

ZEPHYR INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2014

Introductory Section

Zephyr Independent School District
Annual Financial Report
For The Year Ended August 31, 2014

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CERTIFICATE OF BOARD

Zephyr Independent School District
Name of School District

Brown
County

025-906
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) X approved disapproved for the year ended August 31, 2014, at a meeting of the board of trustees of such school district on the 22nd day of January, 2015.


Signature of Board Secretary


Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section

BURL D. LOWERY
CERTIFIED PUBLIC ACCOUNTANT
311 CENTER AVENUE
BROWNWOOD, TEXAS 76801

Independent Auditor's Report

To the Board of Trustees
Zephyr Independent School District
P.O. Box 708
Zephyr, Texas 76890

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Zephyr Independent School District ("the District") as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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.

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Zephyr Independent School District as of August 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

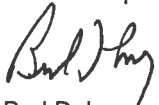
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Zephyr Independent School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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, except for that portion labeled "unaudited" on which I express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 8, 2015 on my consideration of Zephyr Independent School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Zephyr Independent School District's internal control over financial reporting and compliance.



Burl D. Lowery
Certified Public Accountant

Brownwood, TX
January 8, 2015

ZEPHYR INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS – UNAUDITED

This section of Zephyr Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$1,590,611 at August 31, 2014.
- During the year, the District's expenses were \$129,543 less than the \$2,661,221 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased by \$42,307 while its revenues increased by \$116,722 during the current year.
- The general fund reported a fund balance this year of \$857,384.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-wide Statements

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

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

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

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

Fund Financial Statements

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

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

The District has the following kinds of funds:

- *Governmental funds*-Most of the District's basic services are included in governmental funds, which focus on (1) how *cash* and *other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*-Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The District has no Proprietary Fund Types.
- We use *internal service funds* to report activities that provided workers compensation insurance for the District's employees in prior years.
- *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We excluded these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. These funds consist of student activity funds that belong to clubs and organizations and scholarship funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net positions were \$1,590,611 at August 31, 2014 and \$1,461,070 at August 31, 2013.

Net position is made up of the following categories:

	8-31-2014	8-31-2013
Net investment in capital assets	\$579,104	\$579,762
Restricted for:		
State and federal programs	5,779	75
Debt Service	141,265	150,739
Unrestricted	864,463	730,494
Total Net Position	<u>\$1,590,611</u>	<u>\$1,461,070</u>

Changes in net position. The District's total revenues were \$2,661,221. Property taxes provided 20% of the District's revenue. State available and foundation grants provide 58% of total revenues; operating grants provide 20% of the total revenues, while only 2% relates to charges for services.

The total cost of all programs and services was \$2,531,678; 47% of these costs are for instruction and instructional related services. (Expenditure Functions 11, 12, and 13).

Governmental Activities

- Property tax rates for maintenance remained at \$1.04 per \$100 valuation, just as in 2012-2013. Property tax rates for debt service decreased \$.0577 to \$.2567 per \$100 valuation in 2013-2014. The taxable values increased \$2,219,691. Tax revenues increased approximately \$7,480.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types in the individual funds totaled \$2,661,221, an increase of 4.6% over the preceding year. While State foundation revenue increased \$70,127, operating grants increased \$24,114. Taxes increased \$10,027 and charges for services increased \$226. The State foundation revenue fluctuates with student enrollment. In 2012-2013, the District's average daily attendance was 205, while in 2013-2014 the District's average daily attendance 206, an increase of 1 student.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget. With these adjustments, actual expenditures were \$69,617 less than the final budgeted amounts of the General Fund. In addition, resources available were \$12,427 more than the final budgeted amount. The District had budgeted a surplus of \$56,440, while the actual net change in fund balance was a positive \$137,834.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the District had a net investment in capital assets amounting to \$5,971,559 in a broad range of capital assets, including land, equipment, vehicles, buildings, and infrastructure, net of depreciation. This amount represents a net decrease (including additions and deductions) of \$174,219, a decrease of 3% over last year. Depreciation for 2013-2014 was \$197,115.

More detailed information about the District's capital assets is presented in the notes to the financial statements.

Long Term Debt

At year-end, the District had \$5,375,560 outstanding long-term debt. More detailed information about the District's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2014 tax roll for the 2014-2015 budget preparation increased \$4.6 million over the 2013 tax roll appraised value. The District's total tax rate increased to \$1.3196 per \$100 valuation. This slight increase in tax rate and increased valuation will result in an increase in tax revenue of approximately \$66,274 for the year. The I & S rate at \$.2796 will result in \$122,967, while the M&O rate at \$1.04 will result in \$457,389 for the District.
- General operating fund budgeted spending is \$2,030,312 which is a decrease from the final 2013-2014 budget of \$2,030,030. The budget decrease is less than 1% increase from last year.
- General operating fund estimated revenues increased in the 2014-2015 budget approximately \$19,677 from the final estimated revenues in 2013-2014 of \$2,085,820 to \$2,066,143 in 2014-2015.

These indicators were taken into account when adopting the general fund budget for 2014-2015. State revenue will increase or decrease as the student population changes in size. The District will use any increases in revenues to finance programs we currently offer.

