds are used to account for essentially the same programs reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Department's near-term financing decisions. Both the governmental fund balance sheet and the government fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Harris County Department of Education maintains 25 individual governmental funds. Information is presented separately in the governmental fund financial statements for the general fund, Head Start program, the federal After-School Partnership, the federal Early Head Start Operations and PFC Capital Project Funds, all of which are considered major funds. Data from the other 20 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The Department adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund financial statements are referenced as Exhibits B-1 through B-4.

Proprietary Funds- The Department maintains an enterprise fund and two internal service funds, which are both types of proprietary funds. The enterprise fund is a major business-type fund used to account for activities for which a fee is charged to external users of goods and services, it is used to account for Choice Partners Cooperative. Internal Service funds account for operations that are financed and are similar to the private sector. The Department uses internal service funds to report workers' compensation and facility support services for the Department's other programs and activities. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The basic proprietary fund financial statements are referenced as Exhibits B-5 through B-7.

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

Fiduciary Funds- The fiduciary fund is used to account for resources held for the benefit of students. The fiduciary fund is not reflected in the government-wide financial statements because the resources of those funds are not available to support the Department's own programs. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations. The basic fiduciary fund financial statement is referenced as Exhibit B-8 in this report.

Notes to financial statements- The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements immediately following the *basic financial statements* in this report.

Required Supplementary Information- In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds that is legally required to adopt an annual budget. The Department did not have any major special revenue funds that were legally required to adopt an annual budget; therefore, only the general fund is presented as required supplementary information. All special revenue funds adopt a project length budget. As required by GASB 75, the Department implemented new standards regarding Other Post-Employment Benefits (OPEB). The required supplementary information is referenced as Exhibit C-1, C-2, C-3, C-4 and the associated notes immediately follow the exhibit in this report.

Other Information- The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information and are referenced as Exhibits D-1 through E-2 in this report.

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

Government-Wide Financial Analysis

With the implementation of GASB 75, the net position may not serve as the best indicator of the Department's financial position. A better indicator of the financial position is the Department's Governmental Fund Balance Sheet and fund balances in the General and Capital Projects Funds.

The Department's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$23,490,333 at August 31, 2018.

Harris County Department of Education's Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 47,634,797	\$ 46,398,604	\$ 516,763	\$ 49,707	\$ 48,151,560	\$ 46,448,311
Capital assets	48,589,579	48,535,655	-	-	48,589,579	48,535,655
Total Assets	<u>96,224,376</u>	<u>94,934,259</u>	<u>516,763</u>	<u>49,707</u>	<u>96,741,139</u>	<u>94,983,966</u>
Deferred loss on refunding	121,255	145,252	-	-	121,255	145,252
Deferred outflows - pension/OPEB	2,013,211	2,838,711	-	197,328	2,013,211	3,036,039
Total Deferred Outflows of Resources	<u>2,134,466</u>	<u>2,983,963</u>	<u>-</u>	<u>197,328</u>	<u>2,134,466</u>	<u>3,181,291</u>
Current liabilities	4,547,974	4,871,467	16,763	25,012	4,564,737	4,896,479
Long term liabilities	57,187,527	32,168,366	-	175,886	57,187,527	32,344,252
Total Liabilities	<u>61,735,501</u>	<u>37,039,833</u>	<u>16,763</u>	<u>200,898</u>	<u>61,752,264</u>	<u>37,240,731</u>
Deferred inflows - pension/OPEB	13,633,008	2,260,682	-	46,137	13,633,008	2,306,819
Total Deferred Inflows of Resources	<u>13,633,008</u>	<u>2,260,682</u>	<u>-</u>	<u>46,137</u>	<u>13,633,008</u>	<u>2,306,819</u>
Net Position:						
Net investment in capital assets	43,712,723	32,428,990	-	-	43,712,723	32,428,990
Unrestricted	(20,722,390)	26,188,720	500,000	-	(20,222,390)	26,188,720
Total Net Position	<u>\$ 22,990,333</u>	<u>\$ 58,617,710</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 23,490,333</u>	<u>\$ 58,617,710</u>

The prior year governmental activities and total net position balances have been restated to reflect the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* (GASB 75). A large portion of the change in total net position (\$49.3 million) is the result of the net OPEB liability.

Net investment in capital assets of \$43,712,723 reflects the Department's investment in capital assets (e.g. land, buildings and improvements, furniture and equipment, and construction in progress), less any related debt used to acquire those assets. Although the Department'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. The remaining balance of net position is a deficit amount of (\$20,222,390).

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

The net position of the Department increased by for the year ended August 31, 2018, after prior year's restatement. Detail of the change in the Department's net position follows:

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Program Revenues						
Charges for services	\$ 20,498,682	\$ 20,142,270	\$ 5,147,496	\$ 4,371,278	\$ 25,646,178	\$ 24,513,548
Operating grants	18,289,999	25,799,321	-	-	18,289,999	25,799,321
General Revenues						
Property taxes	22,494,557	21,723,798	-	-	22,494,557	21,723,798
Grants and contributions not restricted	2,439,712	2,514,614	-	-	2,439,712	2,514,614
Investment Earnings	554,708	170,480	-	-	554,708	170,480
Miscellaneous	4,988,233	5,356,853	-	-	4,988,233	5,356,853
Total Revenues	<u>69,265,891</u>	<u>75,707,336</u>	<u>5,147,496</u>	<u>4,371,278</u>	<u>74,413,387</u>	<u>80,078,614</u>
Expenses						
Adult Education Program	1,036,132	3,873,917	-	-	1,036,132	3,873,917
Assistant Superintendents	550,282	539,630	-	-	550,282	539,630
Board of Trustees	128,396	138,256	-	-	128,396	138,256
Business Support Services	1,763,138	1,720,319	-	-	1,763,138	1,720,319
Center for After School, Summer & Expanded Learning	5,934,605	7,289,977	-	-	5,934,605	7,289,977
Center for Safe & Secure Schools	86,464	655,108	-	-	86,464	655,108
Center for Texas Grant Development	568,024	555,688	-	-	568,024	555,688
Choice Partners Cooperatives	-	-	1,844,392	1,783,195	1,844,392	1,783,195
Client Engagement	491,644	374,313	-	-	491,644	374,313
Communications	774,921	858,041	-	-	774,921	858,041
Department Wide	6,111,173	7,089,535	-	-	6,111,173	7,089,535
Digital Learning	441,316	1,391,612	-	-	441,316	1,391,612
Education Certification & Professional Advancement	627,407	678,461	-	-	627,407	678,461
Education Foundation	-	9,559	-	-	-	9,559
Facility Support Services	937,572	1,112,896	-	-	937,572	1,112,896
Head Start Program	7,146,626	17,304,932	-	-	7,146,626	17,304,932
Human Resources	1,023,212	994,097	-	-	1,023,212	994,097
Interest and Fees-Long-Term Debt	330,095	602,708	-	-	330,095	602,708
Purchasing Support Services	494,421	494,804	-	-	494,421	494,804
Records Management Services	1,921,547	1,627,074	-	-	1,921,547	1,627,074
Research & Evaluation Institution	597,668	579,394	-	-	597,668	579,394
Retirement Leave Benefits	124,832	358,964	-	-	124,832	358,964
Scholastic Arts & Writing Program	99,932	101,618	-	-	99,932	101,618
School Based Therapy Services	10,328,779	9,790,720	-	-	10,328,779	9,790,720
Special Assistant to Superintendent	239,431	291,630	-	-	239,431	291,630
Special Schools & Services	11,535,687	11,091,019	-	-	11,535,687	11,091,019
Superintendent's Office	443,456	448,785	-	-	443,456	448,785
Technology Support Services	3,381,097	3,446,066	-	-	3,381,097	3,446,066
The Teaching & Learning Center	1,262,855	1,240,775	-	-	1,262,855	1,240,775
Total Expenses	<u>58,380,712</u>	<u>74,659,898</u>	<u>1,844,392</u>	<u>1,783,195</u>	<u>60,225,104</u>	<u>76,443,093</u>
Increase (decrease) in net position before special items and transfers	10,885,179	1,047,438	3,303,104	2,588,083	14,188,283	3,635,521
Transfers	2,803,104	2,588,083	(2,803,104)	(2,588,083)	-	-
Increase (decrease) in net position	13,688,283	3,635,521	500,000	-	14,188,283	3,635,521
Beginning Net Position	58,617,710	54,982,189	-	-	58,617,710	54,982,189
Prior period adjustment	(49,315,660)	-	-	-	(49,315,660)	-
Ending Net Position	<u>\$ 22,990,333</u>	<u>\$ 58,617,710</u>	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 23,490,333</u>	<u>\$ 58,617,710</u>

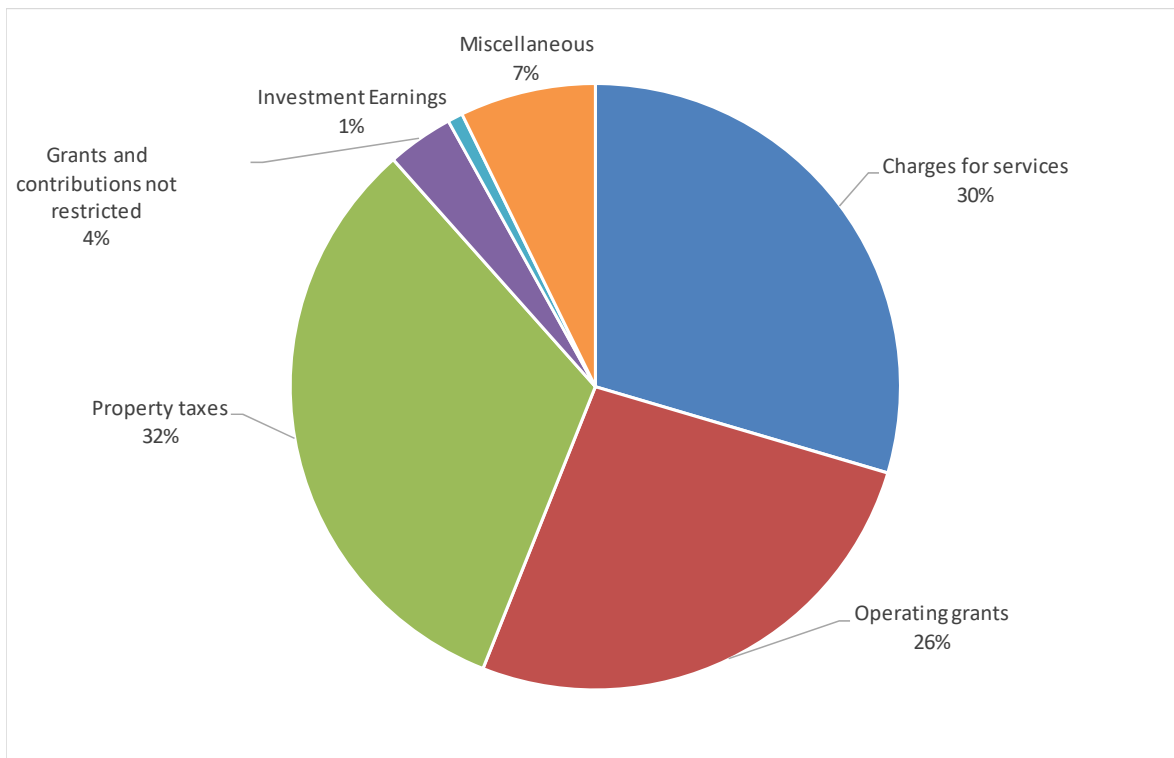
HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

The dramatic change in total expenses as well as operating grants and contribution revenues from year to year is reflective of a negative adjustment brought about by the implementation of the new OPEB standards promulgated by the Government Accounting Standards Board (GASB) and significant changes in benefits provided by the TRS retiree healthcare plan (TRS-Care). The reduction in plan benefits resulted in a sizable decrease in the Department's Net OPEB Liability and a resulting negative OPEB expense of \$9,428,321 in accordance with newly implemented accounting standards. Under these standards, the Department is also required to report what is essentially both negative on-behalf expenses and negative on-behalf revenues for the portion of the reduction in the OPEB liability that is the responsibility of the State, or an additional \$7,853,318.

Revenues for the Department's governmental activities decreased by \$6,441,445 for the year-ended August 31, 2018. The decrease is caused primarily by the reduction in operating grants and contributions revenues by \$8,193,305 due to the GASB No. 75 OPEB entries as discussed earlier. This decrease is partially offset by increased interest earnings, an increase in property taxes related to increased property values and an increase in charges for services.

Revenues for the governmental type activities are generated primarily from two sources. The first source is comprised of two groups Operating Grants and Contributions and (\$18,289,999) and Grants and Contributions Not Restricted to Specific Program (\$2,439,712) totaling \$20,729,711, represent 30 percent of total revenues and charges for services \$20,498,682 represent 30 percent of total revenues. The remaining 40 percent is generated from property taxes, investment earnings, head start non-federal share and miscellaneous revenues.

Revenues by Source – Governmental Activities
 Total \$69,265,891



Revenues for the business-type activities are generated solely by fees charged to external users of goods and services. Total business-type activities revenues for FY 2018 total \$5,147,496.

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

The primary program expense of the Department is the Special Schools and Services (\$11,535,687) which represents 20 percent of total expenses. The school based therapy (\$10,328,779) represents 18 percent, the head start program (\$7,146,626) represents 12 percent, the Center for After-School, Summer and Expanded Learning and the Department Wide (\$5,934,605 and \$6,111,173 respectively) each represent 10 percent. The remaining individual functional categories of expenses are each less than 5 percent of total expenses. Overall, expenses decreased. Head Start expenses accounted for the largest decrease. Digital Learning decreased as well due to a decrease in funding for the TXVSN program. Both the Department Wide and Adult Education programs also contributed to a decrease in expenses.

Financial Analysis of the Department's Funds

As noted earlier, Harris County Department of Education uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds- The focus of Harris County Department of Education's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Department's financing requirements. The *Unassigned Fund Balance* may serve as a useful measurement of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Department's governmental funds reported a combined fund balance of \$40,631,552, an increase of \$1,635,059 in comparison with the prior year. The net increase of the combined fund balances was comprised of a fund balance increase in the General Fund of \$1,289,678 and an increase of \$345,381 in the PFC Capital Projects Fund. Out of the combined fund balances, \$17,769,755 constitutes unassigned fund balance, which is available for spending at the Department's discretion. The remainder of the fund balance is distributed into the following categories: non-spendable fund balance of \$128,037, restricted fund balance of \$11,219,387, committed fund balance of \$2,014,976 and assigned fund balance of \$9,499,397. Please refer to Exhibit B-1.

The general fund is the main operating fund of Harris County Department of Education. At the end of the current fiscal year, unassigned fund balance of the general fund was \$17,769,755, while total fund balance was \$29,412,165. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 40 percent of total general fund expenditures, while total fund balance represents 67 percent of that same amount.

The fund balance in the general fund increased \$1,289,678 during the current fiscal year primarily due to an increase in local revenues and a decrease in the amount transferred out to the capital projects fund. Overall, the general fund's performance resulted in revenues over expenditures of \$4,256,953.

The fund balance for the following special revenue fund remained unchanged at zero:

- Head Start Program
- Federal After-School Partnership
- Early Head Start Operations

The fund balance for the PFC Capital Project Funds increased by \$345,381 due to the Transfer In from General Fund.

Proprietary Fund- the Department's proprietary fund financial statement reflects the Department's enterprise fund and internal service funds for internal services and workers' compensation. The increase in net position is primarily due to a decrease in claims associated with the workers' compensation fund. The business-type activities net change in position is eliminated in a transfer of excess revenues to the general fund. The net change in position of the fund is eliminated and allocated to the governmental expenses in the government-wide financial statements.

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

General Fund Budgetary Highlights

During the year, Harris County Department of Education's administration recommended and the HCDE Board of Trustees approved several revisions (amendments) to budgeted revenues and appropriations. Revisions to budgeted revenues are necessary due to changes in estimates for local and state revenues based on updated information concerning the level of services rendered and the receipt of approved grant awards. Revisions to appropriations are necessary due to staffing adjustments, changes in spending needs over the course of the year, receipt of approved grant awards, or other unexpected occurrences.

During the fiscal year the Department amended the revenue budget by (\$324,102). \$245,000 of this amount was due to an increase in service agreement fees for the Center for Safe and Secure School, AB School East, and Records Management divisions. (\$558,000) of this amount was due to a decrease in anticipated contract revenue due to inclement weather in the 2017-2018 school year for the Therapy Services Division.

At year end, local fees for services from various divisions were below the revenue budget by \$416,496 due to less services needed from the school districts. The state revenues exceeded the budget by \$162,279 mainly due receiving more than anticipated on behalf of the TRS Active Care funding. The federal revenues earned exceeded the anticipated budget by \$180,554 due to additional indirect cost from grants.

Over the course of the year the Department revised its budget at each regularly-scheduled HCDE Board of Trustees meeting. There was a \$1,110,311 net increase in appropriations between the original and the final amended budget including other financing uses. The Department's major budget amendments during the year are summarized as follows:

- Continuation of Fortis Academy project \$750,000
- Building Purchase and Improvements for projected Hurricane Harvey damage related expenses \$500,000
- Decrease in projected expenditures in Therapy Services division due to inclement weather (\$558,000)
- Increased services for ABS East in the amount of \$90,000
- Increased in Board of Trustees FTE in the amount of \$84,000
- Increased in additional services by Records Management in the amount of \$80,000

There was a \$5,463,538 difference between the final amended budget and actual expenditures. The significant differences are summarized as follows:

- \$1,904,006 in Facilities Local Construction due to delayed building purchase, construction and improvement projects
- \$1,087,736 in Special Schools for conservative salary expenditures and lower facility support charges
- \$508,036 in Technology Support Services for conservative spending
- \$445,277 in Therapy Services for reduction of services due to hurricane Harvey
- \$318,377 in the Teaching and Learning Center for conservative spending
- \$187,985 in Business Services due to lower professional services needed by the school districts
- \$177,307 in Department Wide due to lower facility support charges
- \$166,698 in Records Management Services for lower facility support charges
- \$120,900 in Board of Trustees for unspent wages for support staff expenditures

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

Capital Assets and Long-Term Liabilities

Capital Assets- At the end of fiscal year 2018, Harris County Department of Education had \$48,589,578 (net of accumulated depreciation of \$28,436,971) invested in capital assets including land, buildings and improvements, furniture and equipment, and construction in progress. The net increase in capital assets in the current year was minimal (less than a 1% increase).

**Harris County Department of Education's
Capital Assets
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 2,539,276	\$ 2,539,276	\$ -	\$ -	\$ 2,539,276	\$ 2,539,276
Buildings and Improvements	42,445,149	43,159,160	-	-	42,445,149	43,159,160
Furniture and Equipment	2,541,966	2,803,469	-	-	2,541,966	2,803,469
Construction in Progress	1,063,187	33,750	-	-	1,063,187	33,750
Total	\$ 48,589,578	\$ 48,535,655	\$ -	\$ -	\$ 48,589,578	\$ 48,535,655

Major capital asset events during the current fiscal year included the following:

- \$2.1 million increase to equipment, technology, vehicles and building improvements for Technology Support Services, Head Start Program, ABS West, Fortis Academy and Facilities Support Services
- Additional information on the Department's capital assets can be found in the notes to financial statements- Note 6 – Capital Assets.

Long-Term Liabilities- At fiscal year-end, the Harris County Department of Education's outstanding debt balance was \$16,217,498 consisting of \$13,705,000 of lease revenue bonds, \$2,257,142 of qualified zone academy bonds, \$235,000 of maintenance tax notes, and \$20,356 in issuance premiums. The bonds and notes are backed by specified program revenues and property taxes. The other long-term liabilities in the amount of \$5,082,960 include \$4,894,146 for compensated absences and \$188,814 for workers compensation.

**Harris County Department of Education's
Long-Term Liabilities**

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Bonds and Notes Payable, net	\$16,217,498	\$ 19,053,624	\$ -	\$ -	\$ 16,217,498	\$ 19,053,624
Other Long-Term Liabilities	5,082,960	4,496,344	-	-	5,082,960	4,496,344
Net Pension Liability (Department Share)	7,762,844	8,618,395	-	175,886	7,762,844	8,794,281
Net OPEB Liability (Department Share)	28,124,225	-	-	-	28,124,225	-
Total	\$ 57,187,527	\$ 32,168,363	\$ -	\$ 175,886	\$ 57,187,527	\$ 32,344,249

During the year ended August 31, 2018, the Department's total long-term liabilities had a net increase of \$24,822,922 (77 percent) due to the implementation of GASB 75 and the OPEB liability.

The Department continues to enjoy excellent underlying bond ratings. The underlying ratings on the Harris County Department of Education Public Facility Corporation's, a blended component unit of the Department, bonds are rated Aaa by Moody's and AAA from Standard and Poor's. The underlying rating on the Department's notes is Aa2 by Moody's. Additional information on the Department's long-term debt can be found in the notes to financial statements, Note 7 – Long-Term Liabilities.

HARRIS COUNTY DEPARTMENT OF EDUCATION
MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited) – (continued)

Economic Factors and Next Year's Budgets and Rates

Economic factors can have a significant impact on Harris County Department of Education's finances. Growth in services to our customers, primarily school districts, will depend on their finances.

- Property tax revenues represent 22.6 percent of fiscal year 2018-19 total estimated revenue. The unemployment rate for Harris County was 3.7 percent in 2018 while the national rate averaged 3.8 percent.
- Inflation and other factors have resulted in increases for health insurance, property insurance, electricity, and travel reimbursement costs.
- The Department remains successful at applying for and administering federal, state and local grants.

The Department's elected officials considered these and many other many factors when setting the fiscal year 2019 general fund budget and tax rate. The adopted budget is based on the following significant assumptions:

- Estimated revenues from current tax revenues are \$23,310,040, an increase of 4.6 percent from the final fiscal year 2018 budget of \$22,273,000, based on an increase commercial property appraisal values, as estimated by the Harris County Appraisal District.
- Fiscal year 2019 expenditures are budgeted at \$56,868,191, an approximate increase of 4.1 percent from the final fiscal year 2018 budget of \$54,626,631.
- The FY19 budget adopted was a balanced budget with use of assigned fund balance. The final fiscal year 2018 general fund budget projected an increase of \$1,264,976 of total fund balance; \$135,768 increase in assigned fund balance, an increase of \$439,976 of committed fund balance, a decrease of \$35,518 of non-spendable fund balance and \$724,750 decrease in unassigned fund balance. During the current fiscal year, unassigned fund balance in the general was \$17,769,755. The effective tax rate of \$0.005190 per \$100 appraised/taxable property was adopted for fiscal year 2018-2019.

The Department maintains a policy that benchmarks an unassigned fund balance of 12-15 percent of the general fund operating expenditure budget. The unassigned fund balance is currently at 15 percent of total budgeted appropriations including other uses for fiscal year 2019. The projected year fiscal year 2019 total fund balance of the general fund is \$29,387,463.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, the business community, customers, and creditors with a general overview of Harris County Department of Education's finances and to demonstrate the Department's accountability for the money under its fiduciary care. Questions about this report or requests for additional information should be directed to the Business Office, Harris County Department of Education, at 6300 Irvington Blvd., Houston, Texas, 77022, by phone at (713) 694-8249 or by email to jamezcua@hcde-texas.org.



