

ZEPHYR INDEPENDENT SCHOOL DISTRICT

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2015*

*Introductory Section*

Zephyr Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2015

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Annual Financial Report  
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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)  approved  disapproved for the year ended August 31, 2015, at a meeting of the board of trustees of such school district on the 18th day of January, 2016.

  
\_\_\_\_\_  
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 the Zephyr Independent School District ("the District") as of and for the year ended August 31, 2015, 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, 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

As described in Note A to the financial statements, in 2015, Zephyr Independent School District adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for contributions made Subsequent to the Measurement Date -- an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions 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 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 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 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 financial statements and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

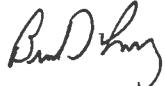
The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.



**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated January 12, 2016 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.

Respectfully submitted,



Burl D. Lowery  
Certified Public Accountant

Brownwood, TX  
January 12, 2016

## **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, 2015. 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 \$1,699,958 at August 31, 2015.
- During the year, the District's expenses were \$254,918 less than the \$2,739,367 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs decreased by \$47,229 while its revenues increased by \$78,146 during the current year.
- The general fund reported a fund balance this year of \$1,027,399.

### **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 \$1,699,958 at August 31, 2015 and \$1,590,611 at August 31, 2014.

Net position is made up of the following categories:

	<u>8-31-2015</u>	<u>8-31-2014</u>
Net investment in capital assets	\$635,572	\$579,104
Restricted for:		
State and federal programs	8,960	5,779
Debt Service	148,028	141,265
Unrestricted	<u>907,398</u>	<u>864,463</u>
Total Net Position	<u>\$1,699,958</u>	<u>\$1,590,611</u>

**Changes in net position.** The District's total revenues were \$2,738,367. Property taxes provided 21% of the District's revenue. State available and foundation grants provide 56% of total revenues; operating grants provide 19% of the total revenues; and capital grants and charges for services provide 3% of the total revenue.

The total cost of all programs and services was \$2,484,449; 45% 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 2013-2014. Property tax rates for debt service increased from \$.2567 in 2013-2014 to \$.2796 per \$100 valuation in 2014-2015.

The taxable values increased \$4,624,844. Tax revenues increased approximately \$66,274.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types in the individual funds totaled \$2,739,367, an increase of 2.94% over the preceding year. While State foundation revenue increased \$68,810, operating grants decreased \$18,350. Taxes increased \$68,810 and charges for services increased \$15,005. The State foundation revenue fluctuates with student enrollment. In 2013-2014, the District's average daily attendance was 206, while in 2014-2015 the District's average daily attendance 199, a decrease of 7 students.

### General Fund Budgetary Highlights

Over the course of the year, the District revised its budget. With these adjustments, actual expenditures were \$27,910 less than the final budgeted amounts of the General Fund. In addition, resources available were \$50,976 more than the final budgeted amount. The District had budgeted a surplus of \$85,831, while the actual net change in fund balance was a positive \$170,015.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2015, the District had a net investment in capital assets amounting to \$5,837,736 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 \$133,823, a decrease of 2% over last year. Depreciation for 2014-2015 was \$199,901.

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 \$5,185,994 outstanding bonds and maintenance tax notes and a net pension liability of \$128,481. More detailed information about the District's debt is presented in the notes to the financial statements.

Subsequent to August 31, 2015, the District's Board of Trustees has approved the issuance of the Unlimited Tax Refunding Bonds, Series 2015, dated December 1, 2015. The bonds have been designated as Qualified Tax-Exempt Obligations for Financial Institutions. The bonds issued are a par value of \$3,725,000. The use of funds from this issue will be for refunding portions of the District's outstanding bonded debt for Series 2008 and Series 2009 and paying costs of issuing the bonds.

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

- Appraised value used for the 2015 tax roll for the 2015-2016 budget preparation increased \$136,969 over the 2014 tax roll appraised value. The District's total tax rate stayed the same rate of \$1.3196 per \$100 valuation. The tax revenue based on these valuations and tax rates will remain approximately the same as 2014-2015. The I & S rate at \$.2796 will result in \$122,877, while the M&O rate at \$1.04 will result in \$457,052 for the District.
- General operating fund budgeted spending is \$2,099,570 which is an increase from the final 2014-2015 budget of \$1,956,315. The budget increase is a 7% increase from last year.
- General operating fund estimated revenues increased in the 2015-2016 budget approximately \$59,525 from the final estimated revenues in 2014-2015 of \$2,105,146 to \$2,164,671 in 2015-2016.

These indicators were taken into account when adopting the general fund budget for 2015-2016. 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 \$65,100 at the close of 2015-2016.

### **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 \$1,699,958 at August 31, 2015 and \$1,590,611 at August 31, 2014. (See Table 1)

**Table 1**  
Zephyr Independent School District's Net Position

	Governmental Activities	
	2015	2014
Current Assets:		
Cash and cash equivalents	\$294,083	\$329,694
Investments	\$960,812	\$660,433
Due from other governments	\$96,255	\$50,898
Property taxes receivable (net)	\$7,547	\$8,745
Other receivables (net)	\$13,231	\$2,052
Unrealized expenses	\$0	\$15,196
Total Current Assets	<u>\$1,371,928</u>	<u>\$1,067,018</u>
Capital Assets:		
Land	\$269,589	\$269,589
Buildings	\$3,642,343	\$3,733,347
Equipment and vehicles	\$337,067	\$316,275
Infrastructure	\$1,588,737	\$1,652,348
Total Capital Assets	<u>\$5,837,736</u>	<u>\$5,971,559</u>
Total Assets	<u>\$7,209,664</u>	<u>\$7,038,577</u>
Deferred Outflows of Resources:		
Deferred Outflow Related to Pensions	<u>\$41,837</u>	<u>\$0</u>
Current Liabilities:		
Accounts payable and accrued expenses	\$152,164	\$66,059
Due to other governments	\$45,602	\$6,347
Total Current Liabilities	<u>\$197,766</u>	<u>\$72,406</u>
Long-term Liabilities:		
Bonds Payable - due within one year	\$198,000	\$184,000
Bonds Payable - due in more than one year	\$4,987,993	\$5,191,560
Net Pension Liability	\$128,481	\$0
Total Long-term Liabilities	<u>\$5,314,474</u>	<u>\$5,375,560</u>
Total Liabilities	<u>\$5,512,240</u>	<u>\$5,447,966</u>
Deferred Inflows of Resources:		
Deferred Inflow Related to Pensions	<u>\$39,303</u>	<u>\$0</u>
Net Position:		
Net investment in capital assets	\$635,572	\$579,104
Restricted for state and federal programs	\$8,960	\$5,779
Restricted for debt service	\$148,028	\$141,265
Unrestricted	\$907,398	\$864,463
Total Net Position	<u>\$1,699,958</u>	<u>\$1,590,611</u>