If these estimates are realized, the District's budgetary general fund balance is expected to increase approximately \$35,831 at the close of 2014-2015.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

ZEPHYR INDEPENDENT SCHOOL DISTRICT

MANAGEMENT DISCUSSION AND ANALYSIS - TABLES

FINANCIAL ANALYSIS IF THE DISTRICT AS A WHOLE

Net Position. The District's combined net positions were \$1,590,611 at August 31, 2014 and \$1,461,070 at August 31, 2013. (See Table 1)

Table 1
Zephyr Independent School District's Net Position

	Governmental Activities	
	2014	2013
Current Assets:		
Cash and cash equivalents	\$329,694	\$196,949
Investments	\$660,433	\$660,209
Due from other governments	\$50,898	\$63,513
Property taxes receivable (net)	\$8,745	\$9,353
Other receivables (net)	\$2,052	\$0
Unrealized expenses	\$15,196	\$9,287
Total Current Assets	<u>\$1,067,018</u>	<u>\$939,311</u>
Capital Assets:		
Land	\$269,589	\$266,161
Buildings	\$3,733,347	\$3,824,351
Equipment and vehicles	\$316,275	\$341,527
Infrastructure	\$1,652,348	\$1,713,739
Total Capital Assets	<u>\$5,971,559</u>	<u>\$6,145,778</u>
Total Assets	<u><u>\$7,038,577</u></u>	<u><u>\$7,085,089</u></u>
Current Liabilities:		
Accounts payable and accrued expenses	\$66,059	\$74,985
Due to student groups	\$0	\$525
Due to other governments	\$6,347	\$0
Total Current Liabilities	<u>\$72,406</u>	<u>\$75,510</u>
Long-term Liabilities:		
Bonds Payable - due within one year	\$184,000	\$150,334
Bonds Payable - due in more than one year	\$5,191,560	\$5,398,175
Total Long-term Liabilities	<u>\$5,375,560</u>	<u>\$5,548,509</u>
Total Liabilities	<u>\$5,447,966</u>	<u>\$5,624,019</u>
Net Position:		
Net investment in capital assets	\$579,104	\$579,762
Restricted for state and federal programs	\$5,779	\$75
Restricted for debt service	\$141,265	\$150,739
Restricted for capital projects	\$0	\$0
Unrestricted	<u>\$864,463</u>	<u>\$730,494</u>
Total Net Position	<u><u>\$1,590,611</u></u>	<u><u>\$1,461,070</u></u>

ZEPHYR INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES

Table 2

Zephyr Independent School District's Changes in Net Position

	Governmental Activities	
	2014	2013
Program Revenues:		
Charges for services	\$45,206	\$44,980
Operating grants and contributions	\$539,746	\$515,632
Capital grants and contributions	\$0	\$0
General Revenues:		
Property taxes	\$520,068	\$510,041
State aid - formula	\$1,539,841	\$1,469,714
Investment earnings	\$1,162	\$946
Other revenues	\$15,198	\$3,186
Total Revenues	<u>\$2,661,221</u>	<u>\$2,544,499</u>
Expenditures:		
Instruction	\$1,122,623	\$1,123,549
Instructional resources and media services	\$15,740	\$14,889
Curriculum development and staff development	\$48,300	\$41,727
School leadership	\$95,260	\$87,563
Guidance and counseling services	\$4,124	\$1,231
Health services	\$1,718	\$2,465
Student (pupil) transportation	\$59,638	\$55,101
Food services	\$209,705	\$211,717
Curricular/extracurricular activities	\$151,494	\$122,620
General administration	\$167,991	\$155,598
Plant maintenance & operation	\$338,467	\$331,234
Data processing services	\$36,682	\$40,150
Interest on long-term debt	\$232,648	\$240,969
Bond issuance costs and fees	\$5,088	\$1,188
Payments to fiscal agent/member districts SSA	\$42,200	\$59,370
Total Expenditures	<u>\$2,531,678</u>	<u>\$2,489,371</u>
Excess (Deficiency) Before Other Resources, Uses, and Transfers	\$129,543	\$55,128
Other Resources (Uses)		
Transfers In (Out)	<u>\$0</u>	<u>\$0</u>
Increase (Decrease) in Net Position	\$129,543	\$55,128
Net Position - Beginning	\$1,461,070	\$1,581,317
Rounding 2014/ Prior Period Adjustments 2013	<u>(\$2)</u>	<u>(\$175,375)</u>
Net Position - Ending	<u><u>\$1,590,611</u></u>	<u><u>\$1,461,070</u></u>

ZEPHYR INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES

Table 3

Zephyr Independent School District's Capital Assets

	Governmental Activities	
	2014	2013
Land	\$269,589	\$266,161
Construction in progress	\$0	\$0
Buildings and improvements	\$4,550,199	\$4,550,199
Equipment	\$372,821	\$355,573
Vehicles	\$248,674	\$248,674
Infrastructure	\$1,935,161	\$1,932,941
Total Capital Assets	\$7,376,444	\$7,353,548
Total Accumulated Depreciation	\$1,404,885	\$1,207,770
Net Capital Assets	\$5,971,559	\$6,145,778

Table 4

Zephyr Independent School District's Long-term Debt

	Governmental Activities	
	2014	2013
Bonds payable	\$4,280,000	\$4,370,334
Accretion on bonds payable	\$0	\$17,049
Premiums on bonds	\$130,560	\$136,126
Qualified School Construction Bonds:		
Capital Lease Purchase	\$425,000	\$425,000
Time Warrants	\$132,000	\$192,000
Maintenance Tax Notes	\$408,000	\$408,000
Total Long-term Debt	\$5,375,560	\$5,548,509
Due within one year	\$184,000	\$150,334
Due in more than one year	\$5,191,560	\$5,398,175
	\$5,375,560	\$5,548,509

Basic Financial Statements

ZEPHYR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2014

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 329,694
1120	Current Investments	660,433
1225	Property Taxes Receivable (Net)	8,745
1240	Due from Other Governments	50,898
1290	Other Receivables (Net)	2,052
1410	Unrealized Expenses	15,196
Capital Assets:		
1510	Land	269,589
1520	Buildings and Improvements, Net	3,733,347
1530	Furniture and Equipment, Net	316,275
1590	Infrastructure, Net	1,652,348
1000	Total Assets	<u>7,038,577</u>
LIABILITIES:		
2110	Accounts Payable	4,128
2140	Interest Payable	16,895
2165	Accrued Liabilities	45,036
2180	Due to Other Governments	6,347
Noncurrent Liabilities:		
2501	Due Within One Year	184,000
2502	Due in More Than One Year	5,191,560
2000	Total Liabilities	<u>5,447,966</u>
NET POSITION:		
3200	Net Investment in Capital Assets	579,104
Restricted For:		
3820	State and Federal Programs	5,779
3850	Debt Service	141,265
3900	Unrestricted	864,463
3000	Total Net Position	<u>\$ 1,590,611</u>