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BASIC FINANCIAL STATEMENTS

Back of Basic Financial Statements Divider

HARRIS COUNTY DEPARTMENT OF EDUCATION

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 3,471,459	\$ -	\$ 3,471,459
Investments	36,420,321	-	36,420,321
Property taxes receivable (net)	826,699	-	826,699
Due from other governments	4,875,051	-	4,875,051
Internal balances	347,055	(347,055)	-
Other receivables Inventories	1,215,382	863,818	2,079,200
Prepaid items	93,431	-	93,431
Capital Assets:	385,399	-	385,399
Land	2,539,276	-	2,539,276
Construction in Progress	1,063,187	-	1,063,187
Buildings and improvements	60,280,172	-	60,280,172
Furniture and equipment	13,143,915	-	13,143,915
Accumulated depreciation	(28,436,971)	-	(28,436,971)
Total Assets	<u>96,224,376</u>	<u>516,763</u>	<u>96,741,139</u>
Deferred Outflows of Resources			
Deferred outflows on bond refunding	121,255	-	121,255
Deferred Outflow related to OPEB	449,568	-	449,568
Deferred Outflow related to pension	1,563,643	-	1,563,643
Total Deferred outflows of resources	<u>2,134,466</u>	<u>-</u>	<u>2,134,466</u>
Liabilities			
Accounts payable	3,004,921	15,563	3,020,484
Payroll deductions payable	856,662	-	856,662
Accrued wages payable	255,173	-	255,173
Accrued interest payable	12,649	-	12,649
Due to Other Governments	11,416	-	11,416
Unearned revenues	407,153	1,200	408,353
Long-term Liabilities			
Due within one year	3,807,706	-	3,807,706
Due in more than one year	17,492,752	-	17,492,752
Net OPEB Liability (Department's Share)	28,124,225	-	28,124,225
Net Pension Liability (Department's Share)	7,762,844	-	7,762,844
Total Liabilities	<u>61,735,501</u>	<u>16,763</u>	<u>61,752,264</u>
Deferred Inflows of Resources			
Deferred Inflow related to OPEB	11,764,417	-	11,764,417
Deferred Inflow related to pension	1,868,591	-	1,868,591
Total Deferred inflows of resources	<u>13,633,008</u>	<u>-</u>	<u>13,633,008</u>
Net Position			
Net investment in capital assets	43,712,723	-	43,712,723
Unrestricted	(20,722,390)	500,000	(20,222,390)
Total Net Position	<u>\$ 22,990,333</u>	<u>\$ 500,000</u>	<u>\$ 23,490,333</u>

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



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HARRIS COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2018

Exhibit A-2

	Net (Expense) Revenues and Changes in Net Position					
	Expenses	Program Revenues		Primary Government		
		Charges for Services	Operating Grants & Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
Adult Education Program	\$ 1,036,132	\$ -	\$ 3,384,484	\$ 2,348,352	\$ -	\$ 2,348,352
Assistant Superintendents	550,282	-	-	(550,282)	-	(550,282)
Board of Trustees	128,396	-	-	(128,396)	-	(128,396)
Business Support Services	1,763,138	4,590	9,639	(1,748,909)	-	(1,748,909)
Expanded Learning	5,934,605	89,994	4,741,637	(1,102,974)	-	(1,102,974)
Center for Safe & Secure Schools	86,464	187,729	(125,312)	(24,047)	-	(24,047)
Center for Texas Grant Development	568,024	865	1,331	(565,828)	-	(565,828)
Client Engagement	491,644	-	4,230	(487,414)	-	(487,414)
Communications	774,921	-	-	(774,921)	-	(774,921)
Department Wide	6,111,173	28,480	-	(6,082,693)	-	(6,082,693)
Digital Learning	441,316	25,755	201,885	(213,676)	-	(213,676)
Professional Advancement	627,407	228,979	-	(398,428)	-	(398,428)
Facility Support Services	937,572	-	(194,797)	(1,132,369)	-	(1,132,369)
Head Start Program	7,146,626	250	10,375,459	3,229,083	-	3,229,083
Human Resources	1,023,212	-	-	(1,023,212)	-	(1,023,212)
Interest and Fees-Long-Term Debt	330,095	-	-	(330,095)	-	(330,095)
Purchasing Support Services	494,421	-	-	(494,421)	-	(494,421)
Records Management Services	1,921,547	1,894,771	-	(26,776)	-	(26,776)
Research & Evaluation Institution	597,668	79,249	-	(518,419)	-	(518,419)
Retirement Leave Benefits	124,832	-	-	(124,832)	-	(124,832)
Scholastic Arts & Writing Program	99,932	-	-	(99,932)	-	(99,932)
School Based Therapy Services	10,328,779	8,888,790	(62,460)	(1,502,449)	-	(1,502,449)
Special Assistant to Superintendent	239,431	-	6,545	(232,886)	-	(232,886)
Special Schools & Services	11,535,687	8,327,481	(55,458)	(3,263,664)	-	(3,263,664)
Superintendent's Office	443,456	-	-	(443,456)	-	(443,456)
Technology Support Services	3,381,097	9,850	2,816	(3,368,431)	-	(3,368,431)
The Teaching & Learning Center	1,262,855	731,899	-	(530,956)	-	(530,956)
Total Governmental Activities	58,380,712	20,498,682	18,289,999	(19,592,031)	-	(19,592,031)
Business-Type Activities:						
Choice Partners Cooperative	1,844,392	5,147,496	-	-	3,303,104	3,303,104
Total Business-Type Activities	1,844,392	5,147,496	-	-	3,303,104	3,303,104
Total Primary Government	\$ 60,225,104	\$ 25,646,178	\$ 18,289,999	(19,592,031)	3,303,104	(16,288,927)
General Revenues:						
Property Taxes, Levied for General Purposes				22,494,557	-	22,494,557
Grants and Contributions Not Restricted to Specific Program				2,439,712	-	2,439,712
Investment Earnings				554,708	-	554,708
Miscellaneous				4,988,233	-	4,988,233
Transfers				2,803,104	(2,803,104)	-
Total General Revenues				33,280,314	(2,803,104)	30,477,210
Change in Net Position				13,688,283	500,000	14,188,283
Net Position-Beginning				58,617,710	-	58,617,710
Prior Period Adjustment				(49,315,660)	-	(49,315,660)
Net Position-Ending				\$ 22,990,333	\$ 500,000	\$ 23,490,333

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

HARRIS COUNTY DEPARTMENT OF EDUCATION

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2018

	<u>General Fund</u>	<u>Head Start Program</u>	<u>Early Head Start Operations</u>	<u>Federal After- School Partnership</u>
Assets				
Cash and cash equivalents	\$ 784,830	\$ -	\$ -	\$ -
Investments	25,772,593	-	-	-
Property taxes receivable	843,570	-	-	-
Allowance for uncollectible taxes	(16,871)	-	-	-
Due from other governments	290,863	1,056,713	905,763	832,318
Due from other funds	3,365,837	-	-	-
Other receivables	1,609,200	1,182	5,000	-
Allowance for uncollectible receivables	(400,000)	-	-	-
Inventories	93,431	-	-	-
Prepaid Items	34,606	62,805	-	-
Total Assets	\$ 32,378,059	\$ 1,120,700	\$ 910,763	\$ 832,318
Liabilities, Deferred Inflows of Resources and Fund Balance				
Liabilities:				
Accounts payable	1,222,333	112,606	72,938	214,587
Payroll Deductions Payable	856,662	-	-	-
Accrued wages payable	27,214	99,687	12,409	-
Due to other funds	-	908,407	825,416	332,962
Due to other governments	11,416	-	-	-
Unearned revenues-other	21,570	-	-	284,769
Total Liabilities	2,139,195	1,120,700	910,763	832,318
Deferred Inflows of Resources				
Unavailable revenue-property taxes	826,699	-	-	-
Total Deferred Inflows of Resources	826,699	-	-	-
Fund Balances:				
Nonspendable:				
Inventory	93,431	-	-	-
Prepaid Items	34,606	-	-	-
Restricted:				
PFC Construction Projects	-	-	-	-
Committed:				
Capital Projects	1,314,976	-	-	-
Retirement Employee Leave	500,000	-	-	-
Unemployment Liability	200,000	-	-	-
Assigned:				
Building & Vehicle Replacement Acquisition	1,000,000	-	-	-
Asset Replacement & Acquisition	1,000,000	-	-	-
Local Construction	2,500,000	-	-	-
QZAB Payment	691,129	-	-	-
PFC Lease Payment	2,458,268	-	-	-
Workforce Development	1,000,000	-	-	-
New Program Initiative	850,000	-	-	-
Unassigned	17,769,755	-	-	-
Total Fund Balances	29,412,165	-	-	-
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 32,378,059	\$ 1,120,700	\$ 910,763	\$ 832,318

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

Exhibit B-1

<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,067,916	\$ 124,896	\$ 1,977,642
10,647,728	-	36,420,321
-	-	843,570
-	-	(16,871)
-	1,789,394	4,875,051
-	-	3,365,837
-	-	1,615,382
-	-	(400,000)
-	-	93,431
-	-	97,411
<u>\$ 11,715,644</u>	<u>\$ 1,914,290</u>	<u>\$ 48,871,774</u>
496,257	756,129	\$ 2,874,850
-	-	856,662
-	105,350	244,660
-	951,997	3,018,782
-	-	11,416
-	100,814	407,153
<u>496,257</u>	<u>1,914,290</u>	<u>7,413,523</u>
-	-	826,699
-	-	826,699
-	-	93,431
-	-	34,606
11,219,387	-	11,219,387
-	-	1,314,976
-	-	500,000
-	-	200,000
-	-	1,000,000
-	-	1,000,000
-	-	2,500,000
-	-	691,129
-	-	2,458,268
-	-	1,000,000
-	-	850,000
-	-	17,769,755
<u>11,219,387</u>	<u>-</u>	<u>40,631,552</u>
<u>\$ 11,715,644</u>	<u>\$ 1,914,290</u>	<u>\$ 48,871,774</u>



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HARRIS COUNTY DEPARTMENT OF EDUCATION
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
August 31, 2018

Exhibit B-2

Total Fund Balances-Governmental Funds (Exhibit B-1) \$ 40,631,552

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. 48,589,579
 The governmental capital assets cost of \$77,026,550 exceeds the related accumulated depreciation of \$28,436,971.

Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds. 826,699

Deferred Outflows and Inflows of Resources related to the Pension Standards of \$1,563,643 and \$1,868,591 respectively (304,948)

Deferred Outflows and Inflows of Resources related to the OPEB Standards of \$449,568 and \$11,764,417 respectively (11,314,849)

Long-term liabilities, including bonds, notes payable, net pension, compensated absences, and the related accrued interest are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to the long-term liabilities and accrued interest consist of:

Bonds and Notes Payable	\$ (16,197,142)	
Accrued Interest on Bonds and Notes Payable	(12,649)	
Premium on Bonds	(20,356)	
Net Pension Liability	(7,762,844)	
Net OPEB Liability	(28,124,225)	
Compensated Absences	<u>(4,894,146)</u>	(57,011,362)

The deferred loss on refunding is not reported in the fund financial statement but is a deferred outflow of resources and increases the Department's net position 121,255

An internal service fund is used by the Department to charge the costs of workers' compensation benefits to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities 1,452,407

Total Net Position-Governmental Activities (Exhibit A-1) \$ 22,990,333

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

HARRIS COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-GOVERNMENTAL FUNDS
For the Year Ended August 31, 2018

	<u>General Fund</u>	<u>Head Start Program</u>	<u>Early Head Start Operations</u>	<u>Federal After- School Partnership</u>
Revenues				
Local and Intermediate Sources	\$ 43,633,488	\$ -	\$ -	\$ -
State Programs	3,290,314	-	-	-
Federal Programs	1,535,290	12,084,273	2,319,945	1,582,663
Total Revenues	<u>48,459,092</u>	<u>12,084,273</u>	<u>2,319,945</u>	<u>1,582,663</u>
Expenditures				
Current:				
Adult Education Program	131,750	-	-	-
Assistant Superintendents	550,282	-	-	-
Board of Trustees	128,396	-	-	-
Business Support Services	1,733,238	-	-	-
Center for After-School, Summer & Expanded Learning	672,106	-	-	2,133,450
Center for Safe & Secure Schools	458,510	-	-	-
Center for Texas Grants Development	558,169	-	-	-
Client Engagement	485,496	-	-	-
Communications	762,760	-	-	-
Department Wide	6,051,002	-	-	-
Digital Education & Innovation	204,222	-	-	-
Education Certification & Professional Advancement	616,559	-	-	-
Facility Support Services	1,332,808	-	-	-
Head Start Program	4,558	12,653,273	2,319,945	-
Human Resources	998,178	-	-	-
Purchasing Support Services	488,359	-	-	-
Records Management Services	1,826,139	-	-	-
Research & Evaluation Institute	590,450	-	-	-
Retirement Leave Benefits	124,832	-	-	-
Scholastic Arts & Writing Program	99,932	-	-	-
School Based Therapy Services	10,317,233	-	-	-
Special Assistant to Superintendent	239,431	-	-	-
Special Schools & Services	11,288,194	-	-	-
Superintendent's Office	443,456	-	-	-
Technology Support Services	2,860,974	-	-	-
The Teaching & Learning Center	1,235,105	-	-	-
Debt Service:				
Principal on Long-Term Debt	-	-	-	-
Interest on Long-Term Debt	-	-	-	-
Total Expenditures	<u>44,202,139</u>	<u>12,653,273</u>	<u>2,319,945</u>	<u>2,133,450</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,256,953</u>	<u>(569,000)</u>	<u>-</u>	<u>(550,787)</u>
Other Financing Sources (uses)				
Transfers In	2,803,104	569,000	-	550,787
Transfers Out	(5,770,379)	-	-	-
Total Other Financing Sources (Uses)	<u>(2,967,275)</u>	<u>569,000</u>	<u>-</u>	<u>550,787</u>
Net Change in Fund Balances	1,289,678	-	-	-
Fund Balances-Beginning	<u>28,122,487</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances-Ending	<u>\$ 29,412,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Exhibit B-3

Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 157,731	\$ 4,765,567	\$ 48,556,786
-	1,458,162	4,748,476
-	7,372,860	24,895,031
<u>157,731</u>	<u>13,596,589</u>	<u>78,200,293</u>
-	4,795,001	4,926,751
-	-	550,282
-	-	128,396
-	-	1,733,238
-	4,610,304	7,415,860
-	-	458,510
-	-	558,169
-	-	485,496
-	-	762,760
-	-	6,051,002
-	201,885	406,107
-	-	616,559
-	-	1,332,808
-	3,985,266	18,963,042
-	-	998,178
-	-	488,359
-	-	1,826,139
-	-	590,450
-	-	124,832
-	-	99,932
-	-	10,317,233
-	-	239,431
1,318,350	4,133	12,610,677
-	-	443,456
-	-	2,860,974
-	-	1,235,105
-	2,826,429	2,826,429
-	318,163	318,163
<u>1,318,350</u>	<u>16,741,181</u>	<u>79,368,338</u>
<u>(1,160,619)</u>	<u>(3,144,592)</u>	<u>(1,168,045)</u>
1,506,000	3,144,592	8,573,483
-	-	(5,770,379)
<u>1,506,000</u>	<u>3,144,592</u>	<u>2,803,104</u>
345,381	-	1,635,059
<u>10,874,006</u>	<u>-</u>	<u>38,996,493</u>
<u>\$ 11,219,387</u>	<u>\$ -</u>	<u>\$ 40,631,552</u>

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2018**

Exhibit B-4

Total Net Change in Fund Balances-Governmental Funds (Exhibit B-3):	\$ 1,635,059
Amounts reported for Governmental Activities in the Statement of Activities (A-2) are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. This is the amount by which capital outlays and adjustments of \$2,079,976 and \$50,239 respectively, exceeds depreciation expense of \$1,975,814 in the period	53,923
Pension contributions made during the current fiscal year are reported as expenditures in the governmental funds and are reported as deferred outflows and reductions in net pension liability is opposed to expenses in the statement of activity	797,670
OPEB contributions made during the current fiscal year are reported as expenditures in the governmental funds and are reported as deferred outflows and reductions in net OPEB liability is opposed to expenses in the statement of activity	448,265
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	2,826,429
Because some property taxes will not be collected for several months after the Department's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues decreased by this amount this year	(20,236)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The change in interest reported in the statement of activities consist of the following:	
Accrued Interest on Bonds and Notes Payable decreased	\$ 2,368
Amortization of Bond Premium	9,697
Amortization of deferred charge on refunding	(23,997)
	(11,932)
The net increase in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.	(665,288)
An internal service fund is used by the Department to charge the costs of workers' compensation benefits to the individual funds. The net revenue (expense) of the internal service fund was reported in the government-wide statements.	21,168
Pension expense for the plan measurement year	(825,096)
OPEB negative expense for the current year	<u>9,428,321</u>
Change in Net Position of Governmental Activities (Exhibit A-2):	<u>\$13,688,283</u>

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

HARRIS COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
August 31, 2018

Exhibit B-5

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Choice Partners</u>	<u>Internal Service Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 1,493,817
Due from Vendors	863,818	-
Prepaid Items	-	287,988
Total Assets	<u>863,818</u>	<u>1,781,805</u>
Liabilities		
Accounts payable	15,563	130,071
Accrued wages payable	-	10,513
Claims Payable - due within one year	-	188,814
Due to other funds	347,055	-
Unearned Revenues	1,200	-
Total Liabilities	<u>363,818</u>	<u>329,398</u>
Net Position		
Unrestricted	<u>500,000</u>	<u>1,452,407</u>
Total Net Position	<u>\$ 500,000</u>	<u>\$ 1,452,407</u>

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

HARRIS COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND NET POSITION-PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

Exhibit B-6

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Choice Partners</u>	<u>Internal Service Funds</u>
Operating Revenues		
Charges for Services	<u>\$ 5,147,496</u>	<u>\$ 5,183,265</u>
Total Operating Revenues	<u>5,147,496</u>	<u>5,183,265</u>
Operating Expenses		
Payroll Costs	1,205,699	2,437,533
Professional Services	344,063	1,551,261
Supplies and Materials	61,506	427,287
Miscellaneous Operating Expenses	<u>233,124</u>	<u>746,016</u>
Total Operating Expenses	<u>1,844,392</u>	<u>5,162,097</u>
Operating Income	3,303,104	21,168
Transfer Out	<u>(2,803,104)</u>	<u>-</u>
Change in net position	500,000	21,168
Total Net Position-Beginning	<u>-</u>	<u>1,431,239</u>
Total Net Position-Ending	<u>\$ 500,000</u>	<u>\$ 1,452,407</u>

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

HARRIS COUNTY DEPARTMENT OF EDUCATION
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

Exhibit B-7

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Choice Partners</u>	<u>Internal Service Funds</u>
Cash Flows from Operating Activities		
Receipts from interfund services provided	\$ 4,679,990	\$ 5,183,265
Payments to employees	(1,230,394)	(2,438,033)
Payments to suppliers	(646,492)	(2,493,087)
Payments for workers' compensation claims	-	(374,486)
Net cash provided by (used by) operating activities	<u>2,803,104</u>	<u>(122,341)</u>
Cash Flows from NonCapital Financing Activities		
Advances (to) the General Fund	<u>(2,803,104)</u>	<u>-</u>
Net cash used by Noncapital Financing Activities	<u>(2,803,104)</u>	<u>-</u>
Net decrease in cash and cash equivalents	-	(122,341)
Cash and cash equivalents at beginning of year	<u>-</u>	<u>1,616,158</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ 1,493,817</u>
Reconciliation of Operating Income to Net Cash Provided by (Used for) Operating Activities:		
Operating income	3,303,104	21,168
Changes in Assets and Liabilities		
Decrease (increase) in prepaid items	1,250	(3,884)
Decrease (increase) in accounts receivable	184,269	-
Decrease (increase) in deferred outflow related to TRS	197,328	-
Increase (decrease) in accounts payable	(9,049)	(60,449)
Increase (decrease) in accrued wages payable	-	(500)
Increase (decrease) in interfund payables	(651,775)	-
Increase (decrease) in claims payable	-	(78,676)
Increase (decrease) in net pension liability	(175,886)	-
Increase (decrease) in deferred inflow related to TRS	(46,137)	-
Net cash provided by operating activities	<u>\$ 2,803,104</u>	<u>\$ (122,341)</u>

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

HARRIS COUNTY DEPARTMENT OF EDUCATION
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
August 31, 2018

Exhibit B-8

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	<u>\$ 41,271</u>
Total Assets	<u><u>\$ 41,271</u></u>
Liabilities	
Accounts payable	<u>\$ 41,271</u>
Total Liabilities	<u><u>\$ 41,271</u></u>

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

Note 1 - Summary of Significant Accounting Policies

The Harris County Department of Education (the Department) is a local government or special district incorporated in 1889 operating under applicable laws and regulations of the State of Texas. A seven-member Board of School Trustees, elected to staggered six-year terms, has governance responsibilities over all activities and operations of the Department. The Department prepares its financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified by the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide*. The Department receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

The following is a summary of the most significant accounting policies:

A. Reporting Entity

Harris County Department of Education is considered an independent entity for financial reporting purposes and is considered a primary government. The Department is not included in any other governmental "reporting entity" as defined by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus; an amendment of GASB Statements No. 14 and No. 34.*"

The Harris County Board of School Trustees (the Board) is elected by the public and it has the authority to make decisions, appoint the superintendent, ratify personnel changes, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the Department is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB).

The Department has implemented Government Accounting Standards Board Statement No. 39 and 61 (GASB 39 and 61), *Determining Whether Certain Organizations are Component Units*. This statement requires the Department to report certain legally separate organizations as component units even though the Department is not financially accountable for these organizations. The Statement requires that a legally separate tax-exempt organization be reported as a Component Unit if all of the following criteria are met:

- a. The economic resources of the separate organization entirely, or almost entirely, directly benefit the primary government, its component units, or its constituents.
- b. The primary government or its component units are entitled to, or can otherwise access, a majority of the economic resources of the separate organization.
- c. The economic resources of the individual separate organization that the primary government or the component unit is entitled to, or can otherwise access, are significant to that primary government.

The Harris County Department of Education Public Facility Corporation (PFC) meets the criteria set out by GASB 39 and has been included as a blended component unit in the financial statements of the Department. The PFC, a legally separate entity, is, in substance, part of the Department's operations and its purpose is to finance the Department's construction and building acquisition needs. The Department is financially accountable since the PFC is fiscally dependent. Therefore, the PFC is reported as a capital projects fund.

Note 1 - Summary of Significant Accounting Policies (continued)

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 Harris County Department of Education non-fiduciary activities with most of the interfund activity removed. Governmental activities include programs which are supported primarily by taxes and intergovernmental revenues. Business-type activities are reported separately and rely significantly on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Depreciation expense has been allocated to all applicable functions in order to present the expenditures of the Department more accurately on the Statement of Activities. *Program revenues* include 1) payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or division, and 2) grants and contributions that are restricted to meeting operational requirements of a given function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Interfund activities between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet, Proprietary Fund Statement of Net Position, and Fiduciary Fund Statement of Fiduciary Assets and Liabilities and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position. 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 Net Position. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the Department's department wide function and various other functions of the Department. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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 Department operations, they are not included in the government-wide statements. The Department considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating.

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 proprietary fund and 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. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

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 are reported in governmental funds only when they mature (i.e. unused reimbursable leave still outstanding following retirement.) A claim or judgment is only recognized as expenditure and a liability in a governmental fund as of the date that payment became due pursuant to the terms of a settlement agreement or court judgment. The Department considers state and federal revenues and interest revenues available if they are collected within 60 days after year end.

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

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Primarily, grant funds are collected on a reimbursement basis, since expenditures have already been made and reported. If grant funds are received in advance, they are recorded as unearned revenues until related and authorized expenditures have been made. If revenue balances remain at the end of the reporting period, grantors often require the Department to refund all or part of the unused amount.

The Proprietary Fund Types 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. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position. The agency funds record only assets and liabilities and use the accrual basis of accounting to recognize receivables and payables. When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources as they are needed. For Fiduciary Fund types, the Department has only Agency Funds and as such, these funds have no measurement focus, but utilize the accrual basis of accounting for reporting its assets and liabilities.

Note 1 - Summary of Significant Accounting Policies (continued)

D. Fund Accounting

Harris County Department of Education's accounts are organized on the basis of funds in accordance with the rules prescribed in the Texas Education Agency's *Financial Accountability System Resource Guide*. Each fund is considered a separate accounting entity. The operations of each fund are accounted for by providing separate set of self-balancing accounts, which comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses. For financial statement presentation, the Department's fund financial statements provide more detailed information about the Department's most significant funds (not the Department as a whole).

The Department reports the following major governmental funds:

General Fund is the Department's primary operating fund and is used to account for all financial transactions not properly includable in other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other funds are accounted for in this fund. Major revenue sources include charges for services, property tax revenues and local and federal source revenue not accounted for in Special Revenue Funds. Expenditures include all costs associated with the daily operations of the Department except for specific programs funded by the federal or state government, debt service, and capital projects.

Head Start Program Fund, a Special Revenue Fund, is used to account for funds granted for the Head Start Program by the United States Department of Health and Human Services.

Early Head Start Operations, a Special Revenue Fund, is used to account for funds granted for the Early Head Start Program operations by the United States Department of Health and Human Services.

Federal After-School Partnership Fund, is funding to provide professional development opportunities, supplemental funding for comprehensive programs and project-based providers that offer activities that support language literacy and numeracy development, collaborative reading initiatives and educational material and equipment for use in out of school time programs.

PFC Capital Projects Fund accounts for the expenditures of the proceeds of lease revenue bonds sold by the Harris County Department of Education Public Facility Corporation and the payment for constructing, renovating, equipping, and/or acquisition of facilities to support Department programs

The Department reports the following governmental fund types under non-major governmental funds:

Special Revenue Funds are used to account for local, state, and federal grants. Resources accounted for in these funds are awarded to the Department for the purpose of accomplishing specific educational tasks as defined by grantors in contracts or other agreements. Project accounting is employed to maintain integrity for the various sources of funds.

Resources accounted for in these funds are awarded to the Department for the purpose of accomplishing for in these funds are awarded to the Department for the purpose of accomplishing specific educational tasks as defined by grantors in contracts or other agreements.

Debt Service Fund is used to account for the accumulation of resources for, and the payment of, governmental long-term debt principal, interest, and related costs. The primary revenue source is local service contracts.

Note 1 - Summary of Significant Accounting Policies (continued)

D. Fund Accounting (continued)

The Department reports the following proprietary fund types:

Enterprise Fund is a major business-type activity that is used to report activities for which a fee is charged to external users of good and services. It is used to account for Choice Partners National Cooperative which offers quality, legal procurement and contract solutions to meet the purchasing needs of school districts and other governmental entities. Through this cooperative purchasing program, members gain immediate access to legal, competitively bid contracts they need, saving time and money on the bidding and purchasing process.

Internal Service Funds account for revenues and expenses related to services provided to organizations inside the Department on a cost reimbursement basis. The following internal service funds are used by the Department:

Workers' Compensation Fund includes accounts for the Department's partially self-funded workers' compensation plan, which is supported by Department contributions. Operating expenses consist of insurance claims paid and payments to the third-party administrator of the plan for claims processing and administrative fees.

Facility Charges Fund includes accounts for revenues and expenses related to services provided to other programs within the Department. Revenues are received based on fees charged for services. Expenses include payments to employees and charges incurred to operate the programs.

Additionally, the Department reports the following fiduciary fund:

Agency Fund reflects only those assets and liabilities related to student activity funds. The school principal is responsible, under the authority of the Board, for collecting, controlling, disbursing, and accounting for all school activity funds. The fund is custodial in nature (assets equal liabilities) and cannot be used by the Department for general operations.

E. Other Accounting Policies-Assets, Liabilities, and Net Position or Equity

1. Deposits and Investments

The Department's cash and cash equivalents are cash on hand, demand deposits, and overnight sweeps. The Department reports cash and cash equivalents in the Department's statement of cash flows for Proprietary Fund Types and in all other financial statements of financial position.

Investments primarily consist of U.S. government agency securities, privately-managed public funds investment pools, money market mutual funds, and short-term investments. Investments for the Department are reported at fair value, based on quoted market prices at year-end date, except for investment pools. The Department's investment pools are valued and reported at amortized cost, which approximates fair value.