**ZEPHYR INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES**

**Table 2**  
Zephyr Independent School District's Changes in Net Position

	Governmental Activities	
	2015	2014
Program Revenues:		
Charges for services	\$60,211	\$45,206
Operating grants and contributions	\$521,396	\$539,746
Capital grants and contributions	\$14,450	\$0
General Revenues:		
Property taxes	\$588,878	\$520,068
State aid - formula	\$1,533,546	\$1,539,841
Investment earnings	\$507	\$1,162
Other revenues	\$17,192	\$15,198
Gain on sale of assets	\$3,187	\$0
Total Revenues	<u>\$2,739,367</u>	<u>\$2,661,221</u>
Expenditures:		
Instruction	\$1,066,942	\$1,122,623
Instructional resources and media services	\$13,550	\$15,740
Curriculum development and staff development	\$46,669	\$48,300
School leadership	\$103,703	\$95,260
Guidance and counseling services	\$1,694	\$4,124
Health services	\$93	\$1,718
Student (pupil) transportation	\$59,071	\$59,638
Food services	\$187,669	\$209,705
Curricular/extracurricular activities	\$172,455	\$151,494
General administration	\$188,760	\$167,991
Plant maintenance & operation	\$331,715	\$338,467
Data processing services	\$36,682	\$36,682
Interest on long-term debt	\$214,446	\$232,648
Bond issuance costs and fees	\$5,456	\$5,088
Payments to fiscal agent/member districts SSA	\$55,544	\$42,200
Total Expenditures	<u>\$2,484,449</u>	<u>\$2,531,678</u>
Excess (Deficiency) Before Other Resources, Uses, and Transfers	\$254,918	\$129,543
Other Resources (Uses)		
Transfers In (Out)	<u>\$0</u>	<u>\$0</u>
Increase (Decrease) in Net Position	\$254,918	\$129,543
Net Position - Beginning	\$1,590,611	\$1,461,070
Prior Period Adjustments - 2015 Related to Pensions	<u>(\$145,571)</u>	<u>(\$2)</u>
Net Position - Ending	<u><u>\$1,699,958</u></u>	<u><u>\$1,590,611</u></u>

**ZEPHYR INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS - TABLES**

**Table 3**  
Zephyr Independent School District's Capital Assets

	Governmental Activities	
	2015	2014
Land	\$269,589	\$269,589
Buildings and improvements	\$4,550,199	\$4,550,199
Equipment	\$395,144	\$372,821
Vehicles	\$212,755	\$248,674
Infrastructure	\$1,935,161	\$1,935,161
Total Capital Assets	<u>\$7,362,848</u>	<u>\$7,376,444</u>
Total Accumulated Depreciation	\$1,525,112	\$1,404,885
Net Capital Assets	<u><u>\$5,837,736</u></u>	<u><u>\$5,971,559</u></u>

**Table 4**  
Zephyr Independent School District's Long-term Debt

	Governmental Activities	
	2015	2014
Bonds payable	\$4,160,000	\$4,280,000
Premiums on bonds	\$124,994	\$130,560
Qualified School Construction Bonds:		
Capital Lease Purchase	\$425,000	\$425,000
Time Warrants	\$68,000	\$132,000
Maintenance Tax Notes	\$408,000	\$408,000
Total Long-term Debt	<u>\$5,185,994</u>	<u>\$5,375,560</u>
Due within one year	\$198,000	\$184,000
Due in more than one year	\$4,987,994	\$5,191,560
	<u>\$5,185,994</u>	<u>\$5,375,560</u>
Net Pension Liability	<u>\$128,481</u>	<u>\$0</u>



*Basic Financial Statements*

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
**AUGUST 31, 2015**

Data Control Codes	1	Governmental Activities
<b>ASSETS:</b>		
1110	<i>Cash and Cash Equivalents</i>	\$ 294,083
1120	<i>Current Investments</i>	960,812
1225	<i>Property Taxes Receivable (Net)</i>	7,547
1240	<i>Due from Other Governments</i>	96,255
1290	<i>Other Receivables (Net)</i>	13,231
Capital Assets:		
1510	<i>Land</i>	269,589
1520	<i>Buildings and Improvements, Net</i>	3,642,343
1530	<i>Furniture and Equipment, Net</i>	337,067
1590	<i>Infrastructure, Net</i>	1,588,737
1000	<b>Total Assets</b>	<u>7,209,664</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
1705	<i>Deferred Outflow Related to Pensions</i>	41,837
1700	<b>Total Deferred Outflows of Resources</b>	<u>41,837</u>
<b>LIABILITIES:</b>		
2110	<i>Accounts Payable</i>	71,505
2140	<i>Interest Payable</i>	16,171
2165	<i>Accrued Liabilities</i>	64,488
2180	<i>Due to Other Governments</i>	45,602
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	198,000
2502	<i>Due in More Than One Year</i>	4,987,993
2540	<i>Net Pension Liability</i>	128,481
2000	<b>Total Liabilities</b>	<u>5,512,240</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
2605	<i>Deferred Inflow Related to Pensions</i>	39,303
2600	<b>Total Deferred Inflows of Resources</b>	<u>39,303</u>
<b>NET POSITION:</b>		
3200	<b>Net Investment in Capital Assets</b>	635,572
Restricted For:		
3820	State and Federal Programs	8,960
3850	Debt Service	148,028
3900	Unrestricted	907,398
3000	<b>Total Net Position</b>	<u>\$ 1,699,958</u>

The accompanying notes are an integral part of this statement.