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 1,122,623	\$ --	\$ 154,538	\$ (968,085)
12	Instructional Resources and Media Services	15,740	--	4,396	(11,344)
13	Curriculum and Staff Development	48,300	--	1,298	(47,002)
23	School Leadership	95,260	--	4,912	(90,348)
31	Guidance, Counseling, & Evaluation Services	4,124	--	--	(4,124)
33	Health Services	1,718	--	--	(1,718)
34	Student Transportation	59,638	--	700	(58,938)
35	Food Service	209,705	21,698	102,423	(85,584)
36	Cocurricular/Extracurricular Activities	151,494	19,567	25,788	(106,139)
41	General Administration	167,991	--	4,445	(163,546)
51	Facilities Maintenance and Operations	338,467	3,941	20,896	(313,630)
53	Data Processing Services	36,682	--	--	(36,682)
72	Interest on Long-term Debt	232,648	--	220,350	(12,298)
73	Bond Issuance Costs and Fees	5,088	--	--	(5,088)
93	Payments Related to Shared Services Arrangements	42,200	--	--	(42,200)
TG	Total Governmental Activities	<u>2,531,678</u>	<u>45,206</u>	<u>539,746</u>	<u>(1,946,726)</u>
TP	Total Primary Government	<u>\$ 2,531,678</u>	<u>\$ 45,206</u>	<u>\$ 539,746</u>	<u>(1,946,726)</u>
General Revenues:					
MT	Property Taxes, Levied for General Purposes				416,820
DT	Property Taxes, Levied for Debt Service				103,248
IE	Investment Earnings				1,162
GC	Grants and Contributions Not Restricted to Specific Programs				1,539,841
MI	Miscellaneous				15,198
TR	Total General Revenues				<u>2,076,269</u>
CN	Change in Net Position				<u>129,543</u>
NB	Net Position - Beginning				1,461,068
NE	Net Position - Ending				<u>\$ 1,590,611</u>

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 178,117	\$ 139,599	\$ 9,328	\$ 327,044
1120 Current Investments	660,433	--	--	660,433
1225 Taxes Receivable, Net	7,079	1,666	--	8,745
1240 Due from Other Governments	48,319	--	2,579	50,898
1290 Other Receivables	2,052	--	--	2,052
1410 Unrealized Expenditures	14,551	--	645	15,196
1000 Total Assets	<u>910,551</u>	<u>141,265</u>	<u>12,552</u>	<u>1,064,368</u>
LIABILITIES:				
Current Liabilities:				
2160 Accrued Wages Payable	\$ 37,784	\$ --	\$ 6,390	\$ 44,174
2170 Due to Other Funds	1,478	--	--	1,478
2180 Due to Other Governments	6,347	--	--	6,347
2200 Accrued Expenditures	479	--	383	862
2300 Unearned Revenue	7,079	1,666	--	8,745
2000 Total Liabilities	<u>53,167</u>	<u>1,666</u>	<u>6,773</u>	<u>61,606</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3430 Prepaid Items	14,551	--	645	15,196
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	5,134	5,134
3480 Retirement of Long-Term Debt	--	139,599	--	139,599
Committed Fund Balances:				
3510 Construction	300,000	--	--	300,000
3600 Unassigned	542,833	--	--	542,833
3000 Total Fund Balances	<u>857,384</u>	<u>139,599</u>	<u>5,779</u>	<u>1,002,762</u>
4000 Total Liabilities and Fund Balances	<u>\$ 910,551</u>	<u>\$ 141,265</u>	<u>\$ 12,552</u>	<u>\$ 1,064,368</u>

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2014

Total fund balances - governmental funds balance sheet	\$ 1,002,762
--	--------------

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not reported in the funds.	5,971,559
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	8,745
Payables for bond principal which are not due in the current period are not reported in the funds.	(4,410,560)
Payables for capital leases which are not due in the current period are not reported in the funds.	(425,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(16,896)
Payables for notes which are not due in the current period are not reported in the funds.	(540,000)
Rounding difference	<u>1</u>

Net position of governmental activities - Statement of Net Position	\$ <u><u>1,590,611</u></u>
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The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 477,340	\$ 103,798	\$ 23,683	\$ 604,821
5800 <i>State Program Revenues</i>	1,615,153	220,350	31,392	1,866,895
5900 <i>Federal Program Revenues</i>	5,754	--	184,357	190,111
5020 Total Revenues	<u>2,098,247</u>	<u>324,148</u>	<u>239,432</u>	<u>2,661,827</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	928,716	--	99,557	1,028,273
0012 <i>Instructional Resources and Media Services</i>	9,943	--	4,396	14,339
0013 <i>Curriculum and Staff Development</i>	44,002	--	--	44,002
0023 <i>School Leadership</i>	86,783	--	--	86,783
0031 <i>Guidance, Counseling, & Evaluation Services</i>	3,757	--	--	3,757
0033 <i>Health Services</i>	1,565	--	--	1,565
0034 <i>Student Transportation</i>	54,331	--	--	54,331
0035 <i>Food Service</i>	--	--	191,044	191,044
0036 <i>Cocurricular/Extracurricular Activities</i>	143,663	--	--	143,663
0041 <i>General Administration</i>	153,042	--	--	153,042
0051 <i>Facilities Maintenance and Operations</i>	302,560	--	17,482	320,042
0053 <i>Data Processing Services</i>	36,682	--	--	36,682
0071 <i>Principal on Long-term Debt</i>	60,000	90,334	--	150,334
0072 <i>Interest on Long-term Debt</i>	18,169	237,706	--	255,875
0073 <i>Bond Issuance Costs and Fees</i>	--	5,088	--	5,088
0093 <i>Payments to Shared Service Arrangements</i>	42,200	--	--	42,200
6030 Total Expenditures	<u>1,885,413</u>	<u>333,128</u>	<u>312,479</u>	<u>2,531,020</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>212,834</u>	<u>(8,980)</u>	<u>(73,047)</u>	<u>130,807</u>
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	--	--	75,000	75,000
8911 <i>Transfers Out</i>	(75,000)	--	--	(75,000)
7080 Total Other Financing Sources and (Uses)	<u>(75,000)</u>	<u>--</u>	<u>75,000</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>137,834</u>	<u>(8,980)</u>	<u>1,953</u>	<u>130,807</u>
0100 Fund Balances - Beginning	<u>719,550</u>	<u>148,579</u>	<u>3,826</u>	<u>871,955</u>
3000 Fund Balances - Ending	<u>\$ 857,384</u>	<u>\$ 139,599</u>	<u>\$ 5,779</u>	<u>\$ 1,002,762</u>