The Department categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Department's local government investment pools are recorded at amortized costs as permitted by GASB Statements No. 79, *Certain Investment Pools and Pool Participants*.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Other Accounting Policies-Assets, Liabilities, and Net Position or Equity (continued)

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.”

Property tax receivables are shown net of an estimated allowance for uncollectible. The property tax receivable allowance approximates 2 percent of outstanding property taxes at August 31, 2018. Revenues from property taxes are recognized when levied to the extent they are available.

The Department considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are established by Harris County Appraisal District (Harris County, Texas) as of January 1 of each year. Prior to September 1 of each year, the Department must adopt its annual budget and, as soon thereafter as practicable, the Board of School Trustees shall adopt a tax rate thus creating the tax levy. Property taxes are levied on approximately October 1 of each year in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and taxes become delinquent if not paid before February 1. On July 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Billing and collection of taxes are performed by the Harris County Tax Assessor-Collector’s Office.

The Department is permitted to levy taxes up to \$0.01 (one cent) for maintenance and operations by state law. The tax rate for tax year 2017 (fiscal year 2018) was \$0.005195 per \$100 assessed property valuation for maintenance and operations. The Department does not have a debt service rate. An allowance for uncollectible taxes is based on historical experience in collecting property taxes. Uncollectible property taxes are periodically reviewed and written off by the Department, as provided by specific statutory authority from the Texas Legislature.

3. Inventories and Prepaid Items

Inventories consisting of consumable custodial and maintenance supplies are stated at cost (average cost method) when the items are purchased, and are subsequently recognized as expenditures when consumed. A portion of fund balance is categorized as non-spendable to reflect the actual inventory on hand at August 31.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. These expenditures/expenses will be recorded when consumed rather than when purchased.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Other Accounting Policies-Assets, Liabilities, and Net Position or Equity (continued)

4. Capital Assets

Capital assets, which include land, buildings and improvements, furniture and equipment, and construction in progress, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the Department as assets with an initial, individual cost greater than \$5,000 and an estimated useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded acquisition value at the date of donation.

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

When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Buildings and improvements and furniture and equipment of the Department are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	40
Furniture and Equipment	3-10

Land and construction in progress are not depreciated.

5. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bonds, using the straight-line method of amortization. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as period costs.

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

6. Compensated Absences

a. Accrued Sick and Personal Leave

The Department maintains a policy allowing employees meeting established requirements to be compensated for unused personal and sick leave at retirement. A full-time employee who is eligible to retire under the Teacher Retirement System and has been employed by the department (HCDE) for five consecutive years immediately preceding retirement shall be paid for accumulated local personal and sick leave at the employee's current daily rate. A maximum number of days apply (one-half of the employee's annual contract/work schedule days with a maximum of 120 days) paid to the employee at retirement at the daily rate in effect at the time of retirement.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Other Accounting Policies-Assets, Liabilities, and Net Position or Equity (continued)

6. Compensated Absences (continued)

In the case of death of a full-time employee, the accumulated local sick and personal leave that the full-time employee has shall be paid to the deceased employee's beneficiary if the employee was employed by Department for a continuous period of at least five consecutive years. This payment and the maximum number of days for payment is computed the same way for employees who retire from the Department.

b. Vacation

Full-time employees who are normally scheduled, and actually work, forty hours per week in a 12-month position shall receive paid vacation each calendar year beginning January 1 and ending December 31. Employees are eligible to take vacation at any time after January 1st of the year following the year the vacation is received. Vacation accrued in the year preceding termination/retirement and not used and any vacation accrued in the current year will be paid to employees upon termination. Vacations are to be taken in the calendar year following the year they are earned; and any unused days at the end of the year are forfeited. Therefore, the liability recognized in the government-wide financial statements exists only at the end of the fiscal year.

7. 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.

8. 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.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Other Accounting Policies-Assets, Liabilities, and Net Position or Equity (continued)

9. Fund Balances and Net Position

Net position on the Statement of Net Position include the following:

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

Restricted for program – the component of net position that reports the difference between assets and liabilities of the capital acquisition program that consists of assets with constraints placed on their use by the bond contracts and covenants contained therein.

Unrestricted – the difference between the assets and liabilities that are not reported in net investment in capital assets, the deferred outflows and inflows recorded for TRS, or restricted net position.

The Department applies restricted resources before unrestricted resources when an expense is incurred for which restricted net position are available. In the fund financial statements, governmental funds report fund balances as either a non-spendable fund balance or a spendable fund balance.

Beginning with fiscal year 2011, the Department implemented GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement clearly defines fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent.

Non-spendable Fund Balance

Non-spendable fund balance is that portion of fund balance that is not expendable (such as inventory) or is legally earmarked for a specific use. Non-spendable fund balance may include inventories, prepaid items, and long-term receivables.

Spendable Fund Balances

Spendable fund balance is composed of restricted, committed, assigned, and unassigned portions. Components of the spendable fund balance include:

Restricted Fund Balance – the component of the spendable fund balance constrained to a specific purpose by the provider, such as a grantor. Restricted fund balance includes \$11,219,387 for the PFC reserves.

Committed Fund Balance – the component of the spendable fund balance constrained to a specific purpose by the Board. An agenda item and a resolution are prepared and presented to the board of trustees for approval. Board approval is required to establish, modify, or rescind a fund balance commitment. Only the highest-level action that constitutes the most binding constraint can be considered a commitment for fund balance classification purpose.

Assigned Fund Balance – the component of the spendable fund balance that is spendable or available for appropriation but has been tentatively earmarked for some specific purpose by the Superintendent or designee (Assistant Superintendent for Business Services). Policy CE Local was amended April 2011 by the Board of Trustees to provide the Superintendent or designee (Assistant Superintendent for Business Services) this authorization.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Other Accounting Policies-Assets, Liabilities, and Net Position or Equity (continued)

9. Fund Balances and Net Position (continued)

Unassigned Fund Balance – the component of the spendable fund balance which may be spent for any legal purpose. This portion of the total fund balance in the general fund is available to finance operating expenditures and totals to \$17,769,755 which is 36 percent of the fiscal year 2018 general fund annual budget expenditures and other sources (uses). The Department maintains an unassigned fund balance equal to a minimum of two months of operational costs. This amount is within the adopted board policy CE (Local).

In general, it is HCDE policy to consider restricted resources to have been spent first when an expenditure is incurred for purposes for which restricted and unrestricted (i.e. committed, assigned, or unassigned) fund balances are available, followed by committed and then assigned fund balances. Unassigned amounts are used only after the other resources have been used.

10. Deferred Outflows and Inflows of Resources

A *deferred outflow of resources* is a consumption of a government's net position (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The Department has three items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; 3) differences between expected and actual actuarial experiences and 4) changes in the Department's proportional share of pension liabilities.

Deferred outflows of resources for other post-employment benefits (OPEB) – Reported in the government wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of 1) differences between projected and actual earnings on OPEB plan investments and 2) changes in the Department's proportional share of OPEB liabilities. The deferred outflows of resources related to OPEB resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five year period. The remaining OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Other Accounting Policies-Assets, Liabilities, and Net Position or Equity (continued)

10. Deferred Outflows and Inflows of Resources (continued)

A *deferred inflow of resources* is an acquisition of a government's net position (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The Department has three items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the Department's proportional share of pension liabilities. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred inflows of resources for other post-employment benefits (OPEB) – Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the plan.

11. Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Note 1 - Summary of Significant Accounting Policies (continued)

E. Other Accounting Policies-Assets, Liabilities, and Net Position or Equity (continued)

12. Implementation of New Standards

In the current fiscal year, the Department implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement No. 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 85, *Omnibus 2017*. This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Data

The Department is legally required to prepare a budget for adoption for the general and debt service funds. However, a budget for all funds – general, special revenue, debt service, capital projects, and internal service funds is prepared for managerial and oversight purposes as required in Board policy. The general fund budget appears in the *required supplementary information* section where the Department discloses the original budget and compares the final amended budget to actual revenues and expenditures. The Department is not legally required to adopt an annual budget for Special Revenue Funds. All Special Revenue Fund budgets are prepared as project length budgets. Per regulatory requirements, the debt service fund is required to be reported with the original budget, amended budget, and actual revenues and expenditures.

The following procedures are followed in establishing the budgetary data reflected in the financial schedules:

1. In January each year, the Department’s administration determines budgetary funding priorities, and begins the preparation of an official budget for the succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to September 1 the budget is formally approved and adopted by the Board.
3. A meeting of the Board is called for the purpose of adopting the proposed budget. At least ten days public notice must be given

Once a budget has been approved, budget amendments that increase or decrease an individual budget or increase or decrease *revenues* and *other sources* object accounts must be approved by a majority of the Board of School Trustees. Department budget directors may make transfers within individual budgets at any time during the fiscal year with the approval of the Assistant Superintendent for Business Support Services. Amendments are presented to the Board at each of its regular meetings. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The Department made several supplemental budgetary revisions throughout the year; these revisions are detailed in the notes to the required supplementary information.

Each budget is controlled by the budget manager at the revenue and expenditure fund/object level. All general fund budget appropriations lapse at year end.

B. Encumbrances

Encumbrance accounting (under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation) is employed in governmental funds.

Encumbrances out-standing at year end are commitments that do not constitute expenditures or liabilities, but are reported as assigned fund balances. Since appropriations lapse at the end of each fiscal year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year’s budget to provide for the liquidation of the prior commitments. HCDE does not provide funding for encumbrances in the subsequent fiscal year.

Note 3 - Deposits and Investments

The Department's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act and local Board policy. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the Department's and the depository bank's agent bank. The pledged securities shall be in an amount sufficient to protect Department 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 insured by the Federal Deposit Insurance Corporation (FDIC). The Department must approve all collateral securities pledged and must also approve in writing any changes to the pledged securities. The Department receives monthly pledge reports.

The Department's investment policy is in accordance with the Texas Public Funds Investment Act, the Public Funds Collateral Act, federal and state laws, and board policy. The Department further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, repurchase agreements, commercial paper, money market mutual funds, and public funds investment pools.

During fiscal year 2018, the Department invested in the Texas Local Government Investment Pool (TexPool), Lone Star Investment Pool, and Texas Short Term Asset Reserve Program (TexSTAR). These external pools operate like a "2a7" pool (except TexSTAR) and these investments are carried at amortized cost in accordance with GASB 31. The fair value of the Department's position in the above pools is the same as the value of the pool shares.

TexPool is duly chartered and overseen by the Texas Comptroller's Office, administered and managed by Federated Investors. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating agency (NRSRO); and securities lending programs.

Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by Standish Mellon Asset Management and American Beacon Advisors. The Bank of New York Mellon is the custodial bank. Lone Star Investment Pool is restricted to invest in obligations of the U.S. or its agencies and instrumentalities; other obligations insured by the U.S.; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; and SEC-regulated no-load money market mutual funds, the assets which consist exclusively of the obligations described above.

TexSTAR is a local government investment pool created under the Texas Interlocal Cooperation Act. TexSTAR is overseen by a Governing Board consisting of individuals from participating government entities in the pool and a representative from each administrator. The business and affairs of TexSTAR are managed by the Board. In addition, TexSTAR has an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR that provide feedback to the Board. JPMorgan Investment Management, Inc. provides investment management, fund accounting, transfer agency and custodial services for the pool and First Southwest, a division of Hilltop Securities provides administrative, marketing and participant services. The portfolio is restricted to U.S. government securities, agencies and instrumentalities, and fully collateralized repurchase agreements having a defined termination date. Unlike money market mutual funds which are registered with the Security and Exchange Commission, TexSTAR does not operate in a manner consistent with the Rule 2a-7 of the Investment Company Act of 1940. TexSTAR is in full compliance with GASB 79 and reports its investments using fair value.

Note 3 - Deposits and Investments (continued)

Interest rate risk

Interest rate risk is the risk that changes in interest rates may adversely impact the value of investments. The Department mitigates exposure to this risk by using varied maturity limits and investment diversification. In accordance with its investment policy, the Department manages its exposure to declines in fair values by limiting the weighted average maturity of its investments to less than one year in the General and Special Revenue Funds, except for investment pools. Investment officers are expected to exercise prudence in the selection of securities to minimize risk. No individual investment transaction shall be initiated which jeopardizes the total capital position of the total portfolio. In addition, the Department shall not directly invest in an individual security which will mature more than three years from the date of purchase in the Debt Service and Capital Projects Funds.

Credit risk

State law limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations.

The Department's Investment Policy allows for investment in commercial paper provided it meets the following criteria:

1. the maximum maturity does not exceed 270 days from the date of issuance.
2. it is rated at least A1 or P1 by two nationally recognized credit rating agencies or by one agency when fully secured by an irrevocable letter of credit from a United States or by the law of any state.

At year-end, balances in TexPool, LoneStar and TexSTAR were all rated AAAM by Standard & Poor's as required by the Public Fund Investments Act.

Concentration of credit risk

The Department's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions so that no single investment or class of investments can have a disproportionate impact on the total portfolio. Diversification to avoid over-concentration in a specific instrument does not apply to U.S. Treasury securities, investment pools, and money market mutual funds.

Custodial credit risk-deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Department's deposits may not be returned to it. As of August 31, 2018, the carrying amount of the Department's deposits was \$3,512,730 and the bank balance was \$4,363,988. The Department's entire bank balance on August 31, 2018, was not exposed to custodial credit risk because it was fully insured and collateralized with securities held by the Department's agent in the Department's name.

Note 3 - Deposits and Investments (continued)

Custodial credit risk-investments

For investments, this is the risk that, in the event of the failure of the counterparty, the Department will not be able to recover the value or its investments or collateral securities that are in the possession of an outside party.

The Department's policy requires that a third-party bank trust department hold all securities owned by the Department. HCDE was not exposed to custodial risk for investments.

As of August 31, 2018, the Department held the following deposits (cash) and investments:

<u>Type of Investments</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Percentage of Investment Portfolio</u>	<u>S&P Credit Quality Rating</u>
Public Funds Investment Pools:				
TexSTAR	\$ 21,781,086	33	54.54%	AAAm
Lone Star	2,558,370	22	6.41%	AAA
TexPool	12,080,865	31	30.25%	AAAm
Governmental Activities Total Investments	<u>36,420,321</u>		<u>91.20%</u>	
Cash and Cash Equivalents				
Governmental Activities	3,471,459		8.69%	
Fiduciary Funds	41,271			
Total Cash and Cash Equivalents	<u>3,512,730</u>		<u>8.69%</u>	
	<u>\$ 39,933,051</u>		<u>99.90%</u>	
<i>Portfolio Weighted Average Maturity</i>		29		

Although TexPool, TexSTAR, and Lone Star have a weighted average maturity greater than one day, the pools offer daily liquidity to the Departments funds.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, the Local Government Investment Pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

Note 4 - Receivables

Receivables as of year-end for the Department’s individual major funds, non-major and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>Special Revenue Funds</u>					Total
	General Fund	Head Start Program	Federal Early Head Start Operations	Federal After- School Partnership	Nonmajor & Other Funds	
Receivables:						
Property taxes	\$ 843,570	\$ -	\$ -	\$ -	\$ -	\$ 843,570
Due from other governments:						
Federal	290,863	1,056,713	905,763	832,318	1,789,394	4,875,051
Other receivables	<u>1,609,200</u>	<u>1,182</u>	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>1,615,382</u>
Gross Receivables	2,743,633	1,057,895	910,763	832,318	1,789,394	7,334,003
Less: Allowance for uncollectible taxes	(16,871)	-	-	-	-	(16,871)
Less: Allowance for uncollectible receivables	<u>(400,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(400,000)</u>
	<u>\$ 2,326,762</u>	<u>\$ 1,057,895</u>	<u>\$ 910,763</u>	<u>\$ 832,318</u>	<u>\$ 1,789,394</u>	<u>\$ 6,917,132</u>

Other receivables are made of amounts due from school districts and other clients.

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or unearned revenue in connection with resources that have been received, but not yet earned. At August 31, 2018, the deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable (General Fund)	\$ 826,699	\$ -
Grant Revenues Received but not Expended	<u>-</u>	<u>407,153</u>
Total Deferred Inflows of Resources/Unearned Revenue for Governmental Funds	<u>\$ 826,699</u>	<u>\$ 407,153</u>

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more non-major governmental funds. The composition of interfund balances at August 31, 2018, consisted of the following:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General Fund	\$ 3,365,837	\$ -
Head Start Program - Special Revenue Fund	-	908,407
Early Head Start Operations - Special Revenue Fund	-	825,416
Federal After-School Partnership - Special Revenue Fund	-	332,962
Nonmajor Governmental Funds	-	951,997
Business-Type Fund - Choice Partners	-	347,055
Total Governmental Funds	<u><u>\$ 3,365,837</u></u>	<u><u>\$ 3,365,837</u></u>

Interfund transfers are defined as “flows of assets without equivalent flows of assets in return and without a requirement for repayment.” The following is a summary of the Department’s transfers for the fiscal year ended August 31, 2018:

\$ 3,144,592	From the General Fund to the Non-Major Funds to fund the local match and routine debt service payments
569,000	From the General Fund to Head Start
550,787	From the General Fund to Federal After-School Partnership
1,506,000	From the General Fund to the PFC Capital Project
<u>2,803,104</u>	From the Enterprise fund to the General Fund to support HCDE programs
<u>\$ 8,573,483</u>	

For reporting at the government-wide financial statement level, the Department eliminates direct interfund charges for services and the balances created within the same activity categories (i.e. governmental vs internal service fund). This process insures neither governmental nor proprietary fund report direct internal revenue/expenditures. Interfund activity and balances resulting from transaction with the fiduciary funds are not eliminated. Instead, the fiduciary interfund activity and balances are treated as transactions with an external party.

Note 6 - Capital Assets

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

	Beginning Balance	Additions	Transfers, Adjustments and Deletions	Ending Balance
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land-General Fund -GF	\$ 1,181,933	\$ -	\$ -	\$ 1,181,933
Land-Public Facility Corporation -PFC	1,357,343	-	-	1,357,343
Construction in Progress	33,750	1,029,437	-	1,063,187
Total Capital Assets, not being Depreciated	<u>2,573,026</u>	<u>1,029,437</u>	<u>-</u>	<u>3,602,463</u>
Capital Assets being Depreciated:				
Buildings and Improvements-GF	27,860,603	465,156	-	28,325,759
Buildings and Improvements-PFC	31,954,413	-	-	31,954,413
Furniture and Equipment-GF	12,608,771	585,384	(50,240)	13,143,915
Total Capital assets, being Depreciated	<u>72,423,787</u>	<u>1,050,540</u>	<u>(50,240)</u>	<u>73,424,087</u>
Less Accumulated Depreciation for:				
Building and Improvements-GF	(9,088,719)	(642,256)	-	(9,730,975)
Building and Improvements-PFC	(7,567,136)	(536,911)	-	(8,104,047)
Furniture and Equipment-GF	(9,805,302)	(796,647)	-	(10,601,949)
Total Accumulated Depreciation	<u>(26,461,157)</u>	<u>(1,975,814)</u>	<u>-</u>	<u>(28,436,971)</u>
Total Capital assets, being Depreciated, net	<u>45,962,630</u>	<u>(925,274)</u>	<u>(50,240)</u>	<u>44,987,116</u>
Total Governmental Activities Capital Assets, net	<u>\$ 48,535,656</u>	<u>\$ 104,163</u>	<u>\$ (50,240)</u>	<u>\$ 48,589,579</u>

Construction Commitments

The Department has active construction project as of August 31, 2018. The ABS West Campus and Fortis Academy have remaining commitments of \$296,708 and \$732,729 respectively. The Department has fully funded these construction commitments.

Note 6 - Capital Assets (continued)

Depreciation expense was charged to Department programs as follows:

Governmental Activities:	
Adult Education Program	\$ 40,537
Communications	5,724
Center for After-School, Summer and Expanded Learning	1,075
Department Wide	22,117
Digital Learning & Instructional Technology	35,209
Early Head Start	26,299
Facility Support Services	842,898
Head Start Program	131,855
Records Management Services	80,989
Special Schools Programs	359,911
Technology Support Services	386,901
Technology	33,536
School Based Therapy Services	3,148
The Teaching & Learning Center	5,615
Total Depreciation Expense	<u><u>\$ 1,975,814</u></u>

Note 7 - Long-Term Liabilities

Long-term liabilities consist of lease revenue bonds, qualified zone academy bonds (QZAB), maintenance tax notes, workers' compensation, and compensated absences. Lease revenue bonds are liquidated in the Debt Service Fund. Workers' compensation claims are liquidated in the internal service fund and compensated absences are liquidated in the General Fund. Maintenance tax notes and QZABs are liquidated in the Debt Service Fund.

A. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Bonds and Notes Payable:					
Lease Revenue Bonds	\$ 15,855,000	\$ -	\$ (2,150,000)	\$ 13,705,000	\$ 2,200,000
Qualified Zone Academy Bonds	2,708,571	-	(451,429)	2,257,142	451,429
Maintenance Tax Notes	460,000	-	(225,000)	235,000	235,000
Plus:					
Issuance Premiums	30,053	-	(9,697)	20,356	9,697
Total Bonds and Notes Payable, net	<u>19,053,624</u>	<u>-</u>	<u>(2,836,126)</u>	<u>16,217,498</u>	<u>2,896,126</u>
Workers' Compensation	267,488	-	(78,674)	188,814	188,814
Compensated Absences	4,228,858	790,120	(124,832)	4,894,146	722,766
Total Long-term Liabilities	<u><u>\$ 23,549,970</u></u>	<u><u>\$ 790,120</u></u>	<u><u>\$ (3,039,632)</u></u>	<u><u>\$ 21,300,458</u></u>	<u><u>\$ 3,807,706</u></u>

Proprietary Funds predominately serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities.

Note 7 - Long-Term Liabilities (continued)

B. Bonds and Notes

The Harris County Department of Education Public Facility Corporation (the “Corporation”) has issued lease revenue bonds for the purchase and renovation of a facility for administrative offices, meeting rooms, a warehouse, and records storage. In addition, lease revenue bonds were issued for the construction and equipment of the Highpoint School for adjudicated middle and high-school students. These facilities are operated by the Harris County Department of Education (the “Department”), and debt service payments on the Corporation’s lease revenue bonds are payable from the lease payments made to Corporation by the Department. In order to secure the Department’s lease payments, the Department has pledged, subject to annual appropriation, future revenues of certain contract the Department annually enters with various school districts for the provision of certain services. If contract revenues are less than the debt payment, tax revenues can be used to make the debt service payments. On October 1, 2016, the Harris County Department of Education Public Facilities Corporation issued the \$7,000,000 Lease Revenue Bond Series 2016 with an interest rate of 1.68% to fund the acquisition of property and the construction, improvements and equipment of a new facility to serve special needs students in grades K-12 in an academic and behavior setting. The total cost of the project is currently estimated at an amount not to exceed \$12,000,000. The Department intends to contribute approximately \$5,000,000 toward the total cost of the project. The last bond payment is due in year 2026.

In previous years the Department has issued maintenance tax notes for the maintenance, renovation, and equipment of the Department’s facilities. The maintenance tax notes have been issued as both tax-exempt maintenance notes and as taxable qualified zone academy tax notes. The maintenance tax notes are a general obligation of the Department and are secured by the Department’s maintenance and operations tax levy.

The Department did not issue any new debt in fiscal year ended August 31, 2018. The Department’s general obligation maintenance tax debt payable and lease revenue as of August 31, 2018, is summarized as follows:

Series	Bond	Type	Original Issue	Interest Rates	Maturity Dates	Beginning Balance	Additions	Reductions	Amount Outstanding
2014	Lease Revenue Refunding		\$ 9,635,000	2.40%	2/15/2023	\$ 7,395,000	\$ -	\$ (1,115,000)	\$ 6,280,000
2015	Lease Revenue Refunding		4,255,000	4.13-5.75%	2/15/2023	2,110,000	-	(375,000)	1,735,000
2016	Lease Revenue Bond		7,000,000	1.68%	2/15/2026	6,350,000	-	(660,000)	5,690,000
2009A	QZAB *		6,320,000	0.00%	8/31/2023	2,708,571	-	(451,429)	2,257,142
2009B	Maintenance Tax Notes		2,000,000	3.00-4.00%	2/15/2019	460,000	-	(225,000)	235,000
Totals						19,023,571	-	(2,826,429)	16,197,142
	Plus: Issuance Premiums					30,053	-	(9,697)	20,356
Totals						<u>\$ 19,053,624</u>	<u>\$ -</u>	<u>\$ (2,836,126)</u>	<u>\$ 16,217,498</u>

* QZAB = Qualified Zone Academy Bonds

Note 7 - Long-Term Liabilities (continued)

B. Bonds and Notes (continued)

The following tables summarize by type the annual debt service requirements of the outstanding debt issues at August 31, 2018 to maturity.