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

Data Control Codes	Functions/Programs	1 Expenses	3 Charges for Services	4 Program Revenues		5 Capital Grants and Contributions
				Operating Grants and Contributions		
	Governmental Activities:					
11	<i>Instruction</i>	\$ 1,066,942	\$ --	\$ 155,820	\$ --	
12	<i>Instructional Resources and Media Services</i>	13,550	--	4,580	--	
13	<i>Curriculum and Staff Development</i>	46,669	--	1,127	--	
23	<i>School Leadership</i>	103,703	--	5,432	--	
31	<i>Guidance, Counseling, &amp; Evaluation Services</i>	1,694	--	--	--	
33	<i>Health Services</i>	93	--	--	--	
34	<i>Student Transportation</i>	59,071	--	652	--	
35	<i>Food Service</i>	187,669	18,216	102,228	14,450	
36	<i>Cocurricular/Extracurricular Activities</i>	172,455	38,745	23,372	--	
41	<i>General Administration</i>	188,760	--	5,685	--	
51	<i>Facilities Maintenance and Operations</i>	331,715	3,250	11,090	--	
53	<i>Data Processing Services</i>	36,682	--	--	--	
72	<i>Interest on Long-term Debt</i>	214,446	--	211,410	--	
73	<i>Bond Issuance Costs and Fees</i>	5,456	--	--	--	
93	<i>Payments Related to Shared Services Arrangement</i>	55,544	--	--	--	
TG	Total Governmental Activities	2,484,449	60,211	521,396	14,450	
TP	Total Primary Government	\$ 2,484,449	\$ 60,211	\$ 521,396	\$ 14,450	
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>					
DT	<i>Property Taxes, Levied for Debt Service</i>					
IE	<i>Investment Earnings</i>					
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>					
MI	<i>Miscellaneous</i>					
	<i>Gain of sale of assets</i>					
TR	Total General Revenues					
CN	Change in Net Position					
NB	Net Position - Beginning					
PA	Prior Period Adjustment					
	Net Position - Beginning, as Restated					
NE	Net Position - Ending					

The accompanying notes are an integral part of this statement.

Net (Expense)  
Revenue and  
Changes in  
Net Position

Governmental  
Activities

\$	(911,122)
	(8,970)
	(45,542)
	(98,271)
	(1,694)
	(93)
	(58,419)
	(52,775)
	(110,338)
	(183,075)
	(317,375)
	(36,682)
	(3,036)
	(5,456)
	(55,544)
	<u>(1,888,392)</u>
	<u>(1,888,392)</u>

	464,249
	124,629
	507
	1,533,546
	17,192
	3,187
	<u>2,143,310</u>
	<del>254,918</del>
	1,590,610
	(145,570)
	1,445,040
\$	<u><u>1,699,958</u></u>

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**AUGUST 31, 2015**

Data Control Codes	10 General Fund	24 National School Breakfast/Lunch Program
<b>ASSETS:</b>		
1110 <i>Cash and Cash Equivalents</i>	\$ 156,902	\$ 10,999
1120 <i>Current Investments</i>	960,812	--
1225 <i>Taxes Receivable, Net</i>	5,946	--
1240 <i>Due from Other Governments</i>	51,770	17,573
1290 <i>Other Receivables</i>	13,231	--
1000 <b>Total Assets</b>	<u>1,188,661</u>	<u>28,572</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
2110 <i>Accounts Payable</i>	\$ 50,667	\$ 15,807
2160 <i>Accrued Wages Payable</i>	54,251	3,677
2170 <i>Due to Other Funds</i>	2,655	--
2180 <i>Due to Other Governments</i>	45,602	--
2200 <i>Accrued Expenditures</i>	2,142	128
2300 <i>Unearned Revenue</i>	5,945	--
2000 <b>Total Liabilities</b>	<u>161,262</u>	<u>19,612</u>
<b>FUND BALANCES:</b>		
Restricted Fund Balances:		
3450 <i>Federal/State Funds Grant Restrictions</i>	--	8,960
3480 <i>Retirement of Long-Term Debt</i>	--	--
Committed Fund Balances:		
3510 <i>Construction</i>	450,000	--
3600 <i>Unassigned</i>	577,399	--
3000 <b>Total Fund Balances</b>	<u>1,027,399</u>	<u>8,960</u>
4000 <b>Total Liabilities and Fund Balances</b>	<u>\$ 1,188,661</u>	<u>\$ 28,572</u>

The accompanying notes are an integral part of this statement.

EXHIBIT C-1

50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 146,427	\$ (22,622)	\$ 291,706
--	--	960,812
1,601	--	7,547
--	26,912	96,255
--	--	13,231
<u>148,028</u>	<u>4,290</u>	<u>1,369,551</u>
\$ --	\$ --	\$ 66,474
--	3,855	61,783
--	--	2,655
--	--	45,602
--	435	2,705
1,600	--	7,545
<u>1,600</u>	<u>4,290</u>	<u>186,764</u>
--	--	8,960
146,428	--	146,428
--	--	450,000
--	--	577,399
<u>146,428</u>	<u>--</u>	<u>1,182,787</u>
<u>\$ 148,028</u>	<u>\$ 4,290</u>	<u>\$ 1,369,551</u>

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 AUGUST 31, 2015*

Total fund balances - governmental funds balance sheet	\$ 1,182,787
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	5,837,736
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	7,546
Payables for bond principal which are not due in the current period are not reported in the funds.	(4,160,000)
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.	(16,171)
Payables for notes which are not due in the current period are not reported in the funds.	(476,000)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(128,481)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(39,303)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	41,837
Bond premiums are amortized in the SNA but not in the funds.	<u>(124,993)</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 1,699,958</u>