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014*

Net change in fund balances - total governmental funds	\$	130,807
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:		
Capital outlays are not reported as expenses in the SOA.		22,896
The depreciation of capital assets used in governmental activities is not reported in the funds.		(197,115)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		(606)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		90,334
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.		60,000
Bond premiums are amortized in the SOA but not in the funds.		5,566
The accretion of interest on capital appreciation bonds is not reported in the funds.		17,050
(Increase) decrease in accrued interest from beginning of period to end of period.		611
Change in net position of governmental activities - Statement of Activities	\$	<u>129,543</u>

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET POSITION****INTERNAL SERVICE FUND****AUGUST 31, 2014**

Data Control Codes		Nonmajor Internal Service Fund	
			Public Entity Risk Pool
	ASSETS:		
	Current Assets:		
1110	Cash and Cash Equivalents	\$	2,650
	Receivables:		
1260	Due from Other Funds		1,478
	Total Current Assets		4,128
1000	Total Assets		4,128
	LIABILITIES:		
	Current Liabilities:		
2110	Accounts Payable	\$	4,128
	Total Current Liabilities		4,128
2000	Total Liabilities		4,128
	NET POSITION:		
3000	Total Net Position	\$	—

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Nonmajor Internal Service Fund
		Public Entity Risk Pool
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 5,777
5020	Total Revenues	<u>5,777</u>
	OPERATING EXPENSES:	
6200	<i>Professional and Contracted Services</i>	<u>5,777</u>
6030	Total Expenses	<u>5,777</u>
1300	Change in Net Position	--
0100	Total Net Position - Beginning	--
3300	Total Net Position - Ending	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Receipts (Payments) for Quasi-external</i>	\$
<i>Operating Transactions with Other Funds</i>	10,145
<i>Cash Payments to Employees for Services</i>	--
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(7,511)
<i>Other Operating Cash Receipts (Payments)</i>	--
Net Cash Provided (Used) by Operating Activities	<u>2,634</u>
Cash Flows from Non-capital Financing Activities:	
<i>Operating Grants Received</i>	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Contributed Capital</i>	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>--</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	--
Net Cash Provided (Used) for Investing Activities	<u>2,634</u>
Net Increase (Decrease) in Cash and Cash Equivalents	--
Cash and Cash Equivalents at Beginning of Year	16
Cash and Cash Equivalents at End of Year	<u>\$ 2,650</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ --
Adjustments to Reconcile Operating Income to Net Cash	
Provided by Operating Activities	
<i>Provision for Uncollectible Accounts</i>	--
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	4,368
<i>Increase (Decrease) in Accounts Payable</i>	(1,734)
Total Adjustments	<u>2,634</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 2,634</u>

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2014

		Agency Fund
Data Control Codes		Student Activity
ASSETS:		
1110	Cash and Cash Equivalents	\$ 41,362
1000	Total Assets	41,362
LIABILITIES:		
Current Liabilities:		
2190	Due to Student Groups	\$ 41,362
2000	Total Liabilities	41,362
NET POSITION:		
3000	Total Net Position	\$ 0

The accompanying notes are an integral part of this statement.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

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

The District reports the following major governmental funds:

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

Debt Service Fund: The Debt Service Fund is used to account for the accumulation of legally restricted resources for, and the payment of, general long-term debt principal, interest, and related costs.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

In addition, the District reports the following fund types:

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

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

b. Property Taxes

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

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	20-30
Buildings	30-50
Building Improvements	20-30
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

e. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

f. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. However, additional disclosure is provided in Notes N, O, P, and Q, which disaggregates those balances to provide TEA with additional analysis.

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

g. Interfund Activity

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

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

i. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

k. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

l. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

B. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$372,055 and the bank balance was \$412,134. The District's cash deposits at August 31, 2014 and during the year ended August 31, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investment at August 31, 2014 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 660,433
Total Investments		<u>\$ 660,433</u>

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

At August 31, 2014, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

TexPool	\$ <u>660,433</u>	Standard & Poor's Rating - AAA
---------	-------------------	--------------------------------

b. Custodial Credit Risk

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

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

ZEPHYR INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2014

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

C. Capital Assets

Capital asset activity for the year ended August 31, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 266,161	\$ 3,428	\$ --	\$ 269,589
Construction in progress	--	--	--	--
Total capital assets not being depreciated	<u>266,161</u>	<u>3,428</u>	<u>--</u>	<u>269,589</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	4,550,199	--	--	4,550,199
Equipment	355,573	17,248	--	372,821
Vehicles	248,674	--	--	248,674
Infrastructure	1,932,941	2,220	--	1,935,161
Total capital assets being depreciated	<u>7,087,387</u>	<u>19,468</u>	<u>--</u>	<u>7,106,855</u>
Less accumulated depreciation for:				
Buildings and improvements	(725,848)	(91,004)	--	(816,852)
Equipment	(173,170)	(12,955)	--	(186,125)
Vehicles	(89,550)	(29,545)	--	(119,095)
Infrastructure	(219,202)	(63,611)	--	(282,813)
Total accumulated depreciation	<u>(1,207,770)</u>	<u>(197,115)</u>	<u>--</u>	<u>(1,404,885)</u>
Total capital assets being depreciated, net	<u>5,879,617</u>	<u>(177,647)</u>	<u>--</u>	<u>5,701,970</u>
Governmental activities capital assets, net	<u>\$ 6,145,778</u>	<u>\$ (174,219)</u>	<u>\$ --</u>	<u>\$ 5,971,559</u>