Lease Revenue Bonds			
Years Ended August 31	Principal	Interest	Total Requirements
2019	\$ 2,200,000	\$ 258,367	\$ 2,458,367
2020	2,255,000	211,182	2,466,182
2021	2,305,000	162,614	2,467,614
2022	2,350,000	113,032	2,463,032
2023	2,395,000	62,479	2,457,479
2024-2026	2,200,000	55,776	2,255,776
Totals:	<u>\$ 13,705,000</u>	<u>\$ 863,450</u>	<u>\$ 14,568,450</u>

Qualified Zone Academy Bonds & Maintenance Tax Notes			
Years Ended August 31	Principal	Interest	Total Requirements
2019	\$ 686,429	\$ 4,700	\$ 691,129
2020	451,429	-	451,429
2021	451,428	-	451,428
2022	451,428	-	451,428
2023	451,428	-	451,428
Totals:	<u>\$ 2,492,142</u>	<u>\$ 4,700</u>	<u>\$ 2,496,842</u>

Annual debt service requirements to maturity for the lease revenue bonds, QZABs, and maintenance tax notes are as follows:

Years Ended August 31	Principal	Interest	Total Requirements
2019	\$ 2,886,429	\$ 263,067	\$ 3,149,496
2020	2,706,429	211,182	2,917,611
2021	2,756,428	162,614	2,919,042
2022	2,801,428	113,032	2,914,460
2023	2,846,428	62,479	2,908,907
2024-2026	2,200,000	55,776	2,255,776
Totals	<u>\$ 16,197,142</u>	<u>\$ 868,150</u>	<u>\$ 17,065,292</u>

Note 8 - General Fund Federal Program Revenue

Revenue from indirect cost earned on federal grants in the Special Revenue Funds is recognized in the General Fund. A summary of federal program revenue for the fiscal year August 31, 2018 follows:

Fund	Amount
ABE Temporary Assistance for Needy Families	\$ 9,740
Adult Basic Education Regular (ABE)	200,993
CASE 21st Century Community Learning Centers	23,785
Head Start Program	1,300,550
Educators and Families for English Learners	222
Total General Fund Federal Program Revenue	\$ 1,535,290

Note 9 - Shared Service Arrangements

The Department is the fiscal agent for two Shared Service Arrangements (SSA) that provide after school program services to the member independent school districts and charter schools. According to guidance provided in the *Financial Accountability System Resource Guide*, the Department has accounted for the fiscal agent’s activities of the SSA using Model 3 in the SSA section.

A. After School Partnership Program - During fiscal year 2018, the Department was the fiscal agent for a SSA passed through the Gulf Coast Workforce Solutions Board. The following table shows member participation in the program:

Members	Expenditures
<i>Fiscal Agent -</i>	
HCDE	\$ 1,668,571
<i>Pass-Through Expenditures -</i>	
School Districts:	
Aldine ISD – 2 Campuses	78,369
Houston ISD – 7 Campuses	158,707
Pasadena ISD – 3 Campuses	60,000
Alief ISD - 2 Campus	59,803
Galena Park ISD - 1 Campus	-
Sheldon ISD - 3 Campus	50,000
Charter Schools:	
Academy for Accelerated Learning	30,000
Southwest Charter	28,000
Total Pass-through Expenditures	464,879
Local contributions	550,787
Grand Total Expenditures	\$ 1,582,663

Note 9 - Shared Service Arrangements

B. 21st Century Community Learning Centers - During fiscal year 2018, the Department was the fiscal agent for 19-member independent school districts and 1 charter school (20 campuses total) in a SSA whose U.S. Department of Education funding is passed through the Texas Education Agency. The following table shows the members participation in the program:

<u>Members</u>	<u>Expenditures</u>
<i>Fiscal Agent -</i>	
HCDE	\$ 358,967
<i>Pass-Through Expenditures -</i>	
School Districts:	
Aldine ISD – 3 Campuses	504,172
Alief ISD – 3 Campuses	510,522
Clear Creek ISD-1 Campus	149,614
Galena Park ISD – 2 Campuses	321,464
Houston ISD – 1 Campus	204,391
Humble ISD – 1 Campus	146,636
Pasadena ISD – 2 Campuses	327,973
Pearland ISD – 1 Campuses	185,582
Sheldon ISD – 3 Campuses	326,198
Spring ISD-2 Campuses	152,598
Spring Branch ISD – 1 Campus	184,628
*Stafford MISD – 1 Campus	163,700
Charter Schools:	
Southwest Middle	135,830
Total Pass-Through Expenditures	<u>3,313,308</u>
Grand Total Expenditures	<u>\$ 3,672,275</u>

* MISD = Municipal Independent School District

Note 10 - Department-Wide Budget

The Department-Wide budget account is for expenditures in the General Fund that impact the Department as a whole and not just a single program, as follows:

State mandated programs (TRS on behalf, etc.)	\$ 2,923,119
Professional services	681,037
Facility support charges	2,354,102
Miscellaneous operating	92,744
Total	<u>\$ 6,051,002</u>

Note 11 - Risk Management

- A. Health Insurance** - During the year ending August 31, 2018, employees of the Harris County Department of Education were covered by a health insurance plan (the Plan). The Department contributed \$252.24 per month for health insurance options which include Active Care 1-HD/ Employee Only, Active Care 1/ Employee-only or all other Active Care Plans; and employees, at their option, authorize payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between HCDE and the licensed insurer is renewable; terms of coverage and premium cost are included in the contractual provisions.
- B. Property, Casualty, and Liability Insurance** - The Department is exposed to various risks of loss related to torts: theft, damage and destruction of property; errors and omissions; and natural disasters for which the Department carries commercial insurance and participates in a risk pool. Settled claims have not exceeded insurance coverage in any of the previous three fiscal years. There has not been any significant reduction in insurance coverage from that of the previous year.
- C. Workers' Compensation** - Effective September 1, 2016, the Department participated in a fully-insured worker's compensation program with Texas Mutual. Prior to September 1, 2016, HCDE participated in a partially self-funded pool, originally approved by the Board in fiscal year 2005. Claims administration, loss control, and consultant services are provided for by a third-party administrator for unpaid claims from the self-insurance plan. Claims Administrative Services Inc. (CAS) will continue to service any open claims or any claims filed before September 1, 2016. The Department established an internal service fund, Workers' Compensation Fund, to account for the plan. The pool obtained stop loss insurance which limits annual claims paid liability to \$1,000,000 for any individual claim before the stop loss coverage begins, and an aggregate fiscal year limit of \$5,000,000.

	<u>Year Ended</u> <u>8/31/2017</u>	<u>Year Ended</u> <u>8/31/2018</u>
Unpaid claims, beginning of fiscal year	\$ 357,680	\$ 267,488
Incurred claims (Including IBNRs*)	(953)	(32,647)
Claims payments	<u>(89,239)</u>	<u>(46,027)</u>
Unpaid claims, end of fiscal year	<u>\$ 267,488</u>	<u>\$ 188,814</u>

* IBNR = incurred but not reported estimated claims

Note 12 - Defined Benefit Pension Plan

A. Plan Description

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

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 from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Note 12 - Defined Benefit Pension Plan (continued)

B. Pension Plan Fiduciary Net Position

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

C. Benefits Provided

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

D. Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2018 and 2019.

	Contribution Rates	
	Plan Fiscal Year	
	2018	2017
Member	7.70%	7.70%
Non-Employer Contributing Entity (NECE) - State	6.80%	6.80%
Employers (District)	6.80%	6.80%

Note 12 - Defined Benefit Pension Plan (continued)

D. Contributions (continued)

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). Contributions and pension expense for all contributors were as follows:

	Measurement Year (2017)	Fiscal Year (2018)
	Contributions Made	TRS Contributions
Employer (District) contributions	\$ 795,696	\$ 799,557
Member (Employee) contributions	3,002,681	3,059,509
Non-employer (State) on-behalf contributions	1,894,559	1,938,458

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

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

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

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

Note 12 - Defined Benefit Pension Plan (continued)

E. 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
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

F. Discount Rate

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

Note 12 - Defined Benefit Pension Plan (continued)

F. Discount Rate (continued)

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:

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

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

G. 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.

	<u>1% Decrease in Discount Rate (7.0%)</u>	<u>Decrease Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9%)</u>
District's proportionate share of the net pension liability:	\$ 13,086,621	\$ 7,762,844	\$ 3,329,935

Note 12 - Defined Benefit Pension Plan (continued)

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

At August 31, 2018, the Department reported a liability of \$7,762,844 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Department. The amount recognized by the Department 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 Department were as follows:

District's proportion of the net pension liability		0.0243%
District's proportionate share of the collective net pension liability	\$	7,762,844
State's proportionate share that is associated with the District		<u>18,522,260</u>
Total	\$	<u><u>26,285,104</u></u>

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

At August 31, 2017, the employer's proportion of the collective net pension liability increased to 0.0243% from 0.0233% at August 31, 2016.

Changes since the Prior Actuarial Valuation

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

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

For the fiscal year ended August 31, 2018, the Department recognized pension expense of \$2,237,900 as well as revenue of \$1,412,804 representing pension expense incurred by the State on behalf of the Department.

At August 31, 2018, the Department 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
Contributions paid to TRS subsequent to the measurement date	\$ 799,557	\$ -
Net difference between projected and current investment earnings	-	(565,739)
Difference between expected and actual experience	113,574	(418,640)
Changes in assumptions	353,610	(202,433)
Changes in proportions	296,902	(681,779)
Total	<u><u>\$ 1,563,643</u></u>	<u><u>\$ (1,868,591)</u></u>

Note 12 - Defined Benefit Pension Plan (continued)

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

The \$799,557 reported as deferred outflows of resources related to pensions resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2019. 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>August 31:</u>	Pension Expense <u>Amount</u>
2019	\$ (370,694)
2020	124,828
2021	(408,761)
2022	(512,602)
2023	31,268
Thereafter	31,456
	<u>\$ (1,104,505)</u>

Note 13 - Defined Other Post-Employment Benefit Plans

A. Plan Description

Harris County Department of Education 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.

B. 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.

C. 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.

Note 13 - Defined Other Post-Employment Benefit Plans (continued)

C. Benefits Provided (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	TRS-Care 2	TRS-Care 3
	Basic Plan	Optional Plan	Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

*or surviving spouse

D. 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.

	<u>Contribution Rates Fiscal Year</u>	
	<u>2018</u>	<u>2017</u>
Member (Employee)	0.65%	0.65%
Non-Employer Contributing Agency (State)	1.25%	1.00%
District	0.75%	0.55%

	<u>Measurement</u>	<u>Fiscal Year</u>
	<u>Year (2017)</u>	<u>(2018)</u>
	<u>Contributions Made</u>	<u>TRS Contributions</u>
Employer (District) contributions	\$ 339,056	\$ 445,167
Member (Employee) contributions	253,474	258,270
Non-employer (State) on behalf - contributions	280,583	262,890

In addition to the employer contributions listed above, all TRS employers are subject to an additional surcharge. 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 \$280,583 fiscal year 2017 and \$262,890 in fiscal year 2018.

Note 13 - Defined Other Post-Employment Benefit Plans (continued)

E. Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions: *Actuarial Assumptions can be found in the 2017 TRS CAFR, Note 10, page 82.*

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
Valuation date	August 31, 2017
Actuarial Cost method	Individual Entry Age Normal
Inflation	2.50%
Discount rate	3.42%
Aging factors	8.00%
Expenses	Third party administrator expenses related to the delivery of health care benefits are included in the age-adjusted claims costs
Payroll growth rate	2.50%
Salary increases	3.50% to 9.50%
Healthcare trend rates	4.50% to 12.00%
Election rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

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

Note 13 - Defined Other Post-Employment Benefit Plans (continued)

F. Discount Rate

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

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	70.0%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	-0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Resources			
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations	0%	0.0%	2.2%
Alpha	0%	0.0%	1.0%
Total	100%		8.7%

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

Note 13 - Defined Other Post-Employment Benefit Plans (continued)

G. 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 (8%) in measuring the Net OPEB Liability.

	Sensitivity of the Net OPEB Liability to the State Single Discount Rate Assumptions		
	1% Decrease in	Decrease	1% Increase in
	<u>Discount Rate (7.0%)</u>	<u>Rate (8.0%)</u>	<u>Discount Rate (9%)</u>
Department's proportionate share of the Net OPEB Liability:	\$ 33,193,568	\$ 28,124,225	\$ 24,049,617

Healthcare Cost Trend Rates – The following presents the District’s proportional share of 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:

	Sensitivity of the Net OPEB Liability to the Healthcare Cost Trend Rate Assumption		
	1% Decrease in	Decrease	1% Increase in
	<u>Discount Rate (7.0%)</u>	<u>Rate (8.0%)</u>	<u>Discount Rate (9%)</u>
Current Healthcare Cost Trend Rate	\$ 23,416,227	\$ 28,124,225	\$ 34,301,712

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

At August 31, 2018, the Department reported a liability of \$28,124,225 for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the Department. The amount recognized by the Department 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 Department were as follows:

District's proportion of the net OPEB liability	0.0647%
Department's proportionate share of the collective net OPEB liability	\$ 28,124,225
State's proportionate share that is associated with District	<u>23,468,900</u>
Total	<u>\$ 51,593,125</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 0.0647% which was the same proportion measured as of August 31, 2016.

Note 13 - Defined Other Post-Employment Benefit Plans (continued)

H. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (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.

There was a significant plan change adopted in fiscal year ending August 31, 2017:

- Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates. This change in plan benefits significantly lowered the OPEB liability and had an immediate effect on the OPEB expenses recognized by participating entities.
- 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% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

For the year ended August 31, 2018, the Department recognized OPEB expense of \$9,428,321 and revenue of \$7,853,318 for support provided by the State.

Negative OPEB Expense

The significant changes to the plan benefits and assumptions noted above lowered the OPEB liability related to TRS-Care plan as a whole by \$ 33.3 billion. As a result, the Department's proportional share of the net OPEB liability decreased by \$21.5 million. Because the decrease in the liability was the result of changes to plan benefits, a majority of the decrease has been recognized immediately in the Department's financial statements. As a result, the Department recognized a total proportional share of negative OPEB expense of \$9.4 million. A portion of this negative expense represents the State's on behalf share of this activity which is offset by what the Governmental Accounting Standards Board refers to as a negative revenue in the amount of \$7.9 million.

Note 13 - Defined Other Post-Employment Benefit Plans (continued)

H. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (continued)

The following table illustrates the magnitude of the negative on behalf adjustment for the State’s portion of the TRS –Care benefits by departments for both the operating grants and contributions revenues and expense:

	Current Year Prior to Negative On-		Negative On-	Current Year After Negative On-		
	behalf Activities			behalf	behalf Activities as presented in	
	Expenses	Contributions			Expenses	Contributions
Adult Education Program	\$ 2,756,437	\$ 5,104,789	\$ (1,720,305)	\$ 1,036,132	\$ 3,384,484	
Assistant Superintendents	550,282	-	-	550,282	-	
Board of Trustees	128,396	-	-	128,396	-	
Business Support Services	1,763,138	9,639	-	1,763,138	9,639	
Center for After School, Summer & Expanded Learning	6,589,605	5,396,637	(655,000)	5,934,605	4,741,637	
Center for Safe & Secure Schools	250,464	38,688	(164,000)	86,464	(125,312)	
Center for Texas Grant Development	568,024	1,331	-	568,024	1,331	
Client Engagement	491,644	4,230	-	491,644	4,230	
Communications	774,921	-	-	774,921	-	
Department Wide	6,111,173	-	-	6,111,173	-	
Digital Learning	441,316	201,885	-	441,316	201,885	
Education Certification & Professional Advancement	627,407	-	-	627,407	-	
Facility Support Services	1,183,572	51,203	(246,000)	937,572	(194,797)	
Head Start Program	12,390,626	15,619,459	(5,244,000)	7,146,626	10,375,459	
Human Resources	1,023,212	-	-	1,023,212	-	
Interest and Fees-Long-Term Debt	330,095	-	-	330,095	-	
Purchasing Support Services	494,421	-	-	494,421	-	
Records Management Services	1,921,547	-	-	1,921,547	-	
Research & Evaluation Institution	597,668	-	-	597,668	-	
Retirement Leave Benefits	124,832	-	-	124,832	-	
Scholastic Arts & Writing Program	99,932	-	-	99,932	-	
School Based Therapy Services	10,410,779	19,540	(82,000)	10,328,779	(62,460)	
Special Assistant to Superintendent	239,431	6,545	-	239,431	6,545	
Special Schools & Services	11,617,687	26,542	(82,000)	11,535,687	(55,458)	
Superintendent's Office	443,456	-	-	443,456	-	
Technology Support Services	3,381,097	2,816	-	3,381,097	2,816	
The Teaching & Learning Center	1,262,855	-	-	1,262,855	-	
Totals	\$ 66,574,017	\$ 26,483,304	\$ (8,193,305)	\$ 58,380,712	\$ 18,289,999	

Note 13 - Defined Other Post-Employment Benefit Plans (continued)

H. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (continued)

At August 31, 2018, the Department reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in actuarial assumptions	\$ -	\$ (11,764,417)
Difference between projected and actual investment earnings	4,272	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	129	-
Contributions paid to TRS subsequent to the measurement date	445,167	-
Total	<u>\$ 449,568</u>	<u>\$ (11,764,417)</u>

The \$445,167 reported as deferred outflows of resources related to the OPEB liability resulting from Department contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending August 31, 2019.

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

Year Ended August 31:	OPEB Expense Amount
2019	\$ (1,551,747)
2020	(1,551,747)
2021	(1,551,747)
2022	(1,551,747)
2023	(1,552,815)
Thereafter	(4,000,213)
	<u>\$ (11,760,016)</u>

The Medicare Prescription Drug Improvement and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2018, 2017, and 2016, the subsidy payments received by the TRS-Care on-behalf of the Department were \$122,114, \$117,741, and \$110,962 respectively. The payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the Department.

Note 14 - Commitments and Contingencies

The Department received significant financial assistance from federal, state, and local governmental agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, such disallowed claims, if any, will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the Department at August 31, 2018.

Note 15 - Litigation

In the opinion of the Department's attorney, there is no litigation that would materially affect the financial position at August 31, 2018.

Note 16 - Tax Abatements

A Foreign Trade Zone (FTZ) is land area within the U.S. that is legally considered outside of national customs territory. These zones are governed by a federal program that streamlines, reduces and sometimes eliminates import tariffs for U.S. importers and exporters. The program was enacted in 1934 to "expedite and encourage foreign commerce." Today there are 294 FTZs in the United States. In Harris County, Port of Houston and the Federal FTZ Board administers Foreign Trade Zone (#84) in accordance with the Foreign Trade Zone Act, which was created to "expedite and encourage foreign commerce" in the United States.

With the help of FTZ 84, existing warehouse or manufacturing sites in the Houston area can be converted to an FTZ site. New sites can be located almost anywhere in Harris County under FTZ 84 jurisdiction, and alternative FTZ programs are available in the region for outlying counties. Texas is an inventory tax state, so certain goods that are held in any FTZ in Texas qualify for reduced inventory tax. In Harris County, FTZ 84 is co-administered by Port Houston and the Federal FTZ Board. FTZ 84 is comprised of various storage facilities and manufacturing sites.

The FTZ program offers a variety of benefits that streamline, reduce or eliminate import duties for U.S. importers. Once a company has gained FTZ authorization, import duty benefits begin depending on specific actions:

Action 1: Goods Enter The Zone

Imported goods move into the FTZ site duty-free.

Action 2: Goods Are Inside The Zone

Storage, processing and manufacturing are permitted inside an FTZ site. Assembly can utilize both imported and domestic components.

Action 3: Goods Exit The Zone

The benefits of this action depend on the good's destination: 1. If imported goods are then exported, no duty is charged. 2. If imported goods are discharged for domestic consumption, a duty is not due until the product leaves the zone. 3. When imported components are processed, blended or used for manufacturing inside the FTZ, the exported finished product is charged no duty. 4. When imported components are processed, blended or used in manufacturing inside the FTZ and finished products are used for domestic consumption, the duty charged is based on the duty rate of the product discharged from the FTZ instead of the duty rate of the imported components.

The interested parties submit applications for exemption to the Harris County Department of Education to create a subzone that is then operated by the business and then provides reports to the Harris County Appraisal District. There are a number of consultants and sources with information as to how the ability of a company to create a subzone for a Foreign Trade Zone is available. The Department works with the company and the consultants after an agreement is prepared. Local Ad Valorem taxes are still paid under the agreement, but all other benefits of the Foreign Trade Zone are provided to the business.

During fiscal year 2018, inventory within the Foreign Trade Zone totaled \$861 million. The Department received a tax equivalency payment of \$41,208 from the following entities: Noble Drilling Services LLC, Exxon Mobil, Inc., and Houston Refining LP.

Note 17 - Prior Period Adjustment – New Accounting Pronouncement

In the current fiscal year, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension. As a result, the beginning net position of the District's governmental activities has been restated on the Statement of Activities to reflect the net OPEB liability and deferred outflow of resources relating to TRS-Care contributions made after the prior measurement date of the plan as follows:

Beginning Net Position - As Originally Stated		\$ 58,617,710
Restatement due to:		
TRS - Care Contributions made after August 31, 2016	336,240	
Net OPEB liability	<u>(49,651,900)</u>	
Total adjustment due to change in accounting principle		<u>(49,315,660)</u>
Beginning Net Position - As Restated		<u><u>9,302,050</u></u>



**REQUIRED SUPPLEMENTARY
INFORMATION**

Back of Required Supplementary Information Divider

HARRIS COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
ORIGINAL BUDGET, AMENDED FINAL (GAAP BASIS) AND ACTUAL-GENERAL FUND
For the Year Ended August 31, 2018

Exhibit C-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Local and Intermediate Sources	\$ 44,374,086	\$ 44,049,984	\$ 43,633,488	\$ (416,496)
State Programs	3,128,035	3,128,035	3,290,314	162,279
Federal Programs	1,354,736	1,354,736	1,535,290	180,554
Total Revenues	48,856,857	48,532,755	48,459,092	(73,663)
Expenditures				
Current:				
Adult Education Program	148,862	148,862	131,750	17,112
Assistant Superintendents	560,395	575,289	550,282	25,007
Board of Trustees	141,230	249,296	128,396	120,900
Business Support Services	1,905,003	1,921,223	1,733,238	187,985
Center for After-School, Summer & Expanded Learn	638,848	688,368	672,106	16,262
Center for Safe & Secure Schools	478,178	548,182	458,510	89,672
Center for Texas Grants Development	586,276	586,276	558,169	28,107
Client Engagement	548,621	563,154	485,496	77,658
Communications	870,370	860,325	762,760	97,565
Department Wide	6,308,766	6,228,309	6,051,002	177,307
Digital Education & Innovation	258,773	258,773	204,222	54,551
Education Certification & Professional Advancement	659,270	631,870	616,559	15,311
Facility Support Services	3,475,038	3,236,814	1,332,808	1,904,006
Head Start Program	5,000	4,570	4,558	12
Human Resources	1,064,587	1,076,089	998,178	77,911
Purchasing Support Services	535,944	536,117	488,359	47,758
Records Management Services	1,912,492	1,992,837	1,826,139	166,698
Research & Evaluation Institute	637,218	637,218	590,450	46,768
Retirement Leave Benefits	47,910	47,910	124,832	(76,922)
Scholastic Arts & Writing Program	117,857	117,857	99,932	17,925
School Based Therapy Services	11,304,956	10,762,460	10,317,233	445,227
Special Assistant to Superintendent	269,027	272,956	239,431	33,525
Special Schools & Services	12,211,966	12,375,930	11,288,194	1,087,736
Superintendent's Office	450,138	420,125	443,456	(23,331)
Technology Support Services	3,368,784	3,369,010	2,860,974	508,036
The Teaching & Learning Center	1,551,832	1,553,482	1,235,105	318,377
Principal Certification	4,025	2,375	-	2,375
Total Expenditures	50,061,366	49,665,677	44,202,139	5,463,538
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,204,509)	(1,132,922)	4,256,953	5,389,875
Other Financing Sources (Uses)				
Transfers In	1,915,774	1,915,774	2,803,104	887,330
Transfers Out	(4,565,265)	(6,071,265)	(5,770,379)	300,886
Total Other Financing Sources (Uses)	(2,649,491)	(4,155,491)	(2,967,275)	1,188,216
Net Change in Fund Balances	(3,854,000)	(5,288,413)	1,289,678	6,578,091
Fund Balances-Beginning	28,122,487	28,122,487	28,122,487	-
Fund Balances-Ending	\$ 24,268,487	\$ 22,834,074	\$ 29,412,165	\$ 6,578,091

See accompanying notes to the required supplementary information.

Budgets and Budgetary Accounting

The Department's administration determines budgetary funding priorities and presents an official budget to the Board of School Trustees (Board) for approval for the succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them. Budget allocations were formally approved by the Board, which subsequently established a tax rate sufficient to support the approved budget. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

Budget managers may amend budgeted amounts within their budget without seeking Board approval if the transfers do not increase or decrease the total budget or create a new funding source. Amendments to increase or decrease the programs' total budget must be approved by the Board's majority vote. Amendments are presented to the Board at its regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the meeting, and are not made after fiscal year end as required by law. During the year, the budget was amended as necessary. Each budget is controlled by the respective budget manager. Expenditures may not legally exceed budgeted appropriations, as amended. Unexpended appropriations lapse at fiscal year-end.

Budget Comparisons

The Department's General Fund final budget differs from the original budget due to budget revisions that were made during the fiscal period due to increases or decreases in demand for various services, and amendments during the year for unforeseen occurrences. The Department's major budget amendments during the year are summarized as follows:

- The revenue budget, including other resources, decreased approximately \$324,102 primarily due to:
 - o \$558,000 for decrease for budgeted customer fees due to reduction of contracts and the effect of hurricane Harvey for the Therapy Service Division and
 - o \$245,000 for increase in service agreements for the Center for Safe and Secure School, ABS West, and Records Management
- Appropriations, including other uses, increased net \$1,110,311 primarily due to:
 - o Continuation of Fortis Academy project \$750,000
 - o Building Purchase and Improvements for projected Hurricane Harvey damage related expenses \$500,000
 - o Decrease in projected expenditures in Therapy Services division due to inclement weather (\$558,000)
 - o Increased services for ABS East in the amount of \$90,000
 - o Increased in Board of Trustees FTE in the amount of \$84,000
 - o Increased in additional services by Records Management in the amount of \$80,000

**SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY**
Teacher Retirement System of Texas
Last Four Measurement Years Ended August 31

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Department's proportion of the net pension liability	0.0243%	0.0233%	0.0234%	0.0277%
Department's proportionate share of the net pension liability	\$ 7,762,844	\$ 8,794,281	\$ 8,260,418	\$ 7,215,493
State's proportionate share of the net pension liability associated with the Department	<u>18,522,260</u>	<u>22,088,591</u>	<u>21,177,189</u>	<u>18,967,699</u>
Total	<u>\$ 26,285,104</u>	<u>\$ 30,882,872</u>	<u>\$ 29,437,607</u>	<u>\$ 26,183,192</u>
Department's covered payroll (for Measurement Year)	\$ 38,995,847	\$ 37,264,186	\$ 35,960,896	\$ 36,028,897
Department's proportionate share of the net pension liability as a percentage of its covered payroll	19.9%	23.6%	23.0%	20.0%
Plan's fiduciary net position as a percentage of the total pension liability	82.17%	78.00%	78.43%	83.25%
Plan's net pension liability as a percentage of covered payroll	75.93%	92.75%	91.94%	72.89%

Note: Ten years of data should be presented in this schedule but data is unavailable prior to 2014.
Net Pension Liability and related ratios will be presented prospectively as data becomes available.
The amounts presented for each Plan year which ends the preceding August 31 of the Department's fiscal year.