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, 2015**

Data Control Codes	10 General Fund	24 National School Breakfast/Lunch Program
<b>REVENUES:</b>		
5700 <i>Local and Intermediate Sources</i>	\$ 545,400	\$ 18,216
5800 <i>State Program Revenues</i>	1,605,187	2,681
5900 <i>Federal Program Revenues</i>	5,535	113,997
5020 <b>Total Revenues</b>	<u>2,156,122</u>	<u>134,894</u>
<b>EXPENDITURES:</b>		
Current:		
0011 <i>Instruction</i>	900,850	--
0012 <i>Instructional Resources and Media Services</i>	7,965	--
0013 <i>Curriculum and Staff Development</i>	42,612	--
0023 <i>School Leadership</i>	95,260	--
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	1,694	--
0033 <i>Health Services</i>	93	--
0034 <i>Student Transportation</i>	74,157	--
0035 <i>Food Service</i>	--	192,602
0036 <i>Cocurricular/Extracurricular Activities</i>	157,637	--
0041 <i>General Administration</i>	173,138	--
0051 <i>Facilities Maintenance and Operations</i>	301,914	--
0053 <i>Data Processing Services</i>	36,682	--
0071 <i>Principal on Long-term Debt</i>	64,000	--
0072 <i>Interest on Long-term Debt</i>	16,859	--
0073 <i>Bond Issuance Costs and Fees</i>	--	--
0093 <i>Payments to Shared Service Arrangements</i>	55,544	--
6030 <b>Total Expenditures</b>	<u>1,928,405</u>	<u>192,602</u>
1100 <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>227,717</u>	<u>(57,708)</u>
Other Financing Sources and (Uses):		
7912 <i>Sale of Real or Personal Property</i>	3,187	--
7915 <i>Transfers In</i>	--	60,889
8911 <i>Transfers Out</i>	(60,889)	--
7080 <b>Total Other Financing Sources and (Uses)</b>	<u>(57,702)</u>	<u>60,889</u>
1200 <b>Net Change in Fund Balances</b>	170,015	3,181
0100 <b>Fund Balances - Beginning</b>	857,384	5,779
3000 <b>Fund Balances - Ending</b>	<u>\$ 1,027,399</u>	<u>\$ 8,960</u>

The accompanying notes are an integral part of this statement.



EXHIBIT C-2

50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
\$ 124,753	\$ --	\$ 688,369
211,410	27,462	1,846,740
--	82,737	202,269
<u>336,163</u>	<u>110,199</u>	<u>2,737,378</u>
--	105,619	1,006,469
--	4,580	12,545
--	--	42,612
--	--	95,260
--	--	1,694
--	--	93
--	--	74,157
--	--	192,602
--	--	157,637
--	--	173,138
--	--	301,914
--	--	36,682
120,000	--	184,000
203,878	--	220,737
5,456	--	5,456
--	--	55,544
<u>329,334</u>	<u>110,199</u>	<u>2,560,540</u>
<u>6,829</u>	<u>--</u>	<u>176,838</u>
--	--	3,187
--	--	60,889
--	--	(60,889)
--	--	3,187
<u>6,829</u>	<u>--</u>	<u>180,025</u>
139,599	--	1,002,762
<u>\$ 146,428</u>	<u>\$ --</u>	<u>\$ 1,182,787</u>

**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, 2015*

Net change in fund balances - total governmental funds	\$ 180,025
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	66,079
The depreciation of capital assets used in governmental activities is not reported in the funds.	(199,901)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(1,199)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	120,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	64,000
(Increase) decrease in accrued interest from beginning of period to end of period.	725
Bond premiums are reported in the funds but not in the SOA.	5,566
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	<u>19,623</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 254,918</u>

The accompanying notes are an integral part of this statement.

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
 STATEMENT OF NET POSITION  
 INTERNAL SERVICE FUND  
 AUGUST 31, 2015

Data Control Codes		Nonmajor Internal Service Fund	Public Entity Risk Pool
	<b>ASSETS:</b>		
	Current Assets:		
1110	<i>Cash and Cash Equivalents</i>	\$ 2,376	
	<i>Receivables:</i>		
1260	<i>Due from Other Funds</i>	2,655	
	Total Current Assets	<u>5,031</u>	
1000	Total Assets	<u>5,031</u>	
	<b>LIABILITIES:</b>		
	Current Liabilities:		
2110	<i>Accounts Payable</i>	\$ 5,031	
	Total Current Liabilities	<u>5,031</u>	
2000	Total Liabilities	<u>5,031</u>	
	<b>NET POSITION:</b>		
3000	Total Net Position	<u>\$ --</u>	

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, 2015**

Data Control Codes		Nonmajor Internal Service Fund
		Public Entity Risk Pool
	<b>OPERATING REVENUES:</b>	
5700	<i>Local and Intermediate Sources</i>	\$ 1,264
5020	Total Revenues	<u>1,264</u>
	<b>OPERATING EXPENSES:</b>	
6200	<i>Professional and Contracted Services</i>	1,264
6030	Total Expenses	<u>1,264</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, 2015**

	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>	
<i>Cash Receipts (Payments) for Quasi-external     Operating Transactions with Other Funds</i>	\$ 179
<i>Cash Payments to Employees for Services</i>	--
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(452)
<i>Other Operating Cash Receipts (Payments)</i>	--
Net Cash Provided (Used) by Operating Activities	<u>(273)</u>
<b>Cash Flows from Non-capital Financing Activities:</b>	
<i>Operating Grants Received</i>	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
<i>Contributed Capital</i>	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>--</u>
<b>Cash Flows from Investing Activities:</b>	
<i>Interest and Dividends on Investments</i>	--
Net Cash Provided (Used) for Investing Activities	<u>--</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(273)
Cash and Cash Equivalents at Beginning of Year	2,650
Cash and Cash Equivalents at End of Year	<u>\$ 2,376</u>
<b>Reconciliation of Operating Income to Net Cash     Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ --
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	--
<i>Provision for Uncollectible Accounts</i>	--
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(1,176)
<i>Decrease (Increase) in Inventories</i>	--
<i>Decrease (Increase) in Prepaid Expenses</i>	--
<i>Increase (Decrease) in Accounts Payable</i>	903
Total Adjustments	<u>(273)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (273)</u>

The accompanying notes are an integral part of this statement.

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 AUGUST 31, 2015

Data Control Codes		Agency Fund
		Student Activity
	<b>ASSETS:</b>	
1110	<i>Cash and Cash Equivalents</i>	\$ 48,477
1000	Total Assets	<u>48,477</u>
	<b>LIABILITIES:</b>	
	Current Liabilities:	
2190	<i>Due to Student Groups</i>	\$ 48,477
2000	Total Liabilities	<u>48,477</u>
	<b>NET POSITION:</b>	
3000	Total Net Position	<u>\$ --</u>

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, 2015*

**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.

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2015*

Special Revenue Fund - National School Breakfast/Lunch Program: The Food Service Fund accounts for the operations of the school cafeteria which includes the federal reimbursement revenues from the United States Department of Agriculture and the revenues from the sales of meals to students and adults. The general fund subsidizes the Food Service Fund for all amounts required in excess of the NSLP reimbursements and user fees. The District does not intend for the Food Service Fund to be self-sustaining.

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.

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.



**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED AUGUST 31, 2015*

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.

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.

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

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.

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 M, N, and O, 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 position.

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 ensure 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.

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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 convey 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.

4. Pensions

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

At August 31, 2015 the District reported the following:

Net Pension Asset	\$	--
Net Pension Liability	\$	128,481

5. New Accounting Standards Adopted

In fiscal year 2015, the District adopted five new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*
- Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*

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- Statement No. 69, *Government Combinations and Disposals of Governmental Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.*

- a. Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:
- 1) Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
  - 2) Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
  - 3) Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. Distinctions are made regarding the particular presentation requirements depending upon the type of pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements.

The adoption of Statement No. 67 has no impact on the District's financial statements.

- b. Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria detailed above in the description of Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liability and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement.

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- c. Statement No. 69 improves financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operation. The term "government combinations" is used to refer to a variety of arrangements including mergers and acquisitions. Mergers include combinations of legally separate entities without the exchange of significant consideration. Government acquisitions are transactions in which a government acquires another entity, or its operations, in exchange for significant consideration. Government combinations also include transfers of operations that do not constitute entire legally separate entities in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services.

There was no impact on the District's financial statements as a result of the implementation of Statement No. 69.

- d. Statement No. 70 was issued to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees.

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

There was no impact on the District's financial statements as a result of the implementation of Statement No. 70.

- e. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the District's final year-end, the effects from the District's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position.

**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, 2015, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$314,375 and the bank balance was \$325,219. The District's cash deposits at August 31, 2015 and during the year ended August 31, 2015, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

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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, 2015 is shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 960,812
Total Investments		<u>\$ 960,812</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, 2015, 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                    \$ 960,812    Standard & Poor's Rating - AAAM

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.

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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.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAM by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at [www.ttstc.org](http://www.ttstc.org).

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C. Capital Assets

Capital asset activity for the year ended August 31, 2015, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 269,589	\$ --	\$ --	\$ 269,589
Construction in progress	--	--	--	--
Total capital assets not being depreciated	<u>269,589</u>	<u>--</u>	<u>--</u>	<u>269,589</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	4,550,199	--	--	4,550,199
Equipment	372,821	40,323	18,000	395,144
Vehicles	248,674	25,755	61,674	212,755
Infrastructure	1,935,161	--	--	1,935,161
Total capital assets being depreciated	<u>7,106,854</u>	<u>66,079</u>	<u>79,674</u>	<u>7,093,259</u>
Less accumulated depreciation for:				
Buildings and improvements	(816,852)	(91,004)	--	(907,856)
Equipment	(119,095)	(32,824)	(18,000)	(133,919)
Vehicles	(186,125)	(12,462)	(61,674)	(136,913)
Infrastructure	(282,813)	(63,611)	--	(346,424)
Total accumulated depreciation	<u>(1,404,885)</u>	<u>(199,901)</u>	<u>(79,674)</u>	<u>(1,525,112)</u>
Total capital assets being depreciated, net	<u>5,701,970</u>	<u>(133,822)</u>	<u>--</u>	<u>5,568,147</u>
Governmental activities capital assets, net	<u>\$ 5,971,559</u>	<u>\$ (133,822)</u>	<u>\$ --</u>	<u>\$ 5,837,736</u>

Depreciation was charged to functions as follows:

Instruction	\$ 98,263
Instructional Resources and Media Services	1,248
Curriculum and Staff Development	4,298
School Leadership	9,551
Student Transportation	5,440
Food Services	17,284
Extracurricular Activities	15,883
General Administration	17,384
Plant Maintenance and Operations	30,550
	<u>\$ 199,901</u>

D. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2015, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
Internal Service Fund	General Fund	2,655	Self-Funded Workers Comp Fund
	Total	<u>\$ 2,655</u>	

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



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2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2015, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Special Revenue - Food Service	60,889	Supplement other funds sources
	Total	\$ 60,889	

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, 2015, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 4,280,000	\$ --	\$ 120,000	\$ 4,160,000	\$ 130,000
Accumulated accretion	--	--	--	--	--
Premium on bonds	130,560	--	5,566	124,994	--
Capital lease purchase, QSCB	425,000	--	--	425,000	--
Time Warrants, 2011 QSCB	132,000	--	64,000	68,000	68,000
Maint tax notes, 2011 QSCB	408,000	--	--	408,000	--
Net Pension Liability	--	145,570	17,089	128,481	--
Total governmental activities	\$ 5,375,560	\$ 145,570	\$ 206,655	\$ 5,314,475	\$ 198,000

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Net Pension Liability *	Governmental	General Fund

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2015, are as follows:

Year Ending August 31,	Governmental Activities			Federal Interest Subsidy	Net Interest Cost
	Principal	Interest	Total		
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	198,000	218,841	416,841	32,928	185,913
2021-2025	1,134,000	924,294	2,058,294	98,697	825,597
2026-2030	979,000	621,541	1,600,541	5,295	616,246
2031-2035	1,125,000	364,190	1,489,190	--	364,190
2036-2038	830,000	65,340	895,340	--	65,340
Totals	\$ 5,061,000	\$ 3,171,057	\$ 8,232,057	307,328	\$ 2,863,729

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The District's oldest bond issue is dated May 1, 1998. This issue will mature on May 1, 2018. The interest rate on the remaining bonds in this issue is 5.1%. Interest on the bonds is paid semi-annually on each August 15 and February 15. Principal is paid each February 15.

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 \$2,625,000 have coupon rates 3.00% to 5.00%. The issue has an unamortized premium of \$66,301 at August 31, 2015. 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 \$1,410,000 have coupon rates ranging from 3.00% to 5.40%. The issue has an unamortized premium of \$58,692 at August 31, 2015. 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, 2015, the remaining balance due on the time warrants was \$68,000. This issue will be fully paid on February 15, 2016.

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 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, 2015, as follows:

<u>Year Ending August 31:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt</u>	<u>Federal Subsidy</u>	<u>Net Interest Cost</u>
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	18,320	4,967
2020	42,000	20,520	62,520	16,142	4,378
2021-2025	217,000	59,603	276,603	46,887	12,716
2026	45,000	3,038	48,038	2,390	648
<b>Total Minimum Rentals</b>	<b>\$ 425,000</b>	<b>\$ 189,810</b>	<b>\$ 614,810</b>	<b>\$ 149,317</b>	<b>\$ 40,493</b>

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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 2015	\$ <u>4,018</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 2015, 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, 2015, 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, 2015, 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 participates in a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The TRS pension trust fund is a qualified pension trust under section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

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2. Pension Plan Fiduciary Net Position

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

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description in (1.) above.

4. Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	<u>Contribution Rates</u>	
	<u>2014</u>	<u>2015</u>
Member	6.4%	6.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2014 Employer Contributions	\$ 12,195	
District's 2014 Member Contributions	\$ 74,852	
NECE 2014 On-Behalf Contributions to District	\$ 64,816	

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

## ZEPHYR INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2015

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

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

In addition to the employer contributions listed above, when employing a retiree of the TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

#### 5. Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Year Market Value
Discount Rate	8%
Long-term Expected Rate of Return*	8%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.5%

\* Includes inflation of 3%

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011, they contained significant margin for possible future mortality improvements. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards Practice No. 35.

#### 6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous fiscal year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-term Expected Portfolio Real Rate of Return *
<b>Global Equity</b>			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
<b>Stable Value</b>			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
<b>Real Return</b>			
Global Inflat. Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy & Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	8.9%	0.4%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

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

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1 percentage point less and 1 percentage point greater than the discount rate that was used (8%) in measuring the 2014 net pension liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportionate share of the net pension liability	\$ 229,588	\$ 128,481	\$ 52,872
Plan net pension liability (in millions from TRS CAFR)	\$ 47,737	\$ 26,717	\$ 10,998

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

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

At August 31, 2015, the District reported a liability of \$128,481 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 128,481
State's proportionate share of the net pension liability associated with the District	<u>684,354</u>
Total	<u>\$ 812,835</u>

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2013 through August 31, 2014.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's measurement date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2015, the District recognized pension expense of \$63,267 and revenue of \$63,267 for support provided by the State.

At August 31, 2015, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual economic experience	\$ 1,987	\$ --
Changes in actuarial assumptions	8,351	--
Difference between projected and actual investment earnings	--	39,269
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	--	34
District contributions paid to TRS subsequent to the measurement date	<u>31,499</u>	
Total	<u>\$ 41,837</u>	<u>\$ 39,303</u>

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

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

Year Ended August 31		
2016	\$	(8,079)
2017	\$	(8,079)
2018	\$	(8,079)
2019	\$	(8,079)
2020	\$	1,738
Thereafter	\$	1,613

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](http://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 years 2015 and 2014, and 0.5% for fiscal year 2013. 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 2015, 2014 and 2013. For the years ended August 31, 2015, 2014, and 2013, the State's contributions to TRS-Care were \$10,162, \$10,353, and \$5,027, respectively, the active member contributions were \$7,227, \$7,297, and \$7,145, respectively, and the District's contributions were \$6,115, \$6,175, and \$6,046, respectively, which equaled the required contributions each year.

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, 2015, 2014, and 2013, the subsidy payments received by TRS-Care on behalf of the District were \$4,404, \$2,986, and \$3,523, respectively.



**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

**J. Employee Health Care Coverage**

During the year ended August 31, 2015, 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, 2015.

**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. Due from Other Governments**

The District had the following amounts due from other governments at August 31, 2015:

<b>General Fund:</b>	
TEA Foundation - Student days in August	\$ 51,770
<b>Special Revenue Fund - National School Breakfast/Lunch Program:</b>	
August Monthly Claim - Child Nutrition	3,123
2015 NSLP School Food Equipment Grant	14,450
	<u>17,573</u>
<b>Special Revenue Funds - Other Governmental Funds</b>	
Federal Sources	26,912
	<u>26,912</u>
<b>Total Due from Other Governments</b>	<b>\$ <u>96,255</u></b>

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

**N. Due to Other Governments**

At August 31, 2015, the District had been overpaid by TEA in the amount of \$45,602. That amount will be withheld from the 2016 payments.

**O. Unearned Revenues**

The District had the following unearned revenues in the individual governmental funds at August 31, 2015:

General Fund:		
Property Taxes	\$	5,945
Debt Service Fund:		
Property Taxes		<u>1,600</u>
Total Unearned Revenues	\$	<u><u>7,545</u></u>

**P. 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

The interlocal agreement between the Zephyr Independent School District and the Fund is for a term beginning September 1, 2014 and terminating on September 1, 2015. 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 2014-2015 is \$2,902 and a maximum loss of \$1,394. The District had esitimated unpaid claims of \$5,031 at August 31, 2015. The District has recognized an interfund payable of \$2,655 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.

**Q. Prior Period Adjustment Related to Pension**

In accordance with the implementation of GASB 68, the District has recorded a prior period adjustment on the government-wide statement of activities in the amount of \$145,570. This reduction in beginning net postion is the beginning balance of the net pension liability at September 1, 2014.

**R. Subsequent Events**

Management has reviewed all transactions and events from August 31, 2015 to January 12, 2016. The following is the only event that requires disclosure:

Subsequent to August 31, 2015, the Board of Trustees approved the issuance of the Unlimited Tax Refunding Bonds, Series 2015, dated December 1, 2015. The par value of the refunding bonds is \$3,725,000. The funds received from the issued bonds, accrued interest, and premium on the bonds will be used to refund \$2,440,000 of the District's Series 2008 bonds and \$1,285,000 of the District's Series 2009 bonds.

### *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, 2015

EXHIBIT G-1  
 Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 473,295	\$ 512,299	\$ 545,400	\$ 33,101
5800	State Program Revenues	1,587,348	1,587,347	1,605,187	17,840
5900	Federal Program Revenues	5,500	5,500	5,535	35
5020	Total Revenues	2,066,143	2,105,146	2,156,122	50,976
<b>EXPENDITURES:</b>					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	1,009,941	909,941	900,850	9,091
0012	Instructional Resources and Media Services	9,900	8,900	7,965	935
0013	Curriculum and Staff Development	48,672	45,872	42,612	3,260
	Total Instruction & Instr. Related Services	1,068,513	964,713	951,427	13,286
Instructional and School Leadership:					
0023	School Leadership	90,166	96,566	95,260	1,306
	Total Instructional & School Leadership	90,166	96,566	95,260	1,306
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	2,000	2,000	1,694	306
0033	Health Services	3,000	1,000	93	907
0034	Student (Pupil) Transportation	63,674	78,674	74,157	4,517
0036	Cocurricular/Extracurricular Activities	99,547	160,950	157,637	3,313
	Total Support Services - Student (Pupil)	168,221	242,624	233,581	9,043
Administrative Support Services:					
0041	General Administration	154,792	173,792	173,138	654
	Total Administrative Support Services	154,792	173,792	173,138	654
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	258,189	302,189	301,914	275
0053	Data Processing Services	37,000	37,000	36,682	318
	Total Support Services - Nonstudent Based	295,189	339,189	338,596	593
Debt Service:					
0071	Principal on Long-Term Debt	86,000	69,000	64,000	5,000
0072	Interest on Long-Term Debt	11,797	11,797	16,859	(5,062)
0073	Bond Issuance Costs and Fees	634	634	--	634
	Total Debt Service	98,431	81,431	80,859	572
Capital Outlay:					
0081	Capital Outlay	10,000	--	--	--
	Total Capital Outlay	10,000	--	--	--
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	45,000	58,000	55,544	2,456
	Total Intergovernmental Charges	45,000	58,000	55,544	2,456
6030	Total Expenditures	1,930,312	1,956,315	1,928,405	27,910
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	135,831	148,831	227,717	78,886

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
<b>Other Financing Sources (Uses):</b>				
7912				
<i>Sale of Real or Personal Property</i>	--	--	3,187	3,187
8911				
<i>Transfers Out</i>	(50,000)	(63,000)	(60,889)	2,111
7080				
Total Other Financing Sources and (Uses)	(50,000)	(63,000)	(57,702)	5,298
1200				
Net Change in Fund Balance	85,831	85,831	170,015	84,184
0100				
Fund Balance - Beginning	857,384	857,384	857,384	--
3000				
Fund Balance - Ending	\$ 943,215	\$ 943,215	\$ 1,027,399	\$ 84,184

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
**NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

**EXHIBIT G-2**

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original	Final					
<b>REVENUES:</b>							
5700	Local and Intermediate Sources	\$ 24,000	\$ 24,000	\$ 18,216	\$ (5,784)		
5800	State Program Revenues	3,294	3,294	2,681	(613)		
5900	Federal Program Revenues	108,192	108,603	113,997	5,394		
5020	Total Revenues	<u>135,486</u>	<u>135,897</u>	<u>134,894</u>	<u>(1,003)</u>		
<b>EXPENDITURES:</b>							
Current:							
Support Services - Student (Pupil):							
0035	Food Services	185,207	204,758	192,602	12,156		
	Total Support Services - Student (Pupil)	<u>185,207</u>	<u>204,758</u>	<u>192,602</u>	<u>12,156</u>		
6030	Total Expenditures	<u>185,207</u>	<u>204,758</u>	<u>192,602</u>	<u>12,156</u>		
1100	Excess (Deficiency) of Revenues Over (Under)						
1100	Expenditures	(49,721)	(68,861)	(57,708)	11,153		
Other Financing Sources (Uses):							
7915	Transfers In	50,000	50,000	60,889	10,889		
7080	Total Other Financing Sources and (Uses)	<u>50,000</u>	<u>50,000</u>	<u>60,889</u>	<u>10,889</u>		
1200	Net Change in Fund Balance	279	(18,861)	3,181	22,042		
0100	Fund Balance - Beginning	5,779	5,779	5,779	--		
3000	Fund Balance - Ending	<u>\$ 6,058</u>	<u>\$ (13,082)</u>	<u>\$ 8,960</u>	<u>\$ 22,042</u>		

**ZEPHYR INDEPENDENT SCHOOL DISTRICT****SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
SHARE OF THE NET PENSION LIABILITY  
Teacher Retirement System of Texas  
LAST TEN FISCAL YEARS \*****EXHIBIT G-3**

	<u>Fiscal Year</u> <u>2015</u>
District's proportion of the net pension liability (asset)	.0004810%
District's proportionate share of the net pension liability (asset)	\$ 145,570
State's proportionate share of the net pension liability (asset) associated with the District	684,354
Total	<u>\$ 829,924</u>
District's covered-employee payroll	\$ 1,122,699
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.97%
Plan fiduciary net position as a percentage of the total pension liability	83.25%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF DISTRICT CONTRIBUTIONS*  
*Teacher Retirement System of Texas*  
*LAST TEN FISCAL YEARS \**

**EXHIBIT G-4**

	<u>Fiscal Year</u> <u>2015</u>
Contractually required contribution	\$ 31,499
Contributions in relation to the contractually required contribution	(31,499)
Contribution deficiency (excess)	<u>\$ --</u>
District's covered-employee payroll	\$ 1,111,801
Contributions as a percentage of covered-employee payroll	2.83%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.



## **ZEPHYR INDEPENDENT SCHOOL DISTRICT**

*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED AUGUST 31, 2015*

### Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

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

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

### Defined Benefit Pension Plan

#### *Changes of benefit terms*

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

#### *Changes of assumptions*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

*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, 2015**

Data Control Codes	211 ESEA Title I Improving Basic Programs	255 ESEA Title II Training & Recruiting
<b>ASSETS:</b>		
1110 <i>Cash and Cash Equivalents</i>	\$ (9,648)	\$ (5,058)
1240 <i>Due from Other Governments</i>	12,118	5,399
1000 <b>Total Assets</b>	<u>2,470</u>	<u>341</u>
<b>LIABILITIES:</b>		
Current Liabilities:		
2160 <i>Accrued Wages Payable</i>	\$ 2,219	\$ 307
2200 <i>Accrued Expenditures</i>	251	34
2000 <b>Total Liabilities</b>	<u>2,470</u>	<u>341</u>
<b>FUND BALANCES:</b>		
3000 <b>Total Fund Balances</b>	<u>--</u>	<u>--</u>
4000 <b>Total Liabilities and Fund Balances</b>	<u>\$ 2,470</u>	<u>\$ 341</u>

EXHIBIT H-1

270 ESEA, Title VI Part B, Subpart 2 Rural School	410 State Textbook Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ (7,916) 9,395 <u>1,479</u>	\$ -- -- <u>--</u>	\$ (22,622) 26,912 <u>4,290</u>
\$ 1,329 150 <u>1,479</u>	\$ -- -- <u>--</u>	\$ 3,855 435 <u>4,290</u>
<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 1,479</u>	<u>\$ --</u>	<u>\$ 4,290</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, 2015**

Data Control Codes	211 ESEA Title I Improving Basic Programs	255 ESEA Title II Training & Recruiting
<b>REVENUES:</b>		
5800 <i>State Program Revenues</i>	\$ --	\$ --
5900 <i>Federal Program Revenues</i>	54,544	5,399
5020 <b>Total Revenues</b>	<u>54,544</u>	<u>5,399</u>
<b>EXPENDITURES:</b>		
Current:		
0011 <i>Instruction</i>	54,544	819
0012 <i>Instructional Resources and Media Services</i>	--	4,580
6030 <b>Total Expenditures</b>	<u>54,544</u>	<u>5,399</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	--	--
0100 Fund Balances - Beginning	--	--
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>

**EXHIBIT H-2**

270 ESEA, Title VI Part B, Subpart 2 Rural School	410 State Textbook Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ -- 22,794 <hr/> 22,794	\$ 27,462 -- <hr/> 27,462	\$ 27,462 82,737 <hr/> 110,199
22,794 -- <hr/> 22,794	27,462 -- <hr/> 27,462	105,619 4,580 <hr/> 110,199
--	--	--
\$ --	\$ --	\$ --

### *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, 2015*

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2006 and Prior Years	\$ Various	\$ Various	\$ Various
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	1.04	.2567	40,545,078
2015 (School Year Under Audit)	1.04	.2796	45,169,922

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 9/1/14	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/15
\$ 591	\$ --	\$ 44	\$ 11	\$ (297)	\$ 239
248	--	155	4	--	88
336	--	33	1	--	302
696	--	--	--	--	696
426	--	11	4	--	411
212	--	208	72	134	65
1,511	--	954	329	122	350
4,976	--	2,798	846	--	1,332
8,494	--	3,824	944	(892)	2,834
--	596,062	447,658	120,351	(19,280)	8,774
<u>\$ 17,489</u>	<u>\$ 596,062</u>	<u>\$ 455,686</u>	<u>\$ 122,562</u>	<u>\$ (20,212)</u>	<u>\$ 15,091</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-2**

*DEBT SERVICE FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED AUGUST 31, 2015*

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 122,466	\$ 124,753	\$ 2,287
5800 <i>State Program Revenues</i>	208,523	211,410	2,887
5020 <b>Total Revenues</b>	<u>330,989</u>	<u>336,163</u>	<u>5,174</u>
<b>EXPENDITURES:</b>			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	120,000	120,000	--
0072 <i>Interest on Long-Term Debt</i>	203,878	203,878	--
0073 <i>Bond Issuance Costs and Fees</i>	5,456	5,456	--
<b>Total Debt Service</b>	<u>329,334</u>	<u>329,334</u>	<u>--</u>
6030 <b>Total Expenditures</b>	<u>329,334</u>	<u>329,334</u>	<u>--</u>
1100 <b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>1,655</u>	<u>6,829</u>	<u>5,174</u>
1200 <b>Net Change in Fund Balance</b>	<u>1,655</u>	<u>6,829</u>	<u>5,174</u>
0100 <b>Fund Balance - Beginning</b>	139,599	139,599	--
3000 <b>Fund Balance - Ending</b>	<u>\$ 141,254</u>	<u>\$ 146,428</u>	<u>\$ 5,174</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, 2015, 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 12, 2016.

#### **Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered the 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 the Zephyr Independent School District's internal control. Accordingly, I do not express an opinion on the effectiveness of the 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 the 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.

Respectfully submitted,



Burl D. Lowery  
Certified Public Accountant

Brownwood, TX  
January 12, 2016

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS*  
*FOR THE YEAR ENDED AUGUST 31, 2015*

**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, 2015*

<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, 2015*

There were no current year findings.

**ZEPHYR INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS  
AS OF AUGUST 31, 2015

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 128,481
SF13	Pension Expense (object 6147) at fiscal year-end.	\$ 11,876