Depreciation was charged to functions as follows:

Instruction	\$ 99,901
Instructional Resources and Media Services	1,401
Curriculum and Staff Development	4,298
School Leadership	8,477
Guidance, Counseling, & Evaluation Services	367
Health Services	153
Student Transportation	5,307
Food Services	18,661
Extracurricular Activities	13,481
General Administration	14,949
Plant Maintenance and Operations	30,120
	<u>\$ 197,115</u>

D. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2014, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Internal Service Fund	General Fund	1,478	Self-Funded Workers Comp Fund
	Total	<u>\$ 1,478</u>	

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

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2014, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Other Governmental Funds - Food Service Fund	75,000	Supplement other funds sources
	Total	<u>\$ 75,000</u>	

E. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 4,370,334	\$ --	\$ 90,334	\$ 4,280,000	\$ 120,000
Accumulated accretion	17,049	12,617	29,666	--	--
Premium on bonds	136,126	--	5,566	130,560	--
Capital lease purchase, QSCB	425,000	--	--	425,000	--
Time Warrants, 2011 QSCB	192,000	--	60,000	132,000	64,000
Maint tax notes, 2011 QSCB	408,000	--	--	408,000	--
Total governmental activities	<u>\$ 5,548,509</u>	<u>\$ 12,617</u>	<u>\$ 185,566</u>	<u>\$ 5,375,560</u>	<u>\$ 184,000</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2014, are as follows:

Year Ending August 31,	Governmental Activities			Federal Interest Subsidy	Net Interest Cost
	Principal	Interest	Total		
2015	\$ 184,000	\$ 268,907	\$ 452,907	\$ 51,619	\$ 217,288
2016	198,000	259,590	457,590	48,176	211,414
2017	200,000	249,524	449,524	44,518	205,006
2018	212,000	238,973	450,973	40,780	198,193
2019	185,000	228,764	413,764	36,934	191,830
2020-2024	1,087,000	983,062	2,070,062	121,251	861,811
2025-2029	1,029,000	676,401	1,705,401	15,669	660,732
2030-2034	1,070,000	420,273	1,490,273	--	420,273
2035-2038	1,080,000	114,470	1,194,470	--	114,470
Totals	<u>\$ 5,245,000</u>	<u>\$ 3,439,964</u>	<u>\$ 8,684,964</u>	<u>358,947</u>	<u>3,081,017</u>

The District's oldest bond issue is dated May 1, 1998. This issue will mature on May 1, 2018. Interest rates on the remaining bonds in this issue include 5.00% on coupons totaling \$35,000, and 5.1% on coupons totaling \$125,000. Interest on the bonds is paid semi-annually on each August 15 and February 15. Principal is paid each February 15.

ZEPHYR INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2014

On October 7, 2008 the District sold Unlimited Tax School Building Bonds, Series 2008 (dated September 15, 2008) in the original issue amount of \$2,870,000. Current Interest Bonds totaling \$2,680,000 have coupon rates 3.00% to 5.00%. The issue has an unamortized premium of \$69,259 at August 31, 2014. Maturity dates on the bonds are through February 15, 2038. Interest is payable on the Series 2008 bonds each August 15 and February 15.

On August 5, 2009 the District sold Unlimited Tax School Building Bonds, Series 2009 (dated August 1, 2009) in the original issue amount of \$1,480,000. Current Interest Bonds totaling \$1,440,000 have coupon rates ranging from 3.00% to 5.40%. The issue has an unamortized premium of \$61,301 at August 31, 2014. Interest is payable on the Series 2009 bonds each August 15 and February 15. Maturity dates on the bonds are through February 15, 2038.

On April 26, 2011, the District issued Time Warrants, Series 2011, which are treated as qualified school construction bonds, in the amount of \$304,500. Interest rate on the bonds is 6.72%. The Board of Trustees made the irrevocable election to treat the time warrants as "specified tax credit bonds". As such, the District will receive a Federal Subsidy on interest of 5.38% for the life of the debt. Net interest cost for the time warrants amounts to 1.34%. The time warrants mature over a 5-year period. Annual payments are due each February, beginning in 2012 and ending in 2016. At August 31, 2014, the remaining balance due on the time warrants was \$132,000.

On April 26, 2011, the District issued Maintenance Tax Notes, Taxable Series 2011, which are treated as qualified school construction bonds, in the amount of \$408,000. Interest rate on the bonds is 6.72%. The Board of Trustees made the irrevocable election to treat the maintenance tax notes as "specified tax credit bonds". As such, the District will receive a Federal Subsidy equaling 5.38% throughout the term of the debt. Net interest costs for the maintenance tax notes amounts to 1.34%. The maintenance tax notes will mature over a 15-year period with no principal on the debt being paid on during the first 5 years. Annual payments are due each February 15, beginning in 2012 and ending in 2026.

On June 17, 2011, the District issued a Public Property Finance Act Contract, which is treated as qualified school construction bonds, in the amount of \$425,000. Interest rate on the bonds is 6.75%. The Board of Trustees made the irrevocable election to treat the lease purchase agreement as "specified tax credit bonds" and received the Federal Subsidy on interest amounting to 5.31%. Net interest costs on the lease purchase agreement is 1.44%. The lease purchase agreement will be paid over a 15-year period ending June 15, 2026. For the first 5 years of the payments, there is no principal paid on the debt. Annual payments are due each June 15, beginning in 2012 and ending in 2026.