HARRIS COUNTY DEPARTMENT OF EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DEPARTMENT'S PENSION RETIREMENT CONTRIBUTIONS

Exhibit C-4

Teachers Retirement System of Texas
Last Five Fiscal Years Ended August 31

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 799,557	\$ 794,101	\$ 741,368	\$ 699,042	\$ 685,186
Contributions in relation to the contractually required contributions	<u>799,557</u>	<u>794,101</u>	<u>741,368</u>	<u>699,042</u>	<u>685,186</u>
Contribution Deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Department's covered payroll	\$ 39,733,893	\$ 38,995,847	\$ 37,264,186	\$ 35,960,896	\$ 36,028,897
Contributions as a percentage of covered payroll	2.01%	2.04%	1.99%	1.94%	1.90%

Effective September 1, 2014, employers who did not contribute Social Security for TRS-eligible employees were required to contribute an additional 1.5% of TRS-eligible compensation which nearly doubled the Department's contributions into the plan. Since the Department's proportional share of the plan is determined by its proportional share of contributions, the Department recognized a corresponding increase in its share of net pension liability.

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

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

HARRIS COUNTY DEPARTMENT OF EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION

Exhibit C-6

**SCHEDULE OF THE DEPARTMENT'S PROPORTIONATE SHARE OF THE
NET OPEB LIABILITY**
Teacher Retirement System of Texas
Last Measurement Year Ended August 31

	<u>2017</u>
Department's proportion of the net OPEB liability	0.0647%
Department's proportionate share of the net OPEB liability	\$ 28,124,225
State's proportionate share of the net OPEB liability associated with the Department	<u>23,468,900</u>
Total	<u>\$ 51,593,125</u>
Department's covered payroll (for Measurement Year)	\$ 38,995,847
Department's proportionate share of the net OPEB liability as a percentage of its covered payroll	72.1%
Plan's fiduciary net position as a percentage of the total OPEB liability	0.91%
Plan's net OPEB liability as a percentage of covered payroll	132.55%

Note: Ten years of data should be presented in this schedule but data is unavailable prior to 2017.
Net OPEB liability and related ratios will be presented prospectively as data becomes available.
The amounts presented for each Plan year which ends the preceding August 31 of the Department's fiscal year.

HARRIS COUNTY DEPARTMENT OF EDUCATION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DEPARTMENT'S OPEB CONTRIBUTIONS

Exhibit C-7

Teachers Retirement System of Texas
Last Five Fiscal Years Ended August 31

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 445,167	\$ 339,056	\$ 328,635	\$ 311,879	\$ 307,431
Contributions in relation to the contractually required contributions	<u>445,167</u>	<u>339,056</u>	<u>328,635</u>	<u>311,879</u>	<u>307,431</u>
Contribution Deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Department's covered payroll	\$ 39,733,893	\$ 38,995,847	\$ 37,264,186	\$ 35,960,896	\$ 36,028,897
Contributions as a percentage of covered payroll	1.12%	0.87%	0.88%	0.87%	0.85%

Notes to Required Supplementary Information - OPEB

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

There was a significant plan change adopted in fiscal year ending August 31, 2017:

- Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates. This change in plan benefits significantly lowered the OPEB liability and had an immediate effect on the OPEB expenses recognized by participating entities.
- 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.



COMBINING & INDIVIDUAL FUND STATEMENTS & SCHEDULES

Back of Combining and Individual Fund Statements and Schedules Divider

HARRIS COUNTY DEPARTMENT OF EDUCATION NONMAJOR GOVERNMENTAL FUNDS OVERVIEW

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for specific revenue sources which are legally restricted to expenditures for specific purposes. Individual grants are listed in alphabetical order by program:

Adult Education Program – Accounts, on a project basis, for state and federal funds granted to provide or support programs for adult education and literacy services to adults who are beyond compulsory school age attendance and do not have a high school diploma, or lack sufficient mastery of basic educational skills to function effectively in society, or are unable to speak, read or write the English language; and are not enrolled in school. Separate accountability must be maintained for each section listed below:

- ABE Grant to States-Regular-State (Regular Grant-Federal)
- ABE Grant to States-Regular-State (Regular Grant-State)
- ABE Grant to States-Institutional-English Literacy & Civics Education-Federal
(English Literacy and Civics Ed-Federal)
- Local Education Foundation of Harris County (EFHC)
- Temporary Assistance for Needy Families-Federal (TANF Grant)

Center for After School, Summer and Expanded Learning (CASE)

- 21st Century Community Learning Centers (21st Century CLC) – Accounts, on a project basis, for federal funds granted to provide opportunities for communities to establish or expand activities in community learning centers that provide opportunities for academic enrichment and additional services to students and literary and related educational development for families of students. This is a shared services arrangement.
- Partnership – Funding to provide professional development opportunities, supplemental funding for comprehensive programs and project-based providers that offer activities that support language literacy and numeracy development, collaborative reading initiatives and educational material and equipment for use in out of school time programs.
- Local City of Houston

Digital Learning Program

- Local Digital Trust Foundation -to fund learning in science and technology.

Head Start Program – Accounts, on a project basis, for federal funds from the U. S. Department of Health and Human Services, in addition to other grant sources listed below, for which separate accountability is required:

- Head Start Training and Technical Assistance-Federal
- Early Head Start – Child Care Partnership
- Hogg Foundation-Local - Accounts for funds used to provide training for Head Start staff to address children’s mental health issues in the classroom and connect with parents on the same issue.
- In kind fund-Local - Accounts for funds contributed by local sources and in-kind supplies and volunteer time required as 20% matching towards the Head Start federal grant.

HARRIS COUNTY DEPARTMENT OF EDUCATION
NONMAJOR GOVERNMENTAL FUNDS OVERVIEW (continued)

Technology

- Texas Virtual School Network – Accounts for a federally-funded contract with Education Service Center Region 10 to provide online courses for Texas students through the Texas Virtual School Network (TXVSN). Harris County Department of Education was awarded Central Operations of the TXVSN to establish communication efforts to facilitate the delivery of online courses and provide information to stakeholders. This program ended on December 2017.

Education Certification & Professional Advancement – Accounts for an administrative services subaward agreement with Ohio State University. The purpose of this project is to operate a nontraditional teacher preparation program accredited by the Texas Education Agency designed to increase the number of teachers with EL/bilingual certification and supplement EL coursework.

DEBT SERVICE FUND

This fund classification is used to combine all debt service funds for reporting.



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HARRIS COUNTY DEPARTMENT OF EDUCATION

COMBINING BALANCE SHEET

NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2018

	Special Revenue Funds			
	Head Start - Training and Tech Assist	Early Head Start/Child Care Partnership	Federal TANF Grant	Federal Adult Ed Regular Grant
Assets				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Due from other governments	11,548	22,237	-	32,091
Total Assets	\$ 11,548	\$ 22,237	\$ -	\$ 32,091
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 5,144	\$ 17,977	\$ -	\$ 132
Accrued wages payable	-	-	-	-
Due to other funds	6,404	4,260	-	31,959
Unearned Revenues	-	-	-	-
Total Liabilities	11,548	22,237	-	32,091
Total Fund Balances	-	-	-	-
Total Liabilities and Fund Balances	\$ 11,548	\$ 22,237	\$ -	\$ 32,091

Special Revenue Funds

<u>Adult Ed English Literacy/Civics</u>	<u>21st Century Cycle 8</u>	<u>21st Century Cycle 9</u>	<u>21st Century Cycle 10</u>	<u>Texas Council Dev. Disability</u>	<u>Adult Ed State</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10,350	587,886	556,028	4,716	-	403,757
<u>\$ 10,350</u>	<u>\$ 587,886</u>	<u>\$ 556,028</u>	<u>\$ 4,716</u>	<u>\$ -</u>	<u>\$ 403,757</u>
\$ 1,279	\$ 386,523	\$ 306,427	\$ -	\$ -	\$ 14,565
6,881	-	-	-	-	98,469
2,190	201,363	249,601	4,716	-	290,723
-	-	-	-	-	-
<u>10,350</u>	<u>587,886</u>	<u>556,028</u>	<u>4,716</u>	<u>-</u>	<u>403,757</u>
-	-	-	-	-	-
<u>\$ 10,350</u>	<u>\$ 587,886</u>	<u>\$ 556,028</u>	<u>\$ 4,716</u>	<u>\$ -</u>	<u>\$ 403,757</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION

COMBINING BALANCE SHEET

NON-MAJOR GOVERNMENTAL FUNDS

August 31, 2018

	Special Revenue Funds			
	Texas Virtual Schools Network (TxVSN)	Houston Endowment	City of Houston Grant	Early Head Start In-Kind
Assets				
Cash and cash equivalents	\$ -	\$ 22,082	\$ -	\$ -
Due from other governments	-	-	160,781	-
Total Assets	\$ -	\$ 22,082	\$ 160,781	\$ -
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ -	\$ 22,082	\$ -	\$ -
Accrued wages payable	-	-	-	-
Due to other funds	-	-	160,781	-
Unearned Revenues	-	-	-	-
Total Liabilities	-	22,082	160,781	-
Total Fund Balances	-	-	-	-
Total Liabilities and Fund Balances	\$ -	22,082	\$ 160,781	\$ -

<u>Special Revenue Funds</u>						
<u>Head Start In- Kind</u>	<u>Hogg Found</u>	<u>Misc Local Grants</u>	<u>Total Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds (See Exhibit B-1)</u>	
\$ 49,082	\$ 7,108	\$ 46,624	\$ 124,896	\$ -	\$ 124,896	
-	-	-	1,789,394	-	1,789,394	
<u>\$ 49,082</u>	<u>\$ 7,108</u>	<u>\$ 46,624</u>	<u>\$ 1,914,290</u>	<u>\$ -</u>	<u>\$ 1,914,290</u>	
\$ -	\$ 2,000	\$ -	\$ 756,129	\$ -	\$ 756,129	
-	-	-	105,350	-	105,350	
-	-	-	951,997	-	951,997	
49,082	5,108	46,624	100,814	-	100,814	
<u>49,082</u>	<u>7,108</u>	<u>46,624</u>	<u>1,914,290</u>	<u>-</u>	<u>\$ 1,914,290</u>	
-	-	-	-	-	-	
<u>\$ 49,082</u>	<u>\$ 7,108</u>	<u>\$ 46,624</u>	<u>\$ 1,914,290</u>	<u>\$ -</u>	<u>\$ 1,914,290</u>	

HARRIS COUNTY DEPARTMENT OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2018

	Special Revenue Funds			
	Head Start - Training and Tech Assist	Early Head Start/Child Care Partnership	Federal TANF Grant	Federal Adult Ed Regular Grant
Revenues				
Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
State Programs	-	-	-	-
Federal Programs	90,810	54,770	164,339	2,972,046
Total Revenues	90,810	54,770	164,339	2,972,046
Expenditures				
Current:				
Adult Education Program	-	-	164,339	2,972,046
Center for After-School, Summer & Expanded	-	-	-	-
Digital Education & Innovation	-	-	-	-
Head Start Program	90,810	54,770	-	-
Special Schools & Services	-	-	-	-
Debt Service:				
Principal on Long-Term Debt	-	-	-	-
Interest on Long-Term Debt	-	-	-	-
Total Expenditures	90,810	54,770	164,339	2,972,046
Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	-	-	-
Fund Balances-Beginning	-	-	-	-
Fund Balances-Ending	\$ -	\$ -	\$ -	\$ -

Special Revenue Funds

<u>Adult Ed English Literacy/Civics</u>	<u>21st Century Cycle 8</u>	<u>21st Century Cycle 9</u>	<u>21st Century Cycle 10</u>	<u>Texas Council Dev. Disability</u>	<u>Adult Ed State</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	1,256,277
<u>402,339</u>	<u>2,045,431</u>	<u>1,635,609</u>	<u>4,716</u>	<u>2,800</u>	<u>-</u>
<u>402,339</u>	<u>2,045,431</u>	<u>1,635,609</u>	<u>4,716</u>	<u>2,800</u>	<u>1,256,277</u>
402,339	-	-	-	-	1,256,277
-	2,045,431	1,635,609	4,716	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	2,800	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>402,339</u>	<u>2,045,431</u>	<u>1,635,609</u>	<u>4,716</u>	<u>2,800</u>	<u>1,256,277</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2018

	Special Revenue Funds			
	Texas Virtual Schools Network (TxVSN)	Houston Endowment	City of Houston Grant	Early Head Start In-Kind
Revenues				
Local and Intermediate Sources	\$ -	\$ 174,453	\$ 750,095	\$ 132,572
State Programs	201,885	-	-	-
Federal Programs	-	-	-	-
Total Revenues	<u>201,885</u>	<u>174,453</u>	<u>750,095</u>	<u>132,572</u>
Expenditures				
Current:				
Adult Education Program	-	-	-	-
Center for After-School, Summer & Expanded	-	174,453	750,095	-
Digital Education & Innovation	201,885	-	-	-
Head Start Program	-	-	-	132,572
Special Schools & Services	-	-	-	-
Debt Service:				
Principal on Long-Term Debt	-	-	-	-
Interest on Long-Term Debt	-	-	-	-
Total Expenditures	<u>201,885</u>	<u>174,453</u>	<u>750,095</u>	<u>132,572</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other Financing Sources (Uses)				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	-	-	-	-
Fund Balances-Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances-Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Funds					
Head Start In-Kind	Hogg Found	Misc Local Grants	Total Special Revenue Funds	Debt Service Fund	Nonmajor Governmental Funds (See Exhibit B-1)
\$ 3,695,412	\$ 11,702	\$ 1,333	\$ 4,765,567	\$ -	\$ 4,765,567
-	-	-	1,458,162	-	1,458,162
-	-	-	7,372,860	-	7,372,860
<u>3,695,412</u>	<u>11,702</u>	<u>1,333</u>	<u>13,596,589</u>	<u>-</u>	<u>13,596,589</u>
-	-	-	4,795,001	-	4,795,001
-	-	-	4,610,304	-	4,610,304
-	-	-	201,885	-	201,885
3,695,412	11,702	-	3,985,266	-	3,985,266
-	-	1,333	4,133	-	4,133
-	-	-	-	2,826,429	2,826,429
-	-	-	-	318,163	318,163
<u>3,695,412</u>	<u>11,702</u>	<u>1,333</u>	<u>13,596,589</u>	<u>3,144,592</u>	<u>16,741,181</u>
-	-	-	-	(3,144,592)	(3,144,592)
-	-	-	-	3,144,592	3,144,592
-	-	-	-	3,144,592	3,144,592
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



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HARRIS COUNTY DEPARTMENT OF EDUCATION
INTERNAL SERVICE FUNDS OVERVIEW

Internal Service Funds are used to report activities that provide goods or services to other funds on a cost-reimbursement basis and to report risk financing activities related to the self-insured compensation program.

Workers' Compensation Fund

Accounts for risk financing activities related to the self-insured compensation program. All employees of the Department are covered by this plan for injuries occurring on the job. The Department contributes 100 percent of the funding for this program.

Facility Charges Fund

Accounts for the services offered by the centralized Facilities Division to all Department campuses and divisions. Department budgets contribute a prorated share to cover the costs for facility services.

HARRIS COUNTY DEPARTMENT OF EDUCATION
COMBINING STATEMENT OF NET POSITION -
INTERNAL SERVICES FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

Exhibit D-3

	Workers' Compensation Fund	Facility Charges Fund	Total Internal Service Funds (see Exhibit B-5)
Assets			
Current Assets:			
Cash and cash equivalents	\$ 1,353,233	\$ 140,584	\$ 1,493,817
Due from other funds	-	-	-
Prepaid items	287,988	-	287,988
Total Assets	<u>1,641,221</u>	<u>140,584</u>	<u>1,781,805</u>
Liabilities			
Current Liabilities:			
Accounts payable	-	130,071	130,071
Accrued wages payable	-	10,513	10,513
Claims payable - due within one year	188,814	-	188,814
Total Liabilities	<u>188,814</u>	<u>140,584</u>	<u>329,398</u>
Net Position			
Unrestricted	<u>1,452,407</u>	-	<u>1,452,407</u>
Total Net Position	<u>\$ 1,452,407</u>	<u>\$ -</u>	<u>\$ 1,452,407</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION
COMBINING STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION -
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

Exhibit D-4

	Workers' Compensation Fund	Facility Charges Fund	Total Internal Service Funds (see Exhibit B-6)
Operating Revenues			
Charges for Services	\$ 313,094	\$ 4,870,171	\$ 5,183,265
Total Operating Revenues	<u>313,094</u>	<u>4,870,171</u>	<u>5,183,265</u>
Operating Expenses			
Payroll Costs	-	2,437,533	2,437,533
Professional Services	-	1,551,261	1,551,261
Supplies and Materials	-	427,287	427,287
Miscellaneous Operating Expenses	291,926	454,090	746,016
Total Operating Expenses	<u>291,926</u>	<u>4,870,171</u>	<u>5,162,097</u>
Change in Net Position	21,168	-	21,168
Total Net Position-Beginning	<u>1,431,239</u>	<u>-</u>	<u>1,431,239</u>
Total Net Position-Ending	<u><u>\$ 1,452,407</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,452,407</u></u>

HARRIS COUNTY DEPARTMENT OF EDUCATION
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2018

Exhibit D-5

	Workers' Compensation Fund	Facility Charges Fund	Total Internal Service Funds (see Exhibit B-7)
Cash Flows from Operating Activities			
Receipts from interfund services provided	\$ 313,094	\$ 4,870,171	\$ 5,183,265
Payments to employees	-	(2,438,033)	(2,438,033)
Payments to suppliers	-	(2,493,087)	(2,493,087)
Payments for workers' compensation claims	(374,486)	-	(374,486)
Net cash provided by (used in) operating activities	<u>(61,392)</u>	<u>(60,949)</u>	<u>(122,341)</u>
Net increase (decrease) in cash and cash equivalents	(61,392)	(60,949)	(122,341)
Cash and cash equivalents at beginning of year	1,414,625	201,533	\$ 1,616,158
Cash and cash equivalents at end of year	<u>\$ 1,353,233</u>	<u>\$ 140,584</u>	<u>\$ 1,493,817</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities			
Operating income	\$ 21,168	\$ -	\$ 21,168
Changes in Assets and Liabilities:			
Decrease (increase) in prepaid items	(3,884)	-	(3,884)
Increase (decrease) in accounts payable	-	(60,449)	(60,449)
Increase (decrease) in accrued wages payable	-	(500)	(500)
Increase (decrease) in claims payable	(78,676)	-	(78,676)
Net cash provided by (used in) operating activities	<u>\$ (61,392)</u>	<u>\$ (60,949)</u>	<u>\$ (122,341)</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION FIDUCIARY FUNDS OVERVIEW

AGENCY FUNDS

Agency Funds are used to account for resources held for the benefit of parties outside the Department. The Department is the trustee, or fiduciary, for money raised by student activities at the schools. The Department is responsible for ensuring that the assets in these funds are used for their intended purposes. All the Department's fiduciary activities are reported in a separate statement of fiduciary assets and liabilities and a statement of changes in assets and liabilities-agency funds. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the Department's programs.

HARRIS COUNTY DEPARTMENT OF EDUCATION
AGENCY FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
For the Year Ended August 31, 2018

Exhibit D -6

	Balance August 31, 2017	Increases	Decreases	Balance August 31, 2018 (see Exhibit B-8)
Assets				
Cash and cash equivalents	\$ 39,633	\$ 5,390	\$ (3,752)	\$ 41,271
Total Assets	<u>\$ 39,633</u>	<u>\$ 5,390</u>	<u>\$ (3,752)</u>	<u>\$ 41,271</u>
Liabilities				
Accounts payable	\$ 6,807	\$ 38,216	\$ (3,752)	\$ 41,271
Due to student groups	32,826	16,865	(49,691)	-
Total Liabilities	<u>\$ 39,633</u>	<u>\$ 55,081</u>	<u>\$ (53,443)</u>	<u>\$ 41,271</u>



**OTHER SUPPLEMENTARY
INFORMATION**

Back of Other Supplementary Information Divider

HARRIS COUNTY DEPARTMENT OF EDUCATION

Exhibit E -1

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

For the Year Ended August 31, 2018

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Expenditures				
Debt Service:				
Principal on Long-Term Debt	\$ 2,826,429	\$ 2,826,429	\$ 2,826,429	\$ -
Interest on Long-Term Debt	318,163	318,163	318,163	-
Total Expenditures	<u>3,144,592</u>	<u>3,144,592</u>	<u>3,144,592</u>	<u>-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,144,592)</u>	<u>(3,144,592)</u>	<u>(3,144,592)</u>	<u>-</u>
Other Financing Sources (Uses)				
Transfers In	3,144,592	3,144,592	3,144,592	-
Total Other Financing Sources (Uses)	<u>3,144,592</u>	<u>3,144,592</u>	<u>3,144,592</u>	<u>-</u>
Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances-Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances-Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION

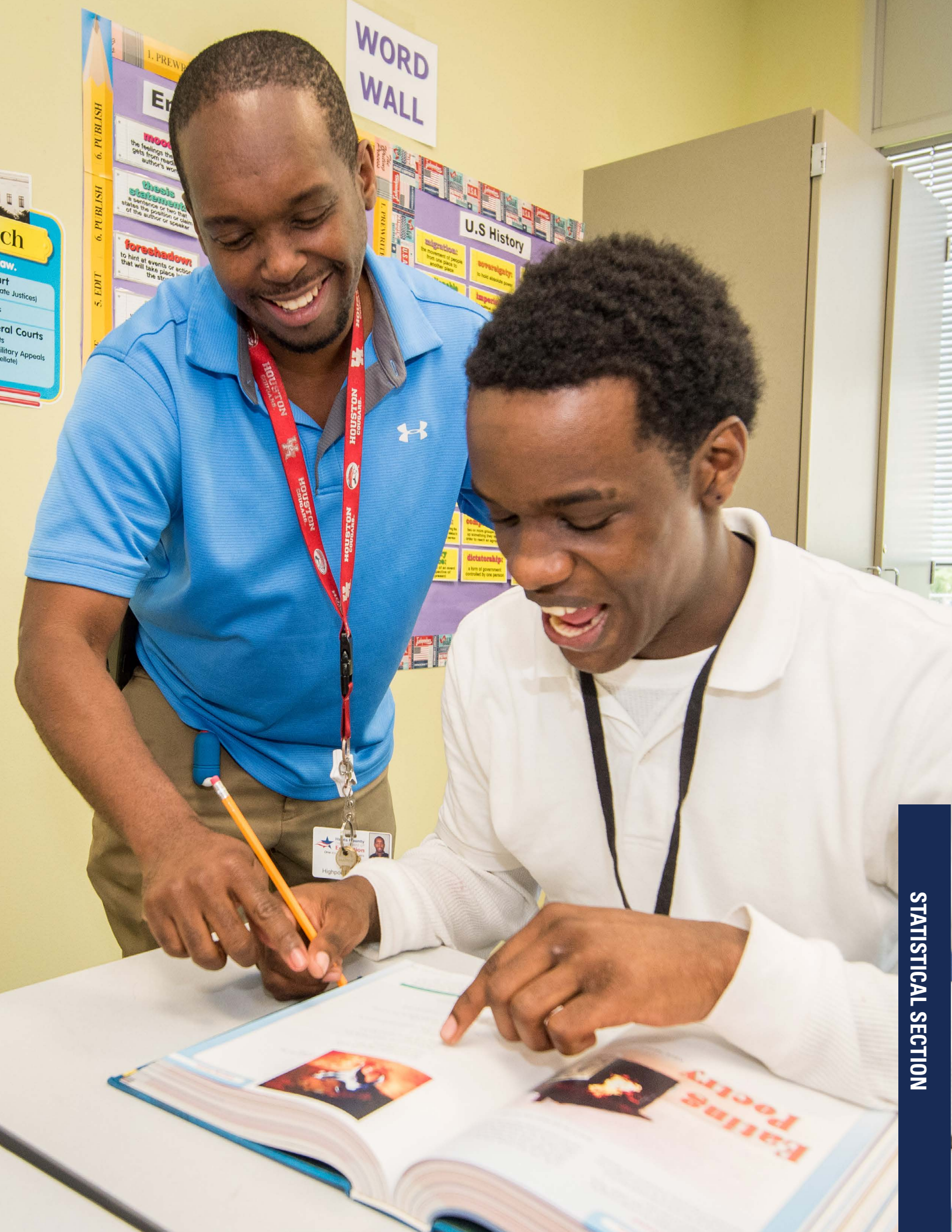
Exhibit E-2

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2018

Year Ended August 31	Tax Rate		Assessed Value	Beginning Balance	Current Year Levy	Collections & Adjustments	Ending Balance
	Maintenanc	Debt					
2009 & Prior	Various	-	Various	\$ 180,838	\$ -	\$ 81,228	\$ 99,610
2010	0.006050	-	283,907,489,994	41,201	-	3,449	37,752
2011	0.006581	-	271,838,192,122	42,031	-	4,732	37,299
2012	0.006581	-	275,667,298,681	44,107	-	5,731	38,376
2013	0.006617	-	289,669,533,021	47,264	-	6,484	40,780
2014	0.006358	-	315,575,070,777	50,701	-	7,563	43,138
2015	0.005999	-	348,957,092,849	73,882	-	12,573	61,309
2016	0.005422	-	388,054,684,618	118,386	-	37,404	80,982
2017	0.005200	-	416,884,796,154	265,809	-	155,026	110,783
2018	0.005195	-	434,078,173,795	-	22,230,714	21,937,173	293,541
Totals				<u>\$ 864,219</u>	<u>\$ 22,230,714</u>	<u>\$ 22,251,363</u>	<u>\$ 843,570</u>

* Taxes shown based on 20 year statute of limitation for real property and 10 years for personal property.