Current year accretion on 2009 capital appreciation bonds was \$12,617. The accretion bonds were fully paid in 2014. Current year amortization of premiums on 2008 and 2009 bonds was \$5,566.

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of August 31, 2014, as follows:

Year Ending August 31:	Principal	Interest	Total Debt	Federal Subsidy	Net Interest Cost
2015	\$ --	\$ 28,688	\$ 28,688	\$ 22,568	\$ 6,120
2016	--	28,687	28,687	22,567	6,120
2017	40,000	28,687	68,687	22,567	6,120
2018	40,000	25,988	65,988	20,444	5,544
2019	41,000	23,287	64,287	18,319	4,968
2020-2024	214,000	74,048	288,048	58,251	15,797
2025-2026	90,000	9,113	99,113	7,169	1,944
Total Minimum Rentals	\$ 425,000	\$ 218,498	\$ 643,498	\$ 171,885	\$ 46,613

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

The effective interest rate on capital leases is 1.440%.

These debt service requirements are included in the total debt service requirements in section 2. above.

F. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for equipment are open-ended agreements that can be canceled at any time.

Rental Expenditures in 2014	\$ <u>7,346</u>
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G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2014, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Unemployment Compensation Pool

During the year ended August 31, 2014, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreement that define the responsibilities of the parties.

The Fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for Unemployment Compensation pool members.

TASB Risk Management Fund

The TASB Risk Management Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

H. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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. State law provides for a member contribution rate of 6.4% for fiscal years 2014, 2013 and 2012, and a state contribution rate of 6.8% for fiscal year 2014, 6.4 % for fiscal year 2013, and 6.0% for fiscal year 2012. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2014, 2013 and 2012 were \$64,149, \$58,431 and \$56,298, respectively. The District paid additional state contributions for the years ending August 31, 2014, 2013 and 2012 in the amount of \$6,249, \$4,463 and \$6,307, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal year 2014, 0.5% for fiscal year 2013 and 1.0% for fiscal year 2012 and the active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2014, 2013 and 2012. For the years ended August 31, 2014, 2013, and 2012, the State's contributions to TRS-Care were \$10,353, \$5,027, and \$10,586, respectively, the active member contributions were \$7,297, \$7,145, and \$7,511, respectively, and the District's contributions were \$6,175, \$6,046, and \$6,358, respectively, which equaled the required contributions each year.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$2,986, \$3,523, and \$3,411, respectively.

J. Employee Health Care Coverage

During the year ended August 31, 2014, employees of the District were covered by TRS Active Care (Plan). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to TRS Active Care. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

K. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31, 2014.

L. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for a special education cooperative, Heartland Special Education Cooperative, with the following school districts:

Member Districts

Early ISD, fiscal agent	Brookesmith ISD
Bangs ISD	Santa Anna ISD
Blanket ISD	Zephyr ISD

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Early ISD, Heartland Special Education Cooperative, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

M. Workers Compensation Insurance

The District is a participant in the North Texas Education Insurance Association Workers' Compensation Self-Insurance Fund (The Fund). The purpose of the Fund is to provide statutory benefits for the fund members employees through self-insurance of workers compensation prescribed by Article 8309h, Reserved Civil Statutes of Texas, as amended.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

The interlocal agreement between the Zephyr Independent School District and the Fund is for a term beginning September 1, 2013 and terminating on September 1, 2014. Either party may terminate the agreement upon 60 days notice with the termination becoming effective at the end of the plan currently in force.

The required contributions for each plan sponsor are based on the State Board of Insurance workers' compensation rates for the various payroll classifications included in the fund members annual payroll. The interlocal agreement states that the Zephyr Independent School District's fixed cost for 2013-2014 is \$3,405 and a maximum loss of \$6,665. The District had estimated unpaid claims of \$4,128 at August 31, 2014. The District has recognized an interfund payable of \$1,478 in its General Fund to pay any claims.

The Fund is governed by a six member board. Any excess of cumulative contributions and investment earnings of all fund members are available for reduction of annual contributions. The Fund retains \$225,000 for any one occurrence and purchases stop loss coverage for all claims above \$225,000. The reinsurance carrier is Safety National Corporation. The Board reserved the right in the interlocal agreement to adjust this stop loss provision in the event that the fiscal soundness of the Fund would justify such an adjustment and/or result in savings to fund members. All claims are processed and paid by the pool through the servicing contractor employed by the Fund.

N. Due from Other Governments

The District had the following amounts due from other governments at August 31, 2014:

General Fund:	
TEA Foundation - balance due for 2013-2014	\$ 5,665
TEA Foundation - Student days in August	42,654
	<u>\$ 48,319</u>
Special Revenue Funds:	
Federal Sources	\$ 2,579
	<u>2,579</u>

O. Unearned Revenues

The District had the following unearned revenues in the individual governmental funds at August 31, 2014:

General Fund:	
Property Taxes	\$ 7,079
Debt Service Fund:	
Property Taxes	1,666
	<u>\$ 8,745</u>

P. Due to Other Governments

At August 31, 2014, the District had been overpaid by TEA in the amount of \$6,347. That amount will be withheld from the 2015 payments.

Q. Unrealized Expenditures

At August 31, 2014 the District prepaid bills and invoices for goods and services that were actually recieved in September 2014.