Back of Statistical Section Divider

HARRIS COUNTY DEPARTMENT OF EDUCATION
STATISTICAL SECTION
(Unaudited)

Table of Contents

	<u>Page</u>	<u>Exhibit</u>
Introduction to the Statistical Section	112	
Financial Trends:		
Net Position by Component	114	Table 1
Changes in Net Position	116	Table 2
Fund Balances of Governmental Funds	120	Table 3
Changes in Fund Balances-Governmental Funds	122	Table 4
Governmental Funds Revenues	124	Table 5
Governmental Funds Expenditures and Debt Service Ratio	126	Table 6
Revenue Capacity:		
Property Tax Levies and Collections	129	Table 7
Property Tax Rates-Direct and Overlapping Governments	130	Table 8
Assessed and Estimated Actual Value of Taxable Property	132	Table 9
Principal Taxpayers	133	Table 10
Debt Capacity:		
Ratio of Net General Bonded Debt Outstanding to Assessed Property Value, Percent of Personal Income and Debt per Capita	135	Table 11
Ratio of Annual Debt Service Expenditures by Type to Governmental Funds Expenditures	136	Table 12
Estimated County-wide Direct and Overlapping Bonded Debt	137	Table 13
Demographic and Economic Information:		
Demographic and Economic Statistics	139	Table 14
Miscellaneous Statistical Data	140	Table 15
Principal Employers	141	Table 16
Operating Information:		
Employees by Program	144	Table 17
Operational Indicators by Program	146	Table 18
Building Information	147	Table 19
Service Area and Locations-Description	148	Table 20
Service Area-Map: Harris County, Texas and 25 School Districts	149	Table 21

HARRIS COUNTY DEPARTMENT OF EDUCATION
INTRODUCTION TO THE STATISTICAL SECTION
(Unaudited)

Statistical Tables are used to provide detailed data on the physical, economic, social, and political characteristics of a government. They are intended to provide financial report users with a broader and more complete understanding of the government and its financial affairs than is possible from the basic financial statements.

The information is provided in the following five categories:

Financial Trends – These schedules contain trend information to assist users in understanding and assessing how the Department’s financial position has changed over time.

Revenue Capacity – These schedules contain information to assist users in understanding and assessing the factors affecting the Department’s ability to generate its own-source revenues.

Debt Capacity – These schedules present information to assist users in understanding and assessing the Department’s current level of outstanding debt and the Department’s ability to issue additional debt.

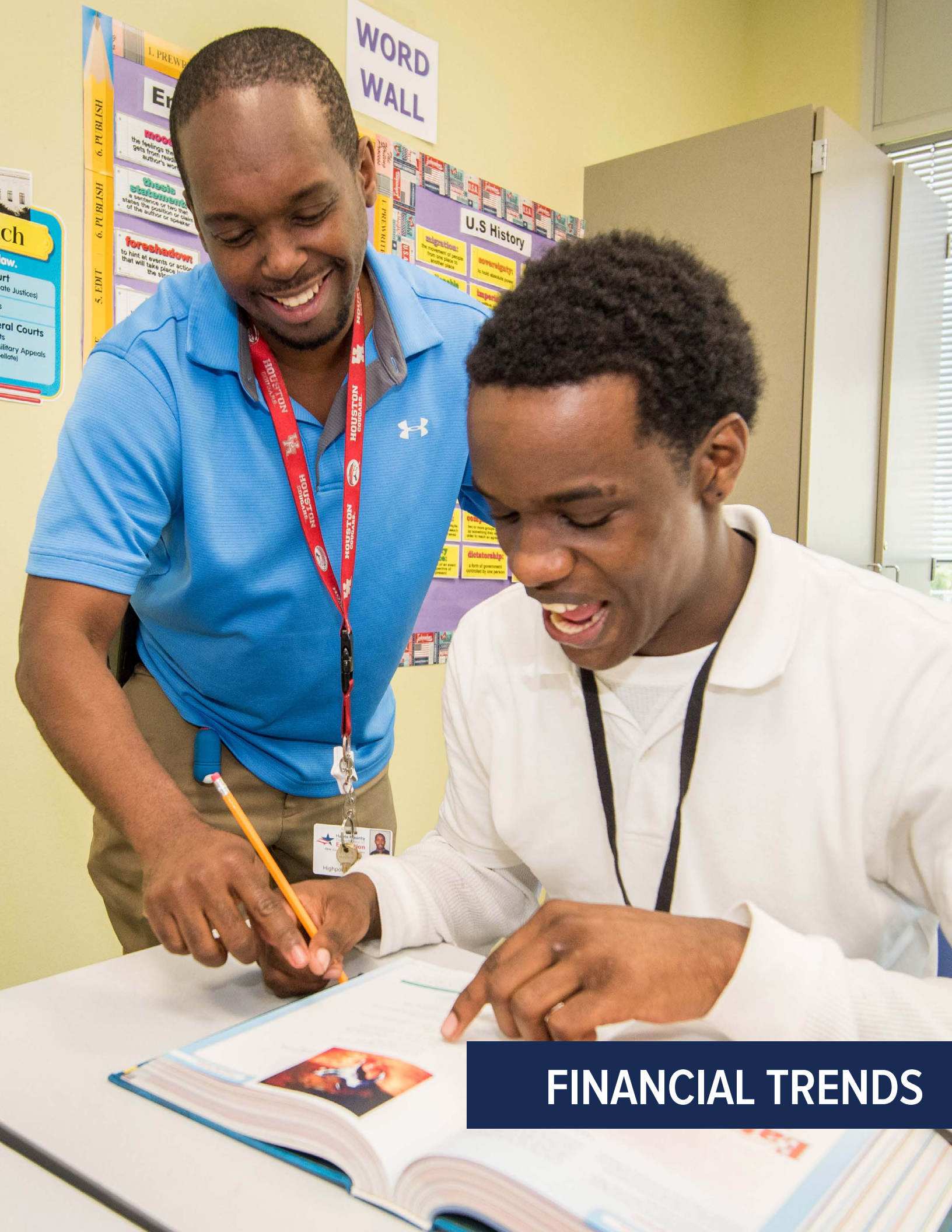
Demographic and Economic Information – These schedules present information to assist users in understanding the environment within which the Department’s financial activity takes place.

Operating Information – These schedules provide contextual information about the Department’s operations and resources to assist readers in using financial statement information to understand and assess the Department’s economic condition.

Statistical Tables usually cover ten fiscal years, unless otherwise noted.

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year. Where data is presented from outside the accounting records, the source will be noted.

These tables are unaudited due to the nature of the information contained therein.



FINANCIAL TRENDS

Back of Financial Trends Divider



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HARRIS COUNTY DEPARTMENT OF EDUCATION

NET ASSETS BY COMPONENT

LAST TEN FISCAL YEARS

(accrual basis of accounting)

(Unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Governmental Activities:				
Net investment in capital assets	\$ 43,712,723	\$ 32,428,990	\$ 32,428,990	\$ 34,145,710
Restricted	-	-	-	31,983
Unrestricted	(20,722,390)	26,188,720	26,188,720	20,804,496
Total Governmental Activities	<u>\$ 22,990,333</u>	<u>\$ 58,617,710</u>	<u>\$ 58,617,710</u>	<u>\$ 54,982,189</u>
Business-Type Activities:				
Unrestricted	\$ 500,000	-	-	-
Total Business-Type Activities	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total:				
Net investment in capital assets	\$ 43,712,723	\$ 32,428,990	\$ 32,428,990	\$ 34,145,710
Restricted	-	-	-	31,983
Unrestricted	(20,222,390)	26,188,720	26,188,720	20,804,496
Total Net Position	<u>\$ 23,490,333</u>	<u>\$ 58,617,710</u>	<u>\$ 58,617,710</u>	<u>\$ 54,982,189</u>

Fiscal years before 2011 have not been restated fro GASB Statement No. 65.

Fiscal years before 2014 have not been restated for GASB Statement No. 68.

Fiscal year 2016 Choice Partners was accounted for as an enterprise fund.

Source: HCDE records

Table 1

2014	2013	2012	2011	2010	2009
\$32,677,342	\$29,291,742	\$28,309,727	\$26,859,324	\$25,004,772	\$ 20,685,106
31,881	1,028,015	1,138,752	1,476,805	2,267,449	-
17,622,666	24,172,444	22,243,309	18,647,502	15,957,786	19,736,547
<u>\$ 50,331,889</u>	<u>\$ 54,492,201</u>	<u>\$ 51,691,788</u>	<u>\$ 46,983,631</u>	<u>\$ 43,230,007</u>	<u>\$ 40,421,653</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$32,677,342	\$29,291,742	\$28,309,727	\$26,859,324	\$25,004,772	\$ 20,685,106
31,881	1,028,015	1,138,752	1,476,805	2,267,449	-
17,622,666	24,172,444	22,243,309	18,647,502	15,957,786	19,736,547
<u>\$ 50,331,889</u>	<u>\$ 54,492,201</u>	<u>\$ 51,691,788</u>	<u>\$ 46,983,631</u>	<u>\$ 43,230,007</u>	<u>\$ 40,421,653</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION

CHANGES IN NET ASSETS

LAST TEN YEARS

(accrual basis of accounting)

(unaudited)

	2018	2017	2016	2015
Expenses:				
Governmental Activities:				
Adult Education Program	\$ 1,036,132	\$ 3,873,917	\$ 4,050,032	\$ 3,895,904
Assistant Superintendents' Offices	550,282	539,630	537,885	517,072
Board of Trustees	128,396	138,256	131,506	205,134
Business Support Services	1,763,138	1,720,319	1,790,657	1,674,204
Center for After-School, Summer & Expanded Learning	5,934,605	7,289,977	7,315,643	8,468,498
Center for Safe and Secure Schools	86,464	655,108	491,085	623,098
Center for School Governance & Fiscal Accountability	-	-	-	70,430
Center for Texas Grant Development	568,024	555,688	544,990	519,875
Choice Partners Cooperatives	-	-	-	1,727,275
Client Engagement	491,644	374,313	451,521	456,323
Communications	774,921	858,041	884,274	709,750
Department Wide	6,111,173	7,089,535	6,808,688	5,421,099
Digital Learning	441,316	1,391,612	368,131	1,450,677
Early Childhood Intervention	-	-	-	2,112,772
Education Certification & Professional Advancement	627,407	678,461	630,272	506,930
Education Foundation	-	9,559	199,417	200,398
Facility Support Services	937,572	1,112,896	772,981	981,239
Head Start Program	7,146,626	17,304,932	16,103,236	15,401,901
Human Resources	1,023,212	994,097	943,149	945,021
Interest and Fees on Long-Term Debt	330,095	602,708	310,720	480,219
PFC Capital Projects	-	-	-	-
Preschool Initiative	-	-	-	-
Principal Certification	-	-	-	-
Purchasing Support Services	494,421	494,804	477,229	402,651
Quality Zone Academy Bonds	-	-	6,281	-
Records Management Services	1,921,547	1,627,074	1,656,361	1,777,447
Research and Evaluation Institute	597,668	579,394	515,936	460,493
Retirement Leave Benefits	124,832	358,964	322,795	288,606
Scholastic Arts and Writing Program	99,932	101,618	102,702	88,126
School Based Therapy Services	10,328,779	9,790,720	9,375,763	8,686,191
Special Assistant to Superintendent	239,431	291,630	189,323	130,936
Special Schools & Services	11,535,687	11,091,019	10,865,891	11,270,451
Superintendent's Office	443,456	448,785	385,255	432,322
Technology Support Services	3,381,097	3,446,066	5,052,094	4,115,775
Texas LEARNS	-	-	-	-
The Teaching & Learning Center	1,262,855	1,240,775	1,068,452	1,185,444
Total Governmental Activities Expenses	58,380,712	74,659,898	72,352,269	75,206,261
Business-Type Activities:				
Choice Partners Cooperatives	1,844,392	1,783,195	1,879,446	-
Transfer out	2,803,104	2,588,083	2,547,458	-
Total Business-Type Activities Expenses	4,647,496	4,371,278	4,426,904	-
Total Expenses	\$ 63,028,208	\$ 79,031,176	\$ 76,779,173	\$ 75,206,261

Table 2
Page 1 of 2

2014	2013	2012	2011	2010	2009
\$ 4,187,795	\$ 4,651,034	\$ 4,509,212	\$ 4,557,894	\$ 5,144,526	\$ 4,379,611
465,054	457,916	448,143	454,962	453,806	431,737
194,415	157,546	108,958	139,736	120,431	115,862
1,652,498	1,600,940	1,534,745	1,574,090	1,628,888	1,471,406
6,932,436	8,165,637	8,771,440	7,987,851	8,844,959	10,940,949
758,633	418,556	366,018	623,773	565,790	441,688
129,537	177,036	180,569	182,788	184,637	205,617
503,314	548,899	556,711	583,140	545,536	491,606
1,596,110	1,579,708	1,376,087	1,146,389	1,072,172	693,790
410,006	403,880	403,621			
652,250	651,610	510,174	931,203	675,051	636,832
5,380,665	5,350,114	5,509,879	6,012,835	5,924,982	5,921,777
1,668,330	1,997,071	2,654,232	2,273,670	1,446,346	882,688
4,871,933	5,132,950	5,868,623	-	-	-
510,939	301,540	220,146	86,709	102,752	117,165
200,535	199,404	201,501	150,799	165,117	108,671
767,703	1,282,812	146,827	1,543,377	1,060,337	1,320,413
13,758,980	14,224,031	15,012,643	17,381,287	15,995,602	14,204,023
922,955	871,057	879,957	934,406	907,475	1,011,768
799,380	787,589	902,724	952,271	1,041,009	979,040
-	26,845	-	-	-	-
36,600	-	-	-	-	-
-	-	-	96,667	68,664	41,984
427,478	394,331	356,325	793,005	865,714	788,422
-	311,727	42,866	121,333	383,114	358,126
1,685,191	1,665,781	1,435,224	928,451	1,455,746	1,244,240
492,210	466,180	460,471	441,428	424,036	337,107
410,154	219,305	224,144	261,983	65,515	78,840
72,185	71,667	60,614	78,247	76,865	63,129
7,932,355	7,702,266	7,327,653	15,837,809	16,359,289	15,691,561
-	6,253	64,479	76,259	77,220	70,648
11,018,200	10,086,230	10,245,287	10,619,419	10,390,655	9,845,635
504,922	369,316	352,778	353,268	341,542	342,601
3,961,667	3,737,958	3,373,381	3,219,235	2,732,852	2,651,849
421,089	6,853,142	1,854,304	1,960,269	1,889,908	1,718,764
1,221,872	961,954	1,008,144	979,491	959,287	977,374
74,547,391	81,832,285	76,967,880	83,284,044	81,969,823	78,564,923
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ 74,547,391	\$ 81,832,285	\$ 76,967,880	\$ 83,284,044	\$ 81,969,823	\$ 78,564,923

HARRIS COUNTY DEPARTMENT OF EDUCATION

CHANGES IN NET ASSETS

LAST TEN YEARS

(accrual basis of accounting)

(unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Program Revenues:				
Governmental Activities:				
Charges for services:				
Assistant Superintendents' Offices	\$ -	\$ -	\$ -	\$ -
Business Support Services	4,590	58,597	284,473	169,052
Center for After-School, Summer & Expanded Learning	89,994	9,506	11,800	29,015
Center for Safe and Secure Schools	187,729	502,661	117,350	120,735
Center for School Governance & Fiscal Accountability	-	-	-	-
Center for Texas Grant Development	865	840	2,275	2,495
Choice Facility Partners (1)	-	-	-	3,201,052
Client Engagement	-	-	-	1,400
Communications	-	-	-	-
Department Wide	28,480	20,215	12,963	13,824
Digital Learning	25,755	41,745	61,015	83,160
Early Childhood Intervention	-	-	-	108,208
Education Certification & Professional Advancement	228,979	206,289	252,270	255,109
Head Start Program	250	-	-	-
Human Resources	-	-	-	-
Principal Certification	-	-	-	-
Purchasing Cooperatives (1)	-	-	-	-
Purchasing Support Services	-	-	5,559	3,563
Records Management Services	1,894,771	1,563,165	1,569,386	1,558,589
Research and Evaluation Institute	79,249	2,002	48,644	39,823
Scholastic Arts and Writing Program	-	-	40,449	26,155
School Based Therapy Services	8,888,790	8,552,308	8,633,429	8,151,129
Special Assistant to Superintendent	-	-	-	-
Special Schools & Services	8,327,481	8,433,065	7,439,987	7,849,458
Technology Support Services	9,850	17,440	61,296	227,846
The Teaching & Learning Center	731,899	734,437	773,405	945,650
Total Charges for Services	<u>20,498,682</u>	<u>20,142,270</u>	<u>19,314,301</u>	<u>22,786,263</u>
Operating grants and contributions	18,289,999	23,509,189	23,307,323	25,840,048
General Revenues				
Property taxes, levied for general purposes	22,494,557	21,723,798	21,059,842	21,041,087
Grants and contributions not restricted to specific program	2,439,712	4,804,746	5,560,503	5,077,413
Investment earnings	554,708	170,480	60,751	13,331
Miscellaneous income	4,988,233	5,356,853	5,152,391	4,462,989
Transfers	2,803,104	2,588,083	2,547,458	-
Total Governmental Activities Revenues	<u>72,068,995</u>	<u>78,295,419</u>	<u>77,002,569</u>	<u>79,221,131</u>
Business-Type Activities:				
Charges for services:				
Choice Partners Cooperative	5,147,496	4,371,278	4,426,904	-
Total Revenues-Business Type Activities	<u>5,147,496</u>	<u>4,371,278</u>	<u>4,426,904</u>	<u>-</u>
Total Revenues	<u>77,216,491</u>	<u>82,666,697</u>	<u>81,429,473</u>	<u>79,221,131</u>
Change in Net Position				
Total Primary Government	<u>\$ 14,188,283</u>	<u>\$ 3,635,521</u>	<u>\$ 4,650,300</u>	<u>\$ 4,014,870</u>

(1) Combined Purchasing Cooperatives with Choice Partners in FY12. In FY 2016 Choice Partners was accounted for as an enterprise fund.

Source: HCDE records

Table 2
Page 2 of 2

2014	2013	2012	2011	2010	2009
\$ -	\$ -	\$ -	\$ -	\$ 1,250	\$ -
285,093	308,464	74,005	18,707	2,621	23,113
27,142	16,884	24,114	87,896	38,422	67,974
436,410	141,767	195,085	487,011	266,967	134,505
29,805	-	11,800	33,152	39,900	27,400
2,800	32,537	98,171	86,672	51,772	63,499
2,896,693	3,242,503	3,066,053	2,104,297	1,493,465	1,171,573
-	2,800	-	-	-	-
-	-	4,187	19,900	5,410	28,067
13,003	11,284	33,682	173,005	39,165	231,928
90,200	69,568	63,070	122,523	238,203	79,955
324,614	324,614	327,536	-	-	-
196,902	115,317	148,409	145,511	82,984	97,231
-	-	-	70	-	-
1,795	2,800	-	800	800	150
-	-	-	-	188,610	84,736
-	-	-	1,537,632	1,519,170	1,317,873
-	-	61,677	-	-	-
1,435,793	1,382,845	1,361,825	1,265,210	1,179,488	1,147,188
60,451	55,150	64,349	66,029	76,830	38,841
19,135	15,130	18,645	1,000	19,714	17,710
7,706,746	7,477,282	6,798,685	7,315,492	7,607,796	6,541,265
-	-	1,440	-	-	-
8,373,138	7,903,760	7,704,848	7,709,338	7,737,711	8,366,921
418,406	255,096	367,630	302,817	38,635	70,205
888,464	851,549	677,535	675,463	390,679	423,010
<u>23,206,590</u>	<u>22,209,350</u>	<u>21,102,746</u>	<u>22,152,525</u>	<u>21,019,592</u>	<u>19,933,144</u>
24,888,778	35,391,753	32,096,407	34,200,575	35,020,819	34,880,826
20,184,898	19,353,694	18,248,412	17,848,708	17,519,315	16,610,331
4,679,915	4,909,527	4,882,113	5,157,119	4,636,981	4,930,825
8,133	23,938	24,893	29,984	43,108	177,626
4,379,490	4,652,180	5,040,598	6,703,537	5,132,734	4,440,563
-	-	-	-	-	-
<u>77,347,804</u>	<u>86,540,442</u>	<u>81,395,169</u>	<u>86,092,448</u>	<u>83,372,549</u>	<u>80,973,315</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>77,347,804</u>	<u>86,540,442</u>	<u>81,395,169</u>	<u>86,092,448</u>	<u>83,372,549</u>	<u>80,973,315</u>
<u>\$ 2,800,413</u>	<u>\$ 4,708,157</u>	<u>\$ 4,427,289</u>	<u>\$ 2,808,404</u>	<u>\$ 1,402,726</u>	<u>\$ 2,408,392</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION

FUND BALANCES OF GOVERNMENTAL FUNDS

LAST TEN FISCAL YEARS

(modified accrual basis of accounting)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
General Fund:					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	-
Nonspendable	128,037	163,555	159,613	163,462	148,912
Restricted	-	-	-	6,281	6,281
Committed	2,014,976	1,575,000	6,200,000	6,721,446	3,150,000
Assigned	9,499,397	9,363,629	7,538,285	5,185,416	8,394,445
Unassigned	17,769,755	17,020,303	17,022,340	15,826,627	14,901,561
Total General Fund	<u>\$ 29,412,165</u>	<u>\$ 28,122,487</u>	<u>\$ 30,920,238</u>	<u>\$ 27,903,232</u>	<u>\$ 26,601,199</u>
All Other Governmental Funds:					
Reserved, reported in:					
PFC Capital Projects Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted, reported in:					
PFC Capital Projects Fund	11,219,387	10,874,006	31,983	31,881	1,021,734
Total All Other Governmental Funds	<u>\$ 11,219,387</u>	<u>\$ 10,874,006</u>	<u>\$ 31,983</u>	<u>\$ 31,881</u>	<u>\$ 1,021,734</u>

Note: For the fiscal year 2010 and prior the amounts represent Pre-GASB 54

Source: HCDE records.

Table 3

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
\$ -	\$ -	\$ -	\$12,691,734	\$7,018,717
-	-	-	9,038,193	8,791,111
146,919	111,719	119,634	-	-
117,019	428,228	1,218,921	-	-
1,408,000	1,408,000	1,408,000	-	-
9,394,231	7,450,241	5,810,352	-	-
13,748,845	12,425,483	10,668,827	-	-
<u>\$ 24,815,014</u>	<u>\$ 21,823,671</u>	<u>\$ 19,225,734</u>	<u>\$ 21,729,927</u>	<u>\$ 15,809,828</u>
\$ -	\$ -	\$ -	\$1,048,571	\$1,514,369
1,021,733	1,048,577	1,048,578	-	-
<u>\$ 1,021,733</u>	<u>\$ 1,048,577</u>	<u>\$ 1,048,578</u>	<u>\$ 1,048,571</u>	<u>\$ 1,514,369</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION

CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS

(modified accrual basis of accounting)

(UNAUDITED)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015*</u>
Total revenues	\$ 78,200,293	\$ 75,335,740	\$ 73,253,550	\$ 79,276,809
Total expenditures	<u>79,368,338</u>	<u>76,879,551</u>	<u>72,783,901</u>	<u>78,145,010</u>
Excess (deficiency) of revenues over(under) expenditures:	<u>(1,168,045)</u>	<u>(1,543,811)</u>	<u>469,649</u>	<u>1,131,799</u>
Other Financing Sources (Uses)				
QZAB Bond sale proceeds	-	-	-	-
Lease Revenue Bond Refunding	-	-	-	4,255,000
Payment on Bond Refunding Escrow Agent	-	-	-	(5,074,619)
Maintenance tax note proceeds	-	-	-	-
Premium on QZAB Bond Sales	-	-	-	-
Bond Sale	-	7,000,000	-	-
Sale of equipment	-	-	-	-
Transfers in	8,573,483	11,267,601	5,799,651	4,752,664
Transfers out	<u>(5,770,379)</u>	<u>(8,679,518)</u>	<u>(3,252,192)</u>	<u>(4,752,664)</u>
Total other financing sources(uses)	<u>2,803,104</u>	<u>9,588,083</u>	<u>2,547,459</u>	<u>(819,619)</u>
Net change in fund balances	<u>\$ 1,635,059</u>	<u>\$ 8,044,272</u>	<u>\$ 3,017,108</u>	<u>\$ 312,180</u>

Source: HCDE records.

* Note: Lease Revenue Bonds were refunded and QZAB bonds were issued in 2009.

Table 4

2014*	2013	2012	2011	2010	2009*
\$ 77,424,337	\$ 86,561,843	\$ 81,495,314	\$ 86,287,924	\$ 83,105,963	\$ 80,935,017
75,858,286	83,597,445	78,904,603	88,792,110	84,895,196	86,031,096
1,566,051	2,964,398	2,590,711	(2,504,186)	(1,789,233)	(5,096,079)
-	-	-	-	-	6,320,000
9,685,000	-	-	-	-	-
(9,465,000)	-	-	-	-	-
-	-	-	-	-	2,000,000
-	-	-	-	-	117,326
-	-	-	-	-	-
135	100	7,226	-	-	940
4,401,099	3,684,601	3,799,980	4,186,302	3,833,822	3,429,842
(4,401,099)	(3,684,601)	(3,799,980)	(4,186,302)	(3,833,822)	(3,429,842)
220,135	100	7,226	-	-	8,438,266
\$ 1,786,186	\$ 2,964,498	\$ 2,597,937	\$ (2,504,186)	\$ (1,789,233)	\$ 3,342,187

HARRIS COUNTY DEPARTMENT OF EDUCATION
GOVERNMENTAL FUNDS REVENUES
LAST TEN FISCAL YEARS
(MODIFIED ACCRUAL BASIS OF ACCOUNTING)
(AMOUNTS EXPRESSED IN THOUSANDS)
(unaudited)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Local Sources:				
Charges for services	\$20,383,705	\$20,043,478	\$19,213,400	\$22,543,051
Property taxes, levied for general purposes	22,514,793	21,751,923	21,141,146	21,107,977
Local grants	4,766,262	5,355,621	5,086,589	5,049,186
Miscellaneous income	891,686	270,504	164,439	267,098
Total Local Sources	<u>48,556,786</u>	<u>47,421,526</u>	<u>45,605,574</u>	<u>48,967,312</u>
State Sources:				
State aid grants	2,352,287	2,260,853	2,810,044	3,182,302
On-behalf payments	2,396,189	2,290,135	2,215,370	2,099,190
Total State Sources	<u>4,748,476</u>	<u>4,550,988</u>	<u>5,025,414</u>	<u>5,281,492</u>
Federal Sources:	<u>24,895,031</u>	<u>23,363,226</u>	<u>22,622,562</u>	<u>25,028,005</u>
Total Revenues	<u>\$78,200,293</u>	<u>\$75,335,740</u>	<u>\$73,253,550</u>	<u>\$79,276,809</u>

Note: General governmental revenues include those received by the following:
General, Special Revenue, Debt Service, and Capital Projects Funds.
Source: HCDE records.

Table 5

2014	2013	2012	2011	2010	2009
\$22,774,848	\$21,794,986	\$20,585,941	\$21,866,639	\$20,865,525	\$19,306,730
20,261,566	19,375,195	18,355,784	18,044,185	17,252,729	16,565,959
4,653,717	4,417,941	4,966,634	6,693,136	5,124,750	4,416,313
466,073	672,441	608,435	326,270	205,159	834,363
<u>48,156,204</u>	<u>46,260,563</u>	<u>44,516,794</u>	<u>46,930,230</u>	<u>43,448,163</u>	<u>41,123,365</u>
4,710,852	5,713,001	6,841,825	7,253,451	5,034,164	4,144,134
2,009,295	1,732,483	1,807,238	1,957,430	2,704,456	2,796,661
<u>6,720,147</u>	<u>7,445,484</u>	<u>8,649,063</u>	<u>9,210,881</u>	<u>7,738,620</u>	<u>6,940,795</u>
<u>22,547,986</u>	<u>32,855,796</u>	<u>28,329,457</u>	<u>30,146,813</u>	<u>31,919,180</u>	<u>32,870,856</u>
<u>\$77,424,337</u>	<u>\$86,561,843</u>	<u>\$81,495,314</u>	<u>\$86,287,924</u>	<u>\$83,105,963</u>	<u>\$80,935,016</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION
GOVERNMENTAL FUNDS EXPENDITURES AND DEBT SERVICE RATIO
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)
(UNAUDITED)

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Adult Education Program	\$ 4,926,751	\$ 3,897,009	\$ 4,068,869	\$ 3,932,144
Assistant Superintendents' Offices	550,282	534,595	533,135	514,795
Board of Trustees	128,396	138,343	131,482	205,738
Business Support Services	1,733,238	1,711,576	1,783,858	1,660,485
Center for After School, Summer & Expanded Learning	7,415,860	7,320,521	7,344,632	8,491,605
Center for Safe & Secure Schools	458,510	647,093	473,676	625,609
Center for School Gov & Fiscal Accountability	-	-	-	70,604
Center for Texas Grants Development	558,169	550,918	540,539	513,827
Choice Partners Cooperatives (1) (2)	-	-	-	1,731,034
Communications & Client Engagement	1,248,256	1,215,481	1,324,033	1,152,090
Department Wide	6,051,002	6,862,145	5,867,987	5,540,253
Digital Learning	406,107	1,345,415	1,662,289	1,375,220
Early Childhood Intervention	-	-	-	2,116,246
Education Certification & Professional Advancement	616,559	673,466	625,469	507,114
Education Foundation	-	9,812	199,603	201,041
Facility Support Services	1,332,808	730,324	449,188	1,288,233
Head Start Program	18,963,042	17,455,113	16,439,375	16,396,415
Human Resources	998,178	986,813	935,877	935,662
PFC Capital Projects	-	-	-	-
Preschool Initiative	-	-	-	-
Principal Certification	-	-	-	-
Purchasing Support Services (1)	488,359	487,590	472,964	397,278
Quality Zone Academy Bonds (QZAB)	-	-	6,281	-
Records Management Services	1,826,139	1,557,380	1,519,616	1,652,481
Research & Evaluation Institute	590,450	575,247	512,665	456,317
Retirement Leave Benefits	124,832	358,964	322,795	288,606
Scholastic Arts & Writing Program	99,932	101,187	102,115	87,516
School Based Therapy Services	10,317,233	9,701,864	9,292,131	8,558,847
Special Assistant to Superintendent	239,431	289,057	187,574	131,149
Special Schools & Services	12,610,677	11,657,915	10,452,501	10,791,044
Superintendent's Office	443,456	445,967	382,543	429,179
Technology Support Services	2,860,974	3,028,436	3,686,311	4,302,817
Texas LEARNS	-	-	-	-
The Teaching & Learning Center	1,235,105	1,229,426	1,058,193	1,181,660
Debt Service:				
Principal Payments	2,826,429	2,781,429	2,106,429	2,131,429
Interest & Fees	318,163	352,303	301,771	307,049
Bond Issuance Costs & Fees	-	234,162	-	171,523
Total Expenditures	<u>\$79,368,338</u>	<u>\$76,879,551</u>	<u>\$72,783,901</u>	<u>\$78,145,010</u>
Debt service as a percentage of non-capital expenditures	4.07%	4.17%	3.37%	3.23%

NOTE: Governmental expenditures include those made by the following funds: General, Special Revenue, Debt Services and Public Facility Corporation (PFC) Capital Projects funds.

(1) Cooperative Programs moved to Choice Facility Cooperatives in FY 2012.

(2) In FY 2016 Choice Partners Cooperatives are accounted as an enterprise fund.

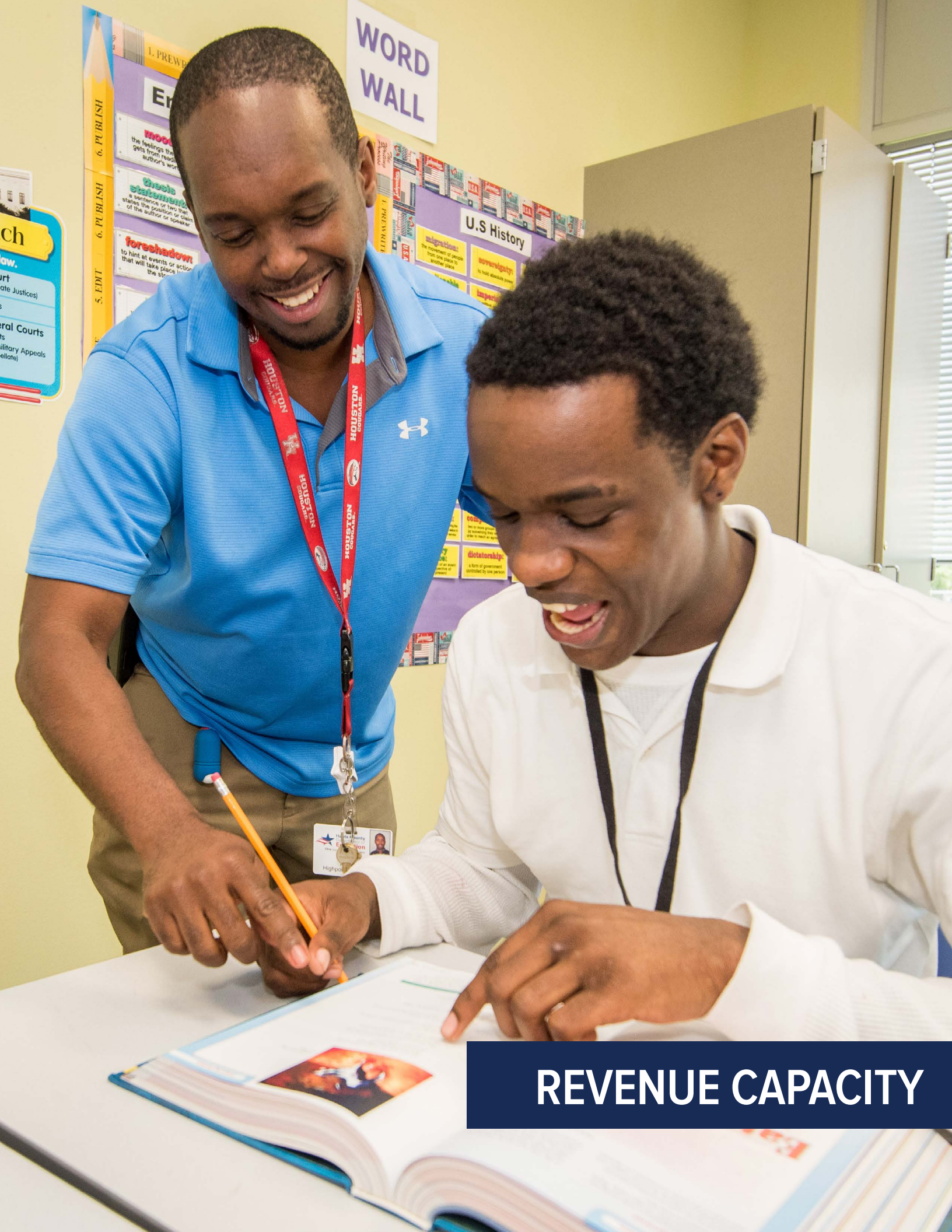
Source: HCDE records.

Table 6

2014	2013	2012	2011	2010	2009
\$ 4,150,520	\$ 4,619,062	\$ 4,492,308	\$4,517,066	\$5,153,392	\$4,374,508
465,329	458,711	446,650	454,940	454,813	431,828
194,851	158,756	108,958	139,736	120,431	115,862
1,654,106	1,605,591	1,525,180	1,573,952	1,635,352	1,475,413
6,932,759	8,171,013	8,771,440	7,987,851	8,844,959	10,940,949
747,801	409,064	413,600	623,732	566,612	441,860
129,596	177,207	180,248	182,784	184,855	205,637
504,065	551,069	552,633	583,081	547,611	491,793
1,592,628	1,579,519	1,367,157	1,171,149	1,072,172	693,790
1,063,174	1,057,789	909,441	931,143	676,953	637,003
5,489,076	5,509,651	5,247,400	6,082,956	6,184,048	5,455,388
1,607,457	2,057,974	2,546,687	2,500,221	1,446,941	848,263
4,871,057	5,130,418	5,864,367	8,164,664	8,375,054	8,668,864
511,485	301,613	220,146	86,709	102,752	117,165
200,754	200,035	200,322	150,782	165,344	108,743
451,170	552,735	412,563	1,875,564	422,598	1,181,923
13,604,585	14,495,379	14,934,870	17,294,830	15,963,246	14,023,964
924,157	874,293	871,536	934,284	913,737	1,012,280
-	26,845	-	-	465,929	3,848,481
36,600	-	-	-	-	-
-	-	-	96,667	68,664	41,984
427,646	394,816	355,414	792,975	869,923	788,801
110,972	311,727	853,810	3,101,860	796,984	3,186,380
1,527,654	1,516,613	1,603,485	1,402,283	1,525,365	1,247,855
492,641	467,427	458,128	441,394	425,438	337,233
410,154	219,305	224,144	261,983	65,515	183,530
72,286	71,961	60,062	78,239	77,238	63,163
7,931,371	7,703,718	7,318,381	7,663,305	7,979,677	7,014,364
-	6,265	64,479	76,259	77,220	70,648
10,623,818	9,977,362	9,838,623	10,309,938	10,357,717	9,636,477
505,248	370,259	351,005	353,242	342,740	342,709
4,192,273	4,145,077	3,208,799	3,365,993	3,505,672	3,077,579
421,492	6,857,589	1,849,495	1,960,188	1,889,908	1,719,085
1,223,398	965,705	998,820	978,342	963,862	976,850
1,916,429	1,811,428	1,761,429	1,711,428	1,646,428	1,150,000
651,734	841,469	893,023	942,570	1,006,046	969,339
220,000	-	-	-	-	151,385
\$75,858,286	\$83,597,445	\$78,904,603	\$88,792,110	\$84,895,196	\$86,031,096
3.46%	3.24%	3.44%	3.19%	3.20%	2.73%



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REVENUE CAPACITY

Back of Revenue Capacity Divider

HARRIS COUNTY DEPARTMENT OF EDUCATION
SCHEDULE OF PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS
(unaudited)

Table 7

Fiscal Year Ended August 31	Net Tax Levy for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percent of Net Tax Levy		Amount	Percent of Total Tax Collections to Net Tax Levy
2018	\$ 22,230,715	\$ 21,937,173	98.68%	\$ -	21,937,173	98.68%
2017	21,678,010	21,412,201	98.77%	155,026	21,567,227	99.49%
2016	21,040,325	20,736,926	98.56%	222,417	20,959,343	99.62%
2015	20,933,936	20,660,459	98.69%	212,168	20,872,627	99.71%
2014	20,064,263	19,805,270	98.71%	215,855	20,021,125	99.79%
2013	19,167,433	18,882,728	98.51%	243,925	19,126,653	99.79%
2012	18,141,665	17,894,045	98.64%	209,244	18,103,289	99.79%
2011	17,889,672	17,625,587	98.52%	226,786	17,852,373	99.79%
2010	17,176,403	16,782,324	97.71%	356,327	17,138,651	99.78%
2009	16,424,565	16,029,681	97.60%	295,274	16,324,955	99.39%

Source: Harris County, Texas Appraisal District provides HCDE with appraised values for properties within HCDE's taxing authority.

HARRIS COUNTY DEPARTMENT OF EDUCATION
PROPERTY TAX RATES-ALL DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
(rates per \$100 of assessed value)
(Unaudited)

Taxing Authority	2018	2017	2016	2015	2014
Department Direct Rate:					
HCDE ^(a)	\$0.005195	\$0.005200	\$0.005422	\$0.005999	\$0.006358

Overlapping Rates Jurisdictions:

Harris County (HC)	0.4180	0.4166	0.4192	0.4173	0.4146
HC Flood Control District	0.0283	0.0283	0.0273	0.0273	0.0283
Port of Houston Authority	0.0116	0.0133	0.0134	0.0153	0.0171
HC Hospital District	0.1711	0.1718	0.1700	0.1700	0.1700

Cities:

Baytown	0.8220	0.8220	0.8220	0.8220	0.8220
Bellaire	0.4159	0.3874	0.3805	0.3936	0.3999
Deer Park	0.7200	0.7200	0.7144	0.7200	0.7200
Houston	0.5842	0.5864	0.6011	0.6310	0.6387
LaPorte	0.7100	0.7100	0.7100	0.7100	0.7100
League City	0.5650	0.5700	0.5735	0.5970	0.5970
Missouri City	0.6000	0.5601	0.5447	0.5650	0.5738
Pasadena	0.5754	0.5754	0.5754	0.5769	0.5915
Pearland	0.6851	0.6812	0.7053	0.7121	0.7051
Seabrook	0.5749	0.5652	0.6126	0.6400	0.6651
South Houston	0.6433	0.6322	0.6995	0.6445	0.6699
Webster	0.3173	0.2845	0.2345	0.2487	0.2696
West University Place	0.3168	0.3168	0.3318	0.3617	0.3741

Taxing Authority	2018	2017	2016	2015	2014
School Districts and Junior Colleges:					
Aldine	1.3734	1.3234	1.2859	1.2858	1.3058
Alief	1.3300	1.3050	1.2800	1.2800	1.2900
Clear Creek	1.4000	1.4000	1.4000	1.4000	1.4000
Cypress-Fairbanks	1.4400	1.4400	1.4400	1.4400	1.4500
Deer Park	1.5567	1.5567	1.5567	1.5567	1.5567
Galena Park	1.5633	1.5633	1.5134	1.5134	1.5134
Goose Creek	1.4319	1.4319	1.4319	1.4319	1.3868
Houston	1.2067	1.2067	1.1967	1.1967	1.1867
Humble	1.5200	1.5200	1.5200	1.5200	1.5200
Katy	1.5166	1.5166	1.5166	1.5266	1.5266
Klein	1.4300	1.4300	1.4100	1.3900	1.4300
LaPorte	1.3800	1.4200	1.4500	1.4500	1.3300
North Forest	N/A	N/A	N/A	N/A	N/A
Lone Star College *	0.1078	0.1078	0.1079	0.1081	0.1160
Pasadena	1.4800	1.3500	1.3500	1.3500	1.3500
Pearland	1.4156	1.4156	1.4156	1.4157	1.4157
San Jacinto Jr. College	0.1833	0.1824	0.1758	0.1856	0.1856
Sheldon	1.4700	1.4100	1.4100	1.4300	1.4300
Spring	1.5100	1.4700	1.4700	1.5100	1.5700
Spring Branch	1.3945	1.3945	1.3945	1.3945	1.3945
Tomball	1.3400	1.3400	1.3400	1.3600	1.3600

^(a) HCDE has only Maintenance and Operating rates.

* Formerly North Harris Montgomery Community College

Source: Harris County (Texas) Appraisal District

Table 8

2013	2012	2011	2010	2009
\$0.00661	\$0.00658	\$0.00658	\$0.00605	\$0.00584
0.4002	0.3911	0.3880	0.3922	0.3892
0.0280	0.0280	0.0292	0.0292	0.0309
0.1952	0.0185	0.0205	0.0163	0.0177
0.1821	0.1921	0.1921	0.1922	0.1922
0.8220	0.8220	0.7870	0.7870	0.7870
0.3999	0.3999	0.3999	0.3759	0.3775
0.7200	0.7200	0.7050	0.7050	0.7050
0.6387	0.6387	0.6387	0.6387	0.6438
0.7100	0.7100	0.7100	0.7100	0.7100
0.5970	0.6100	0.6160	0.6300	0.6300
0.5448	0.5284	0.5284	0.5284	0.5172
0.5915	0.5915	0.5915	0.5620	0.5620
0.7051	0.6851	0.6651	0.6526	0.6526
0.6652	0.6499	0.6268	0.6134	0.5884
0.7082	0.6875	0.6731	0.6784	0.6784
0.2852	0.2852	0.2575	0.2325	0.2060
0.3741	0.3741	0.3741	0.3587	0.3590
2013	2012	2011	2010	2009
1.3283	1.3283	1.3005	1.3005	1.2920
1.3200	1.3300	1.3400	1.3400	1.3400
1.3600	1.3600	1.3600	1.3600	1.3600
1.4500	1.4300	1.4300	1.4100	1.3240
1.5267	1.3967	1.3967	1.3667	1.3367
1.5134	1.5134	1.5134	1.4784	1.4550
1.3321	1.3321	1.3021	1.2821	1.2821
1.1567	1.1567	1.1567	1.1567	1.1567
1.5200	1.5200	1.5200	1.5200	1.5200
1.5266	1.5266	1.5266	1.5266	1.5266
1.4400	1.4300	1.4100	1.3600	1.3100
1.3300	1.3550	1.3250	1.3250	1.3250
1.4432	1.4692	1.3700	1.3500	1.3143
0.1198	0.1210	0.1176	0.1101	0.1101
1.3500	1.3500	1.3500	1.3500	1.3500
1.4194	1.4194	1.4194	1.4194	1.4194
0.1856	0.1856	0.1708	0.1708	0.1634
1.4300	1.4300	1.4300	1.4300	1.4300
1.5700	1.5700	1.4600	1.4600	1.4400
1.3945	1.3945	1.3945	1.3945	1.3825
1.3600	1.3600	1.3600	1.3600	1.3600

HARRIS COUNTY DEPARTMENT OF EDUCATION
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
(amounts expressed in thousands)
(unaudited)

Table 9

Fiscal Year Ended Aug 31	Real Property Value		Personal Property Value		Less: Exemptions	Adjusted Assessed Value	HCDE Tax Rates
	Residential	Commercial	Residential	Commercial			
2018	\$ 212,045,562	\$ 198,126,505	\$ 50,888,644	\$ 43,362,660	\$ 70,345,198	\$ 434,078,174	0.005195
2017	209,213,537	187,383,708	84,565,308	41,903,961	110,181,699	412,884,815	0.005200
2016	194,080,210	184,129,876	73,005,880	45,005,320	108,166,600	388,054,686	0.005422
2015	163,634,124	183,843,138	51,916,325	50,762,171	101,198,666	348,957,093	0.005999
2014	144,388,401	169,041,407	47,493,252	49,442,454	94,790,443	315,575,071	0.006358
2013	136,475,054	93,503,889	45,197,018	43,387,355	28,893,782	289,669,533	0.006610
2012	134,543,172	\$137,773,436	45,731,769	45253937.14	87,635,015	275,667,299	0.006580
2011	133,937,637	134,651,780	45,240,612	43,256,841	85,248,677	271,838,192	0.006580
2010	136,222,881	142,409,796	44,712,038	44,188,400	83,625,625	283,907,490	0.006050
2009	135,381,296	141,056,206	43,944,106	42,476,680	81,615,745	281,242,544	0.005840

Source: Harris County (Texas) Appraisal District

HARRIS COUNTY DEPARTMENT OF EDUCATION

Table 10

PRINCIPAL TAXPAYERS

CURRENT YEAR AND TEN YEARS AGO

(amounts in thousands)

(Unaudited)

Taxpayers	2018			2008		
	2017 Taxable Value ^(a)	Rank	Percentage of Total Taxable Value ^(b)	2007 Taxable Value ^(a)	Rank	Percentage of Total Taxable Value ^(c)
Exxon Mobil Corporation	\$ 3,693,799	1	0.85%	\$ 3,845,810	1	1.37%
Chevron Phillips Chemical CO L	3,248,248	2	0.75%	1,309,414	6	0.47%
Centerpoint Energy, Inc.	2,489,362	3	0.57%	2,526,174	3	0.90%
Equistar Chemicals LP (d)	1,454,782	4	0.33%	1,374,135	5	0.49%
Shell Oil Company	1,404,531	5	0.32%	3,026,759	2	1.08%
Palmetto Transoceanic LLC	1,195,026	6	0.27%	-		
PKY East 1-2, West 3-4, POC, S	852,336	7	0.20%	1,511,199.00	4	0.54%
United Airlines	815,740	8	0.19%	-		
BSREP 1HC-4HC	797,863	9	0.18%	-		
One Two Three Allen Center	785,888	10	0.18%	-		
Hewlett Packard	-	-	-	1,062,117	9	0.38%
Houston Refining (d)	-	-	-	1,174,204	7	0.42%
Hines Interests Ltd Partnership	-	-	-	1,066,965	8	0.38%
Southwestern Bell	-	-	-	1,022,144	10	0.36%
Total	<u>\$ 16,737,575</u>		<u>3.85%</u>	<u>\$ 17,918,921</u>		<u>8.68%</u>

Source: Harris County (Texas) Appraisal District

- (a) Amounts for these taxpayers do not include taxable valuations, which may be substantial, attributable to certain subsidiaries and affiliates which are not grouped on the tax rolls with the taxpayers shown.
- (b) Based on total taxable value as of August 2017.
- (c) Based on total taxable value as of August 2007.
- (d) Lyondell Chemical filed for Chapter 11 bankruptcy on January 6, 2009. It is not certain whether all taxes owed by Lyondell Chemical and its related entities Houston Refining and Equistar Chemical LP will be paid.



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DEBT CAPACITY

Back of Debt Capacity Divider

HARRIS COUNTY DEPARTMENT OF EDUCATION
RATIO OF NET GENERAL BONDED DEBT OUTSTANDING TO ASSESSED VALUE,
PERCENT OF PERSONAL INCOME, AND DEBT PER CAPITA
LAST TEN FISCAL YEARS
(Unaudited)

Table 11

Fiscal Year Ended Aug. 31	Gross Bonded Debt (1)	Less Restricted For Debt Service (2)	Net Bonded Debt	Taxable/Assessed Property Values^(b) (amounts in thousands) (3)	Ratio of Net Bonded Debt to Assessed Values	Personal Income^(c) (amounts in thousands) (4)	Percent of Personal Income	Population(5)	Debt per Capita
2018	\$ 16,197,142	\$ -	\$ 16,197,142	\$ 434,078,174	0.0037%	n/a	n/a	4,652,980	\$3.48
2017	19,053,624	-	19,053,624	412,884,815	0.0046%	n/a	n/a	4,589,928	\$4.15
2016	14,844,750	-	14,844,750	388,054,685	0.0038%	240,752,454	n/a	4,538,028	\$3.27
2015	16,959,914	-	16,959,914	348,957,093	0.0049%	252,694,912	0.0067%	4,441,370	\$3.82
2014	19,828,750	-	19,828,750	315,479,113	0.0063%	230,462,963	0.0086%	4,336,853	\$4.57
2013	20,954,287	-	20,954,287	289,669,533	0.0072%	224,617,980	0.0093%	4,253,700	\$4.93
2012	22,765,715	-	22,765,715	275,667,298	0.0083%	204,593,445	0.0111%	4,180,894	\$5.45
2011	24,527,144	-	24,527,144	271,838,196	0.0090%	183,924,000	0.0133%	4,092,459	\$5.99
2010	26,238,572	-	26,238,572	283,907,489	0.0092%	196,779,227	0.0133%	4,070,989	\$6.45
2009	27,885,000	-	27,885,000	281,242,543	0.0099%	190,226,395	0.0147%	3,984,349	\$7.00

Notes:

- (1) Includes lease revenue bonds, QZAB bonds, and Maintenance Tax Notes
 - (2) HCDE does not have a debt service rate
 - (3) Source-Taxable Assessed Property Values: Harris County (Texas) Appraisal District
 - (4) Source-Personal Income: Bureau of Economic Analysis. This ratio is calculated using the value for the prior calendar year
 - (5) Source-Population: Bureau of the Census. This ratio is calculated using the value for the prior calendar year.
- n/a - indicates the numbers are not yet available

HARRIS COUNTY DEPARTMENT OF EDUCATION
RATIO OF ANNUAL DEBT SERVICE EXPENDITURES-BY TYPE-
TO GOVERNMENTAL FUNDS EXPENDITURES
LAST TEN FISCAL YEARS
(UNAUDITED)

Table 12

Year Ended August 31	Principal and Interest			Governmental Funds Expenditures	Ratio of Bonded Debt Expenditures to Governmental Funds Expenditures
	Bonds & Notes Payable Expenditures	Capital Acquisition Program	Total Debt Expenditures		
2018	\$ 3,144,592	\$ -	\$ 3,144,592	\$ 79,368,338	3.96%
2017	3,133,732	-	3,133,732	76,879,551	4.08%
2016	2,408,200	-	2,408,200	72,783,901	3.31%
2015	2,438,478	-	2,438,478	78,145,010	3.12%
2014	2,568,163	-	2,568,163	75,858,286	3.39%
2013	2,652,897	-	2,652,897	83,597,445	3.17%
2012	2,654,452	-	2,654,452	78,904,603	3.36%
2011	2,653,998	-	2,653,998	88,792,110	2.99%
2010	2,652,474	-	2,652,474	84,895,196	3.12%
2009	2,119,339	-	2,119,339	86,031,097	2.46%

Source: HCDE records.

HARRIS COUNTY DEPARTMENT OF EDUCATION
ESTIMATED COUNTY-WIDE DIRECT AND OVERLAPPING BONDED DEBT
August 31, 2018
(unaudited)

Table 13

	Percentage Applicable to Name of Government	Net Debt (Thousands)
<u>OVERLAPPING</u>		
County-Wide Jurisdictions:		
Harris County (2/28/19) (a)	100.00%	\$ 1,847,911
Harris County Flood Control District (2/28/18)	100.00%	588,449
Port of Houston Authority (2/28/18)	100.00%	<u>638,829</u>
Total County-Wide Direct Debt		\$ 3,075,189
Cities:		
Houston (6/30/17)	99.30%	\$ 3,151,643
Other cities (a)	Various	<u>636,310</u>
Sub-Total Cities		<u>3,787,953</u>
School Districts and Junior Colleges: (b)	Various	<u>17,786,344</u>
Utility Districts (c)	100.00%	<u>6,992,187</u>
Total Overlapping Debt:		\$ 28,566,484
Total Direct HCDE (e)		\$ 16,227,196
Total Direct and Overlapping Debt (Estimated \$9,100 Per Capita) (e)		<u>\$ 44,793,680</u>

- (a) Aggregate net debt of 15 cities, each of which had a net debt of less than \$10,000,000.
(b) Aggregate of 3 school, each of which had a net debt of less than \$25,000,000.
(c) Estimated aggregate net debt of several hundred utility districts. Source: Municipal Advisory Council (MAC).
(d) Census Bureau population estimated 4,589,928. Source: Bureau of the Census.
(e) Net debt for HCDE includes the following:

Lease Revenue Bonds (Net)	\$ 13,705,000
QZAB	2,257,143
Maintenance Notes	235,000
Issuance Premiums	<u>20,356</u>
Total Direct HCDE Debt	<u>\$ 16,217,499</u>

Source: Harris County, Texas. The table reflects bonds outstanding as of various dates. Certain entities may have issued substantial amounts of bonds since the latest available data and may have capital improvements programs requiring the issuance of a substantial amount of additional bonds. The Harris County Department of Education has the same geographical boundaries as the Harris County.



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DEMOGRAPHIC AND ECONOMIC INFORMATION

Back of Demographic and Economic Information Divider

HARRIS COUNTY DEPARTMENT OF EDUCATION
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

Table 14

Calendar Year	Population ^(a)	Unemployment Rate ^(a)	Personal Income ^(a)	Median Household Income ^(a)
2018	4,652,980	4.40%	n/a	n/a
2017	4,589,928	4.10%	247,482,118,000	57,791
2016	4,538,028	4.80%	249,989,494,000	56,415
2015	4,441,370	4.60%	252,694,912,000	53,822
2014	4,336,853	5.00%	230,462,963,000	53,137
2013	4,253,700	6.00%	224,617,980,000	52,805
2012	4,180,894	6.60%	204,593,445,000	48,963
2011	4,092,459	7.80%	183,899,347,000	44,936
2010	4,070,989	7.60%	196,779,227,000	48,337
2009	3,984,349	4.3%	190,226,395,000	47,788

n/a - indicates the numbers are not yet available.

Sources: (a) The County Information Program, Texas Association of Counties
 Population and unemployment rate is previous year information.

The Department was created by the Texas State Legislature, and is located in Houston in Harris County, Texas.

Year created	1889
Location of administrative offices	6300 Irvington Blvd. Houston, Texas 77022
County seat	Houston
Largest city in Texas	Houston
Fifth largest city in the United States ^(a)	Houston
Number of school districts in primary service area	25
2017 estimate Population of Harris County, Texas ^(b)	4,652,980
Area of Harris County, Texas ^(b)	1,703 square miles
2018 Employment by Major Industry: ^(a)	Jobs
Trade, Transportation, and Utilities	617,500
Professional and Business Services	481,400
Government	406,800
Educational and Health Services	384,200
Manufacturing	219,300
Leisure and Hospitality	317,700
Construction	216,400
Energy	77,500
Other Services	109,400
Finance and Insurance - Banking	159,000
Information	32,100
2013-2017 Median household income: ^(b)	
State of Texas	\$57,051
Harris County	\$57,791
2017 Unemployment rate: ^(c)	
State of Texas	4.3%
Harris County	5.0%
2013-2017 Median value of homestead property: ^(b)	
State of Texas	\$151,500
Harris County	\$154,100

Sources: (a) Greater Houston Partnership, www.houston.org
(b) U. S. Bureau of the Census
(c) Texas Association of Counties

HARRIS COUNTY DEPARTMENT OF EDUCATION

Table 16

PRINCIPAL EMPLOYERS

CURRENT YEAR AND TEN YEARS AGO

(amounts in thousands)

(UNAUDITED)

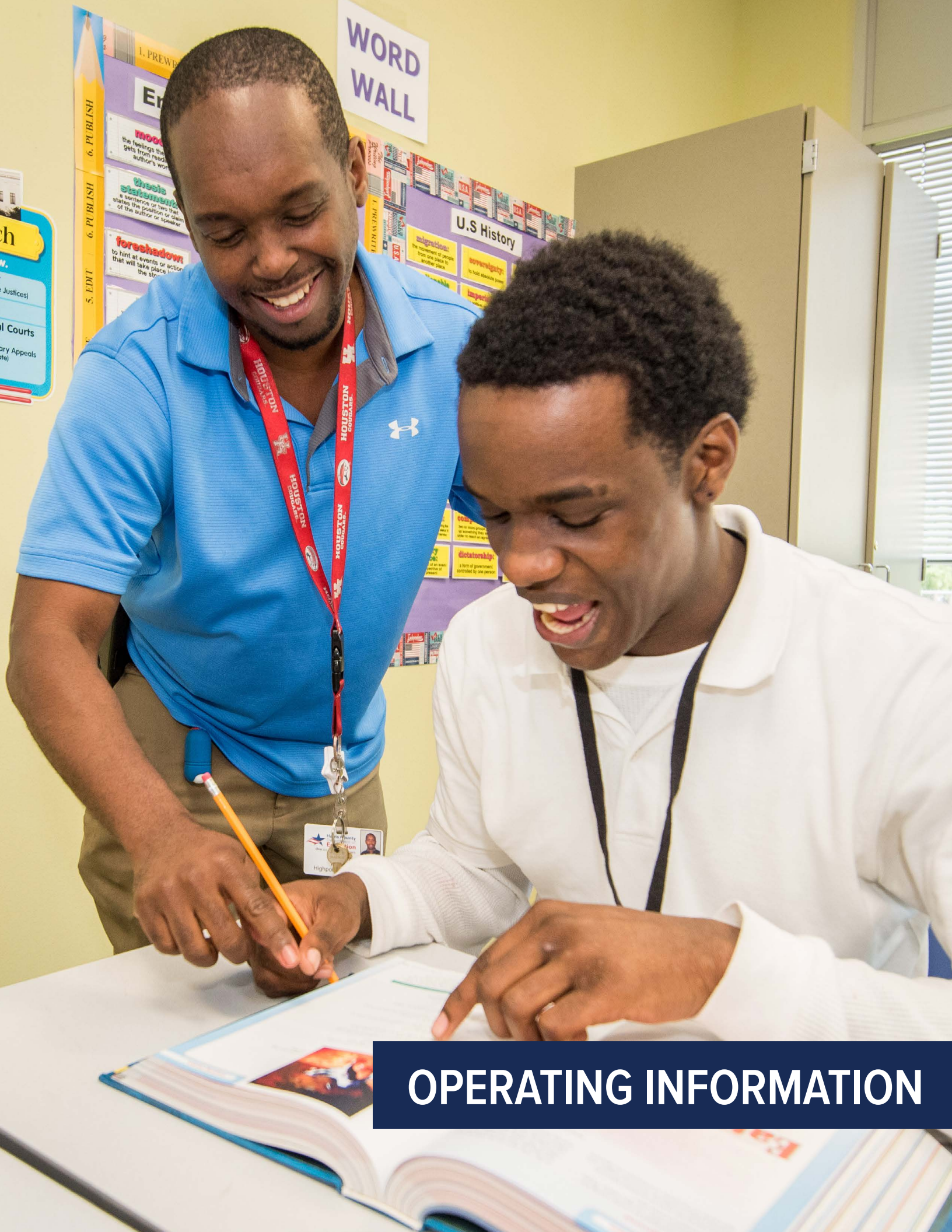
Employer	2018			2008		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Wal-Mart Stores Inc.	34,000	1	1.0977%	-		
HEB	26,956	2	0.8703%	-		
Memorial Hermann Healthcare	26,011	3	0.8398%	19,000	1	0.7182%
Houston Methodist	22,247	4	0.7183%	9,991	7	-
UT MD Anderson Cancer Center	20,189	5	0.6518%	-		0.0000%
Kroger Co	17,188	6	0.5549%	12,000	4	0.4536%
McDonald's Corp.	16,100	7	0.5198%	-		0.0000%
United Airlines	14,084	8	0.4547%	16,000	2	0.6048%
Texas Children's Hospital	13,445	9	0.4341%	-		
Exxon Mobil Corp	13,000	10	0.4197%	-		
Shell Oil Company	-		-	13,000	3	0.4914%
Aramark	-		-	10,000	5	0.3780%
Halliburton	-		-	10,000	6	0.3780%
Baylor College of Medicine	-		-	9,143	8	0.3456%
HP	-		-	9,000	9	0.3402%
BP America	-		-	8000	10	0.3024%
Totals	<u>203,220</u>		<u>6.5610%</u>	<u>116,134</u>		<u>4.0122%</u>

Notes: Employment numbers were obtained from the Houston Chronicle.

These numbers exclude employment numbers for Houston ISD and the City of Houston



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OPERATING INFORMATION

Back of Operating Information Divider



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HARRIS COUNTY DEPARTMENT OF EDUCATION
DEPARTMENT EMPLOYEES BY PROGRAM
LAST NINE FISCAL YEARS
(UNAUDITED)

	2018	2017	2016	2015	2014
Adult Education	73.3	75.3	75.3	78.7	104.2
Assistant Superintendents' Offices	6.0	5.0	4.0	3.5	3.5
Alternative Certification	5.5	5.5	5.5	4.0	4.0
Business Support Services	16.5	16.5	16.5	15.5	15.5
Board of Trustees	1.0	0.5	0.5	0.5	0.5
Center for After School, Summer and Expanded Learning	21.0	22.2	22.2	13.0	13.0
Center for Safe & Secure Schools	4.0	3.0	3.0	3.5	3.5
Center for School Governance & Fiscal Accountability	-	-	-	0.5	0.5
Choice Partners Coopertive	18.4	15.4	15.4	15.0	16.0
Client Engagement	6.0	4.6	4.6	4.0	4.0
Communications	8.6	9.0	9.0	6.0	6.0
Digital Learning & Instructional Technology	-	-	-	1.0	1.0
Facility Support Services	51.5	51.5	51.5	51.5	51.5
Head Start Program	288.0	285.0	285.0	258.5	235.3
Human Resources	10.0	10.0	10.0	9.5	10.0
Purchasing Support	6.0	6.0	6.0	6.0	6.0
Records Management Services	14.0	13.0	13.0	12.0	12.0
Research & Evaluation	7.0	7.0	7.0	6.0	6.0
Resource Development	6.0	6.0	6.0	6.0	6.0
School Based Therapy Services	141.9	138.3	138.3	206.0	196.4
Special Schools Program	168.0	158.3	155.0	157.0	145.0
Superintendent's Office	2.0	1.5	2.5	2.0	2.0
Digital Learning and Innovation	2.0	1.7	-	3.0	3.0
Technology Support Services	21.0	21.0	22.0	24.0	25.0
Texas LEARNS	-	-	-	-	-
Texas Virtual School Network	-	15.0	15.0	18.0	17.0
The Teaching and Learning Center	10.5	11.8	12.5	9.8	9.8
Total:	888.2	883.1	879.7	914.5	896.7

Note: Count includes both full-time equivalent and hourly employees (where the position is their primary job at HCDE).

Source: HCDE records.

Table 17

2013	2012	2011	2010	2009
77.0	78.0	87.3	389.0	316.0
3.5	3.5	5.5	5.0	5.0
2.5	1.7	0.2	-	-
15.5	15.5	16.0	16.0	16.0
0.5	0.5	0.5	0.5	0.5
14.0	14.0	16.0	19.0	18.0
1.0	3.0	3.0	3.0	2.0
0.5	0.5	-	1.0	1.0
17.0	9.0	10.0	5.0	5.0
3.0	3.0	2.0	-	-
6.0	5.0	6.0	7.0	7.0
2.0	2.0	2.0	2.0	2.0
52.0	53.5	57.0	56.0	53.0
242.0	251.0	261.0	252.0	245.0
11.0	11.0	10.0	10.0	11.0
6.0	11.0	11.0	11.0	9.0
13.0	14.0	15.0	15.0	14.0
6.0	6.0	6.0	6.0	5.0
7.0	7.0	7.0	7.0	8.0
211.0	221.0	265.0	271.0	278.0
142.0	142.0	156.0	157.0	157.0
2.0	2.0	2.0	2.0	2.0
3.0	-	-	-	-
27.0	24.0	21.5	21.0	29.0
15.0	14.0	15.0	15.0	14.0
17.0	19.0	17.0	7.0	7.5
9.0	9.0	8.0	8.0	7.0
<u>905.5</u>	<u>920.2</u>	<u>1,000.0</u>	<u>1,285.5</u>	<u>1,212.0</u>

HARRIS COUNTY DEPARTMENT OF EDUCATION
OPERATIONAL INDICATORS BY PROGRAMS
LAST FIVE FISCAL YEARS
(Unaudited)

Table 18

Programs	Services Provided
Adult Education	Administers grants
Assistant Superintendents' Offices	Support/administrative
Board of Trustees	Governance
Business Support Services	Support/administrative
Center for After-School, Summer and Expanded Learning (CASE)	Administer grants for after-school programs at school districts and charter schools
Center for Safe & Secure Schools	Campus security review and training
Center for School Governance & Fiscal Accountability	Fiscal and program review services
Communications	Support/public information
Department Wide	Support
Digital Learning & Instructional Technology	Provide online courses to teachers
Education Certification & Professional Advancement	Training for teacher and principal candidates
Facility Support Services	Support
Head Start Program	Administer grant programs
Human Resources	Support
Purchasing Support	Internal purchasing
Records Management Services	Records retention cooperative
Research & Evaluation	Research support services
Resource Development	Grant writing support services
Retirement Leave Benefits	Retirement benefits program
Scholastic Arts & Writing Program	Administer regional program for Texas students
Special Assistant to Superintendent	Support/public information
Special Schools Program	Contract instruction for special-population students
Superintendent's Office	Support/administrative
Teaching & Learning Center	Professional development training
Technology Support Services	Support
Therapy Services	Therapy services and grant programs
COMPONENT UNIT:	
Education Foundation of Harris County	Fund-raising and grants

Source: HCDE records.

HARRIS COUNTY DEPARTMENT OF EDUCATION
BUILDING INFORMATION

Table 19

Site #	Building/ Purpose	Location/ City	Year Built	Put Into	Square Footage
(1) Administration:					
1.	Ronald W. Reagan Building	North Houston, TX	1988	1988	72,000
2.	North Post Oak Building	North Houston, TX	1995	2006	340,000
3.	Conference Center and Parking Garage	North Houston, TX	2002	2002	15,000
4.	Caplin Warehouse	Northeast Houston, TX	1999	1999	17,000
5.	Melbourne Warehouse	North Houston, TX	2005	2005	2,400
6.	Science Building	North Houston, TX	2010	2010	2,430
(2) Schools:					
6.	Academic & Behavior Center (ABC)-East	Southeast Houston, TX	1980	1982	47,000
7.	ABC-West	Southwest Houston, TX	1980	1998	22,500
8.	High Point-East Campus	Northeast Houston, TX	1970	1995	45,000
9.	High Point-North Campus	Northwest Houston, TX	1997	1997	24,500
(3) Adult Education Program:					
10.	Irvington Adult Education	North Houston, TX	1972	1972	16,000
11.	Lindale Adult Education	North Houston, TX	2002	2002	13,600
(4) Head Start Program:					
12.	Barrett Station Center	Crosby, TX	2002	2002	2,660
13.	La Porte Center	La Porte, TX	1999	1999	5,760
14.	Pugh Center	Houston, Texas	2000	2000	2,600
15.	Humble Center	Humble, Texas	2015	2015	1,728
16.	Humble Center	Humble, Texas	2001	2001	2,294
(5) Other Services:					
17.	Printing and Visual Communications	North Houston, TX	2001	2001	15,000
18.	Crosstimbers Records Storage Facility	North Houston, TX	1980	1996	18,000

Notes:

- (1) The administration buildings and the conference center (top floor of the parking garage) have workshop and conference facilities where meetings are held and professional development training is provided.
- (2) The Department contracts with local independent school districts to provide direct instruction at four schools-2 for adjudicated youth (grades 7-12) and 2 for special needs students (through age 21).
- (3) The Department administers an Adult Education program across Harris County, providing instruction to limited English proficient and GED students at numerous classrooms located at community and school district facilities.
- (4) The Department operates the Area I Head Start program in northeast Harris County. The administration offices are located at the Ronald W. Reagan building and there are 15 centers. The Department partners with school districts and community partners in the other 9 centers. The Pugh Center and Humbe Center are portable buildings.
- (5) The Department owns these buildings that are currently for sale. The print shop was disbanded in 2008 and the records retention service was relocated to the North Post Oak building.

Source: HCDE records.

HARRIS COUNTY DEPARTMENT OF EDUCATION
SERVICE AREA AND LOCATIONS-DESCRIPTION
(unaudited)

Table 20

This is an overview of the direct services to students of all ages provided by HCDE in response to the needs of the schools and the students in the primary service area of Harris County, Texas.

HARRIS COUNTY, TEXAS AND 25 SCHOOL DISTRICTS

The HCDE primary service area covers school districts and charter schools across 1,700 square miles.

HCDE SPECIAL SCHOOL LOCATIONS

HCDE operates three alternative education programs at 4 sites, including:

- Academic and Behavior Centers (ABCs) provide educational programs for students ages 5-21 with emotional disturbances, mental retardation, and pervasive developmental disturbances from customer school districts;
- Highpoint Schools provide long-term educational services for expelled and/or adjudicated students from customer school districts; and
- Fortis Academy help students who have completed a substance abuse or dependency rehabilitation program continue their high school education in a sober environment.

Campus	Year Opened	Area Served
ABC-East	FY 1982	Southeast Harris County
ABC-West	FY 1998	Southwest Harris County
Highpoint-East	FY 1995	Northeast Harris County
Fortis Academy	FY 2018	Northern Harris County

HCDE ADULT EDUCATION LOCATIONS

HCDE serves sites across Harris County, Texas:

School District	Number of Campuses	School District	Number of Campuses
Alief	2	Houston	7
Channelview	1	Katy	3
Cleveland	1	Klein	2
Cypress-Fairbanks	2	Liberty	2
Deer Park	3	Pasadena	11
Galena Park	2	Spring Branch	6
Goose Creek	2	Spring	1

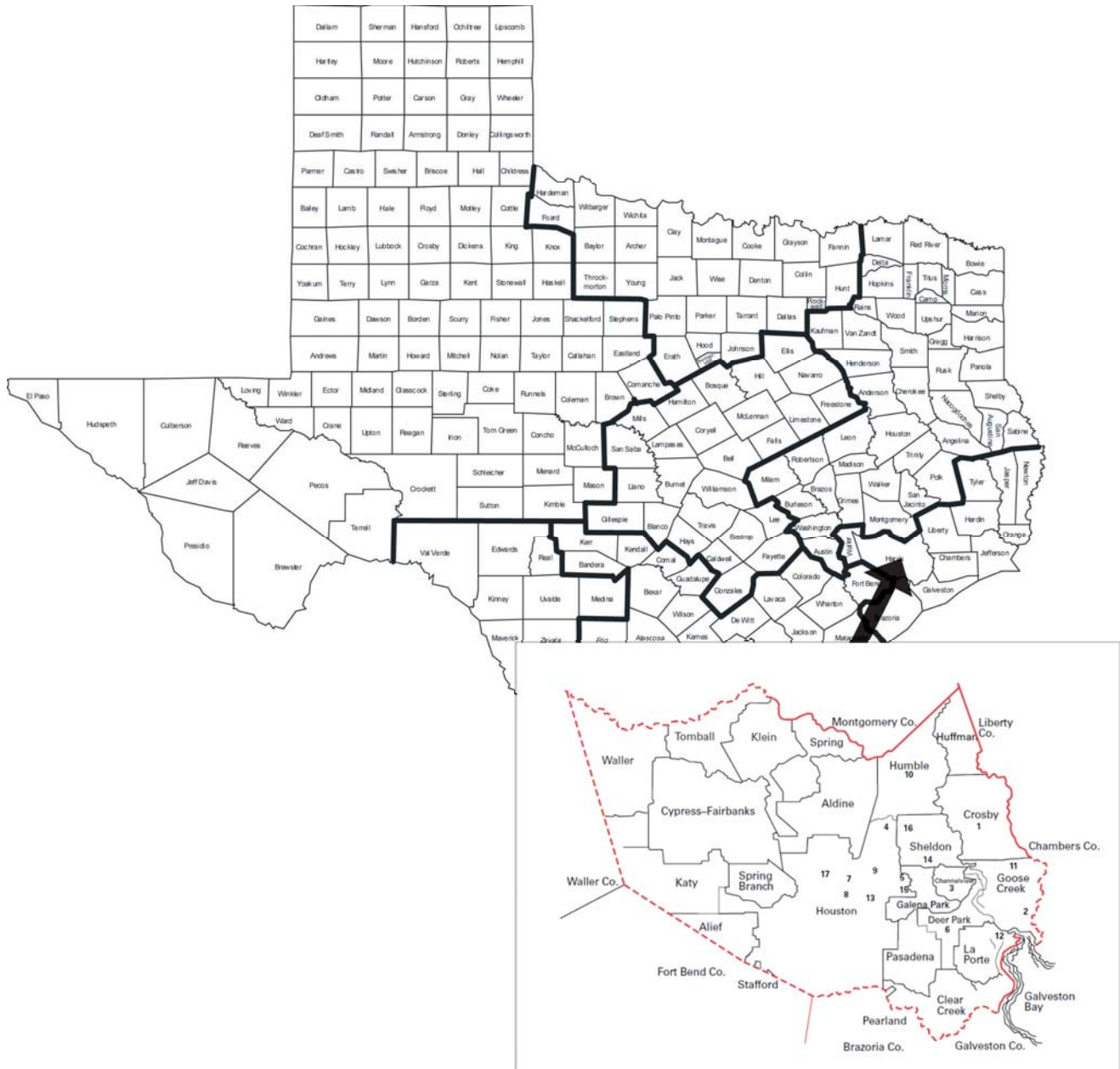
HCDE HEAD START LOCATIONS

HCDE administers the Area I Head Start program at fifteen (15) neighborhood centers across the north, east, and southeast portion of Harris County, Texas and one Early Head Start Program and four Early Head Start Community Partners.

HCDE CASE SCHOOLS LOCATIONS

The Center for After School, Summer and Expanded Learning (CASE) Division is fiscal agent for numerous after school programs in client independent school districts and charter schools. Additional location information is available in Notes to the Basic Financial Statements, Note 9- Shared Service Arrangements.

Harris County, Texas and 25 School Districts





END OF REPORT



It is the policy of Harris County Department of Education not to discriminate on the basis of race, color, national origin, gender, limited English proficiency, or handicapping condition(s) in its programs.



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