General Fund	\$ 14,551
Special Revenue Fund - Food Service	645
	<u>\$ 15,196</u>

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT G-1
Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
	REVENUES:				
5700	Local and Intermediate Sources	\$ 437,604	\$ 468,255	\$ 477,340	\$ 9,085
5800	State Program Revenues	1,599,211	1,615,440	1,615,153	(287)
5900	Federal Program Revenues	3,000	2,125	5,754	3,629
5020	Total Revenues	2,039,815	2,085,820	2,098,247	12,427
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	Instruction	1,017,931	941,931	928,716	13,215
0012	Instructional Resources and Media Services	9,900	9,950	9,943	7
0013	Curriculum and Staff Development	47,647	47,647	44,002	3,645
	Total Instruction & Instr. Related Services	1,075,479	999,529	982,661	16,868
	Instructional and School Leadership:				
0023	School Leadership	109,430	89,430	86,783	2,647
	Total Instructional & School Leadership	109,430	89,430	86,783	2,647
	Support Services - Student (Pupil):				
0031	Guidance, Counseling and Evaluation Services	2,000	4,000	3,757	243
0033	Health Services	3,000	3,000	1,585	1,435
0034	Student (Pupil) Transportation	59,524	65,524	54,331	11,193
0036	Cocurricular/Extracurricular Activities	107,369	147,869	143,663	4,206
	Total Support Services - Student (Pupil)	171,893	220,393	203,316	17,077
	Administrative Support Services:				
0041	General Administration	144,993	159,993	153,042	6,951
	Total Administrative Support Services	144,993	159,993	153,042	6,951
	Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	257,805	307,805	332,560	5,245
0053	Data Processing Services	37,000	37,000	36,682	318
	Total Support Services - Nonstudent Based	294,805	344,805	339,242	5,563
	Debt Service:				
0071	Principal on Long-Term Debt	81,000	68,450	60,000	8,450
0072	Interest on Long-Term Debt	17,431	17,431	18,169	(738)
	Total Debt Service	98,431	85,881	78,169	7,712
	Capital Outlay:				
0081	Capital Outlay	10,000	10,000	--	10,000
	Total Capital Outlay	10,000	10,000	--	10,000
	Intergovernmental Charges:				
0093	Payments to Fiscal Agent/Member Dist.-SSA	45,000	45,000	42,200	2,800
	Total Intergovernmental Charges	45,000	45,000	42,200	2,800
6030	Total Expenditures	1,950,030	1,955,030	1,885,413	69,617
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	89,785	130,790	212,834	82,044

ZEPHYR INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT G-1
Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Other Financing Sources (Uses):				
7912	<i>Sale of Real or Personal Property</i>	--	650	--	(650)
8911	<i>Transfers Out</i>	(50,000)	(75,000)	(75,000)	--
7080	Total Other Financing Sources and (Uses)	(50,000)	(74,350)	(75,000)	(650)
1200	Net Change in Fund Balance	39,785	56,440	137,834	81,394
0100	Fund Balance - Beginning	719,550	719,550	719,550	--
3000	Fund Balance - Ending	\$ 759,335	\$ 775,990	\$ 857,384	\$ 81,394

*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

ZEPHYR INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET****NONMAJOR SPECIAL REVENUE FUNDS****AUGUST 31, 2014**

<u>Data Control Codes</u>		<u>211 ESEA Title I Improving Basic Programs</u>	<u>240 National School Breakfast/Lunch Program</u>
ASSETS:			
1110	<i>Cash and Cash Equivalents</i>	\$ 3,069	\$ 5,513
1240	<i>Due from Other Governments</i>	--	2,578
1410	<i>Unrealized Expenditures</i>	--	645
1000	Total Assets	<u>3,069</u>	<u>8,736</u>
LIABILITIES:			
Current Liabilities:			
2160	<i>Accrued Wages Payable</i>	\$ 2,795	\$ 2,915
2200	<i>Accrued Expenditures</i>	274	42
2000	Total Liabilities	<u>3,069</u>	<u>2,957</u>
FUND BALANCES:			
Nonspendable Fund Balances:			
3430	<i>Prepaid Items</i>	--	645
Restricted Fund Balances:			
3450	<i>Federal/State Funds Grant Restrictions</i>	--	5,134
3000	Total Fund Balances	<u>--</u>	<u>5,779</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3,069</u>	<u>\$ 8,736</u>

EXHIBIT H-1

255 ESEA Title II Training & Recruiting	270 ESEA, Title VI Part B, Subpart 2 Rural School	410 State Textbook Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ (1)	\$ 747	\$ --	\$ 9,328
1	--	--	2,579
--	--	--	645
<u>--</u>	<u>747</u>	<u>--</u>	<u>12,552</u>
\$ --	\$ 680	\$ --	\$ 6,390
--	67	--	383
<u>--</u>	<u>747</u>	<u>--</u>	<u>6,773</u>
--	--	--	645
--	--	--	5,134
<u>--</u>	<u>--</u>	<u>--</u>	<u>5,779</u>
<u>\$ --</u>	<u>\$ 747</u>	<u>\$ --</u>	<u>\$ 12,552</u>

ZEPHYR INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		211 ESEA Title I Improving Basic Programs	240 National School Breakfast/Lunch Program
REVENUES:			
5700	Local and Intermediate Sources	\$ --	\$ 23,683
5800	State Program Revenues	--	2,973
5900	Federal Program Revenues	46,955	108,823
5020	Total Revenues	<u>46,955</u>	<u>135,479</u>
EXPENDITURES:			
Current:			
0011	Instruction	46,955	--
0012	Instructional Resources and Media Services	--	--
0035	Food Service	--	191,044
0051	Facilities Maintenance and Operations	--	17,482
6030	Total Expenditures	<u>46,955</u>	<u>208,526</u>
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	<u>--</u>	<u>(73,047)</u>
Other Financing Sources and (Uses):			
7915	Transfers In	--	75,000
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>75,000</u>
1200	Net Change in Fund Balances	<u>--</u>	<u>1,953</u>
0100	Fund Balances - Beginning	--	3,826
3000	Fund Balances - Ending	<u>\$ --</u>	<u>\$ 5,779</u>

EXHIBIT H-2

255 ESEA Title II Training & Recruiting	270 ESEA, Title VI Part B, Subpart 2 Rural School	410 State Textbook Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ --	\$ 23,683
--	--	28,419	31,392
4,396	24,183	--	184,357
4,396	24,183	28,419	239,432
--	24,183	28,419	99,557
4,396	--	--	4,396
--	--	--	191,044
--	--	--	17,482
4,396	24,183	28,419	312,479
--	--	--	(73,047)
--	--	--	75,000
--	--	--	75,000
--	--	--	1,953
--	--	--	3,826
\$ --	\$ --	\$ --	\$ 5,779

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

ZEPHYR INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE****FOR THE YEAR ENDED AUGUST 31, 2014**

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2005 and Prior Years	\$	Various	\$	Various	\$	Various
2006		1.375		.035		25,271,820
2007		1.2592		.035		27,943,987
2008		1.04		.03		30,097,705
2009		1.04		.42		35,248,578
2010		1.04		.3581		35,163,091
2011		1.04		.3581		36,771,984
2012		1.04		.3581		37,204,597
2013		1.04		.3144		38,325,387
2014 (School Year Under Audit)		1.04		.2567		40,545,078

1000 Totals

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

EXHIBIT J-1

10 Beginning Balance 9/1/13	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/14
\$ 597	\$ --	\$ 27	\$ --	\$ --	\$ 570
21	--	--	--	--	21
248	--	--	--	--	248
475	--	135	4	--	336
1,263	--	404	163	--	696
1,445	--	758	261	--	426
948	--	547	188	--	212
3,990	--	1,845	635	--	1,511
9,717	--	3,345	1,011	(385)	4,976
--	525,748	403,154	99,509	(14,592)	8,494
<u>\$ 18,705</u>	<u>\$ 525,748</u>	<u>\$ 410,215</u>	<u>\$ 101,772</u>	<u>\$ (14,976)</u>	<u>\$ 17,489</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

ZEPHYR INDEPENDENT SCHOOL DISTRICT**FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)****GENERAL FUND****AS OF AUGUST 31, 2014****EXHIBIT J-2**

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2014 (Exhibit C-1 object 3000 for the General Fund only)	\$ 857,384
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	14,551
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	--
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	300,000
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	--
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
7	Estimate of two months' average cash disbursements during the fiscal year	400,000
8	Estimate of delayed payments from state sources (58XX)	--
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
10	Estimate of delayed payments from federal sources (59XX)	--
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
12	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)	714,551
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	\$ 142,833

If Item 11 is a Positive Number

Explanation of need for and/or projected use of net positive

Unassigned General Fund Fund Balance:

The District will use any excess fund balance to buy much needed equipment and buses.

ZEPHYR INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT J-3

Data Control Codes		1	2	3 Variance Positive (Negative)
		Budget	Actual	
REVENUES:				
5700	Local and Intermediate Sources	\$ 22,180	\$ 23,683	\$ 1,503
5800	State Program Revenues	3,294	2,973	(321)
5900	Federal Program Revenues	110,651	108,823	(1,828)
5020	Total Revenues	136,125	135,479	(646)
EXPENDITURES:				
Current:				
Support Services - Student (Pupil):				
0035	Food Services	193,124	191,044	2,080
	Total Support Services - Student (Pupil)	193,124	191,044	2,080
Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	19,000	17,482	1,518
	Total Support Services - Nonstudent Based	19,000	17,482	1,518
6030	Total Expenditures	212,124	208,526	3,598
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	(75,999)	(73,047)	2,952
Other Financing Sources (Uses):				
7915	Transfers In	75,000	75,000	--
7080	Total Other Financing Sources and (Uses)	75,000	75,000	--
1200	Net Change in Fund Balance	(999)	1,953	2,952
0100	Fund Balance - Beginning	3,826	3,826	--
3000	Fund Balance - Ending	\$ 2,827	\$ 5,779	\$ 2,952

ZEPHYR INDEPENDENT SCHOOL DISTRICT

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT J-4

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 107,784	\$ 103,798	\$ (3,986)
5800 <i>State Program Revenues</i>	219,882	220,350	468
5020 <i>Total Revenues</i>	<u>327,666</u>	<u>324,148</u>	<u>(3,518)</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	96,297	90,334	5,963
0072 <i>Interest on Long-Term Debt</i>	235,869	237,706	(1,837)
0073 <i>Bond Issuance Costs and Fees</i>	1,150	5,086	(3,938)
<i>Total Debt Service</i>	<u>333,316</u>	<u>333,128</u>	<u>188</u>
6030 <i>Total Expenditures</i>	<u>333,316</u>	<u>333,128</u>	<u>188</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	(5,650)	(8,980)	(3,330)
1200 <i>Net Change in Fund Balance</i>	<u>(5,650)</u>	<u>(8,980)</u>	<u>(3,330)</u>
0100 <i>Fund Balance - Beginning</i>	148,579	148,579	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 142,929</u>	<u>\$ 139,599</u>	<u>\$ (3,330)</u>

BURL D. LOWERY
CERTIFIED PUBLIC ACCOUNTANT
311 CENTER AVENUE
BROWNWOOD, TEXAS 76801

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

Board of Trustees
Zephyr Independent School District
P.O. Box 708
Zephyr, Texas 76890

Members of the Board of Trustees:

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Zephyr Independent School District, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Zephyr Independent School District's basic financial statements, and have issued my report thereon dated January 8, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Burl D. Lowery
Certified Public Accountant

Brownwood, TX
January 8, 2015

ZEPHYR INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2014

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

One or more material weaknesses identified?

 Yes

 X No

One or more significant deficiencies identified that
are not considered to be material weaknesses?

 Yes

 X None Reported

Noncompliance material to financial
statements noted?

 Yes

 X No

B. Financial Statement Findings

NONE

ZEPHYR INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2014

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
There were no prior year findings.		

ZEPHYR INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2014

There were no current year findindgs.

ZEPHYR INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2014*

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ --