

**TEXAS CITY INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

Year Ended August 31, 2015

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS

	Page	Exhibit
Certificate of the Board	i	
Financial Section		
Independent Auditor’s Report	1	
Management’s Discussion and Analysis	7	
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	18	A-1
Statement of Activities	19	B-1
Governmental Fund Financial Statements:		
Balance Sheet	20	C-1
Reconciliation of Governmental Funds Balance Sheet to Statement of Net Position	21	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance	22	C-3
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance for Governmental Funds to the Statement of Activities	23	C-4
Proprietary Fund Financial Statements:		
Statement of Net Position	24	D-1
Statement of Revenues, Expenses, and Changes in Fund Net Position	25	D-2
Statement of Cash Flows	26	D-3
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Position	27	E-1
Statement of Changes in Fiduciary Net Position	28	E-2
Notes to the Financial Statements	29	F-1
Required Supplementary Information:		
Budgetary Comparison Schedule - General Fund	56	G-1
Notes to Required Supplementary Information	57	G-2
Schedule of District’s Proportional Share of the Net Pension Liability - TRS	58	G-3
Schedule of District Contributions - TRS	59	G-4
Notes to Required Supplementary Pension Information	60	G-5
Other Supplementary Information:		
Combining Fund Statements:		
Nonmajor Governmental Funds:		
Combining Balance Sheet	62	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	66	H-2
Combining Fund Statements:		
Internal Service Funds		
Combining Statement of Net Position	70	H-3
Combining Statement of Revenues, Expenses and Changes in Net Position	71	H-4
Combining Statement of Cash Flows	72	H-5

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS (continued)

	Page	Exhibit
Financial Section (continued)		
Fiduciary Funds:		
Private Purpose Trust Funds and Agency Funds:		
Combining Statement of Fiduciary Net Position	73	H-6
Combining Statement of Revenues, Expenses, and Changes in Fiduciary Net Position	74	H-7
Required TEA Schedules:		
Schedule of Delinquent Taxes Receivable	76	J-1
Budgetary Comparison Schedule - Child Nutrition Fund	78	J-2
Budgetary Comparison Schedule - Debt Service Fund	79	J-3
Federal Awards Section		
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	83	
Independent Auditors' Report on Compliance for each Major Program and on Internal Control over Compliance Required by <i>OMB Circular A-133</i>	85	
Schedule of Findings and Questioned Costs	87	
Schedule of Expenditures of Federal Awards	89	K-1
Notes to Schedule of Expenditures of Federal Awards	90	K-2

CERTIFICATE OF THE BOARD

Texas City Independent School District

Name of School District

Galveston

County

084-906

Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2015, at a meeting of the board of trustees of such school district on December 8, 2015.

[Handwritten Signature]

Vice-President of the Board

[Handwritten Signature]

Secretary of the Board

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Texas City Independent School District
Texas City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Texas City 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

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

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

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

To the Board of Trustees
Texas City Independent School District

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 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

As discussed in Note 1 and Note 18 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ending August 31, 2015. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7–15, and the budgetary comparison schedule and the required pension system information on pages 56–60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, and required Texas Education Agency ("TEA") schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the required TEA schedules, as listed in the table of contents, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures,

To the Board of Trustees
Texas City Independent School District

including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, required TEA schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

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

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Texas City, Texas
December 8, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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TEXAS CITY INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Texas City Independent School District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2015.

Financial Highlights

The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$67,755,344 (*net position*). Of this amount, \$27,182,579 (*unrestricted net position*) may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net position decreased by \$10,672,515, including a prior period adjustment which decreased net position by \$12,223,636.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$33,879,066, a decrease of \$4,817,804 in comparison with the prior year, including a prior period adjustment to decrease fund balance by \$1,180,869 in the general fund. The debt service fund balance decreased by \$711,025.
- During the current fiscal year, unassigned fund balance for the general fund increased by \$1,840,941, to \$13,858,461, unassigned fund balance at year-end is 25 percent of general fund expenditures.
- The District's total bonded debt decreased by \$5,895,000 (5 percent) during the current fiscal year as the result of scheduled payments on bond principal.
- During the fiscal year ended August 31, 2015, the District implemented Government Accounting Standards Board (GASB) Statement No. 68 and GASB Statement No. 71, and as a result, the Statement of Net Position presents a Net Pension Liability of \$7,579,756 with a related prior period adjustment to decrease net position by \$8,587,897; see additional information in Note 11 and Note 18 of the financial statements.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

The *government-wide financial statements* of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Co-curricular/Extracurricular Activities, General Administration, Facilities Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Repairs and Maintenance, Contracted Instructional Services Between Schools, Payments to Shared Service Arrangements, Payments to Juvenile Justice Alternative Education Programs, and Other Intergovernmental Charges.

Fund financial statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds

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

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

The District maintains sixteen (16) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, all of which are considered to be major funds. Data from the other fourteen (14) governmental funds is combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and child nutrition fund.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Proprietary fund

The District maintains individual internal service funds for workers' compensation insurance coverage and a technology equipment replacement fund. *Internal service funds*, one type of proprietary fund, are an accounting device used to accumulate and allocate costs internally among the District's various funds and functions. Because this service benefits the governmental functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The internal service fund financial statements provide separate information for the Worker's Compensation Insurance Fund and the Technology Equipment Replacement Fund.

Fiduciary funds

The fiduciary funds are used to account for resources held for the benefit of students and employees. The District's *private purpose trust funds* are used to account for donations for scholarship funds and the project garden grant in this type of fund. The District's *agency fund* is used to account for resources held in a custodial capacity by the District and consists of funds that are the property of students or others. The fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

Notes to financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required supplementary information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds, therefore only the general fund is presented as required supplementary information. This section also includes pension system information.

Other information

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows by \$67,755,344 at the close of the most recent fiscal year.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

A portion of the District's net position, \$38,809,563 reflects its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

As of August 31, 2015, the District's net position included the following:

	Governmental Activities		Percentage Change
	2015	2014 As Restated	
Current and other assets	\$ 40,535,238	\$ 47,841,000	-15%
Capital assets	148,009,673	146,465,373	1%
Total Assets	188,544,911	194,306,373	-3%
Deferred charge on refunding	3,318,719		100%
Deferred outflows relating to pension activities	1,797,336		100%
Total Deferred Outflows of Resources	5,116,055		100%
Current liabilities	3,174,822	5,000,328	-37%
Long term liabilities	120,412,130	114,513,925	5%
Total Liabilities	123,586,952	119,514,253	3%
Deferred inflows relating to pension activities	2,318,670		100%
Total Deferred Inflows of Resources	2,318,670		100%
Net Position			
Net investment in capital assets	38,809,563	32,632,059	19%
Restricted	1,763,202	3,000,157	-41%
Unrestricted	27,182,579	39,159,904	-31%
Total Net Position	\$ 67,755,344	\$ 74,792,120	-9%

Net position is restricted for various purposes as follows:

	Governmental Activities		Percentage Change
	2015	2014	
Federal and State Grant Programs	\$ 49,301	\$ 9,028	446%
Food Service		584,522	-100%
Debt Service	1,713,901	2,406,607	-29%
	\$ 1,763,202	\$ 3,000,157	-41%

The remaining balance of unrestricted net position, \$27,182,579, may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District reports positive balances in net investment in capital assets, restricted, and unrestricted net position. The District's net position decreased by \$10,672,515 during the current fiscal year.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Comparative Schedule of Changes in Net Position
For the Years Ended August 31, 2015 and 2014

	Governmental Activities		Percentage
	2015	2014 As Restated	
Revenues			
Program revenues:			
Charges for services	\$ 5,283,924	\$ 6,791,806	-22%
Operating grants	9,551,776	9,466,104	1%
General revenues:			
Property taxes	50,154,459	48,426,491	4%
State Aid - Formula Grants	5,331,891	8,182,647	-35%
Interest earnings	58,374	22,063	165%
Other	69,778	9,698	620%
Total Revenues	70,450,202	72,898,809	-3%
Expenses			
Instruction	34,372,414	33,993,753	1%
Instructional resources and media services	953,849	827,369	15%
Curriculum and staff development	780,393	705,131	11%
Instructional leadership	450,987	416,039	8%
School leadership	3,501,560	3,183,162	10%
Guidance, counseling, and evaluation services	1,745,148	1,761,460	-1%
Social work services	141,692	132,534	7%
Health services	514,789	497,296	4%
Student transportation	1,119,563	1,183,655	-5%
Food services	4,700,625	4,624,853	2%
Extracurricular activities	2,208,518	2,068,490	7%
General administration	2,449,625	2,375,808	3%
Facilities maintenance and operations	8,427,619	11,144,674	-24%
Security and monitoring services	637,390	704,560	-10%
Data processing services	1,382,793	1,232,328	12%
Community services	165,754	189,668	-13%
Interest on long-term debt	4,014,593	4,581,245	-12%
Bond issuance cost and fees	520,916		100%
Facilities repair and maintenance	168,145	100,488	67%
Contracted instructional services between schools	13,770	4,193,179	-100%
Payments related to shared services arrangements	206,349	125,218	65%
Payments to Juvenile Justice Alternative Education Programs	7,219	22,959	-69%
Other governmental charges	415,370	427,376	-3%
Total Expenses	68,899,081	74,491,245	-8%
Increase (Decrease) in Net Position	1,551,121	(1,592,436)	-197%
Net position - beginning	74,792,120	76,384,556	-2%
Prior period adjustment	(8,587,897)		
Net position - ending	\$ 67,755,344	\$ 74,792,120	-9%

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Governmental activities

Governmental activities decreased the District's net position by \$10,672,515, including a prior period adjustment to decrease net position by \$12,223,636. The prior period adjustment includes \$8,587,897 for the change in accounting principle, \$2,454,870 for a correction of an error in capital assets previously reported, and \$1,180,869 for the correction of an error in prepaid items previously reported; see additional information in Note 18 of the financial statements.

Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 92 percent of total revenues. The remaining is generated from charges for services, investment earnings, and miscellaneous revenues.

	<u>Total Revenues</u>	<u>% of Total Revenues</u>
Property taxes	\$ 50,154,459	71%
State Aid - Formula Grants	5,331,891	7%
Operating grants and contributions	9,551,776	14%
Other revenue	5,412,076	8%
Total Revenues	<u>\$ 70,450,202</u>	<u>100%</u>

The primary functional expenses of the District are instruction and facilities maintenance and operations, which represent percent of total expenses. The remaining individual functional categories of expenses are each less than 7 percent of total expenses.

	<u>Total Expenses</u>	<u>% of Total Expenses</u>
Instruction	\$ 34,372,414	50%
Facilities maintenance and operations	8,427,619	12%
Other expenses	26,099,048	38%
Total Expenses	<u>\$ 68,899,081</u>	<u>100%</u>

Financial Analysis of the Government's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$33,879,066, a decrease of \$4,817,804 in comparison with the prior year. The decrease in ending governmental fund balances is primarily due to the purchase of land where the new Industrial Trade Center will be built, as well as a prior period adjustment of \$1,180,869 for the correction of an error in prepaid items previously reported; see additional information in Note 18 of the financial statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$13,858,461, while total fund balance reached \$31,666,255. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 25 percent of total general fund expenditures, while total fund balance represents 57 percent of that same amount. The fund balance of the District's general fund decreased by \$3,279,559 during the current fiscal year, which included the prior period adjustment of \$1,180,869.

The debt service fund has a total fund balance of \$1,715,353, all of which is restricted for the payment of debt service. The net decrease in the debt service fund balance during the current year of \$711,025 was attributable to a planned drawdown of fund balance. First, the District recognized excess debt collections from the prior year, second, the District refunded a refinery after property values were certified and the tax rate was set at \$0.2216 for the purpose of payment of principal and interest on debts.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	Budget	
	Original	Final Amended
Total revenues	\$ 51,608,215	\$ 53,598,223
Total expenditures	(54,475,727)	(58,464,151)
Other financing sources (uses)	1,329,689	(20,311)
Net change in fund balance	<u>\$ (1,537,823)</u>	<u>\$ (4,886,239)</u>

A revenue budget amendment in the amount of \$1.3 million was recorded to account for increased enrollment. An expenditure budget amendment in the amount of \$3.5 million was recorded to account for the acquisition of the land and building demolition to prepare for construction of the planned Industrial Trade Center. Operating transfers in the amount of \$793,673 to the Bond Account covered remaining construction costs at new Blocker, demolition of Old Blocker, and renovations to Woodrow Wilson DAEP. In addition, an operating transfer in the amount of \$209,685 covered the Nutrition Services operating loss.

Capital Assets and Long-term Liabilities

Capital assets

The District's investment in capital assets for its governmental type activities as of August 31, 2015, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets for the current fiscal year was \$148,009,673. The following table summarizes the investment in capital assets as of August 31, 2015 and 2014.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

	2015	2014 As Restated
Land	\$ 4,416,970	\$ 1,465,680
Buildings and improvements	176,467,200	175,448,990
Furniture and equipment	9,060,761	8,811,848
Construction in progress	332,168	
Total	190,277,099	185,726,518
Accumulated depreciation	(42,267,426)	(39,261,145)
Net capital assets	\$ 148,009,673	\$ 146,465,373

Additional information on the District's capital assets can be found in the notes to the financial statements.

Long-term liabilities

At the end of the current fiscal year, the District had \$103,880,000 in bonded debt outstanding, a decrease of \$5,895,000 over the previous year. Except for the District's Unlimited Tax School Building Bonds, Series 2009, the District's outstanding bonds are rated "AAA" by Standard and Poor's and "Aaa" by Moody's Investor Service based on the guarantee of the Permanent School Fund of the State of Texas. Due to the closure of the Permanent School Fund guarantee in 2009, the Series 2009 Bonds were sold based on the District's underlying Standard and Poor's rating. The District's underlying ratings are "AA" by Standard and Poor's and "Aa2" by Moody's Investor Service.

Changes in bonds payable for the year ended August 31, 2015 are as follows:

Outstanding 09/01/14	Issued	Retired	Outstanding 08/31/15
\$ 109,775,000	\$ 44,050,000	\$ (49,945,000)	\$ 103,880,000

Additional information on the District's long-term liabilities can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

- Certified taxable values for the 2015-2016 fiscal year were \$3.625 billion, a decrease of \$218 million or six percent from the 2014-2015 fiscal year. Property tax revenues remain uncertain due to potential litigation relating to property values assigned to some of the District's largest taxpayers.
- The tax rate for the 2015-2016 fiscal year is \$1.4298 per \$100 valuation (\$1.1700 for maintenance and operations (M&O), \$0.2598 for interest and sinking (I&S)). November 3, 2015, voters approved an increase of \$0.13 in the M&O rate, providing approximately \$4 million in increased funding for TCISD. The \$4 million increase in funding offsets a drop of approximately \$2.5 million in Foreign Trade Zone revenue since the 2013-2014 school year and a \$1.5 million decrease in operating transfers from the Workers Compensation Fund since the 2014-2015 school year.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

- The 2015-2016 adopted budget to cover the maintenance and operations of the District (general fund) is \$56,821,372. With anticipated revenues of \$56,821,372, the District anticipates a balanced budget. Based on an estimated enrollment of 6,400 students, the District's general fund expenditures are expected to be \$8,878 per student for 2015-2016.
- The 2015-2016 adopted budget to cover the debt payments and associated debt expenditures is \$9,509,025. The I&S tax rate of \$0.2598 will generate approximately \$9,418,913 in current tax collections. The remainder of the debt payment will be funded with delinquent tax collections and I&S fund balance, if necessary.

While Texas City Independent School District is nearly built out, there are still some residential developments currently under construction in selected locations within the District. Most of the sites under construction are single family residences. There are also commercial improvements in planning stages or under construction within Texas City Independent School District's boundaries.

Requests for Information

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's Business Office at Texas City Independent School District, 1700 Ninth Avenue North, Texas City, Texas 77590.

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BASIC FINANCIAL STATEMENTS

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2015

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and cash equivalents	\$ 32,369,363
1225	Property taxes receivables, net	1,554,006
1240	Due from other governments	1,700,137
1290	Other receivables, net	51,953
1300	Inventories	153,622
1410	Prepaid items	693,468
	Capital assets not subject to depreciation:	
1510	Land	4,416,970
1580	Construction in progress	332,168
	Capital assets net of depreciation:	
1520	Buildings and improvements, net	140,341,291
1530	Furniture and equipment, net	2,919,244
1910	Long-term investments	4,012,689
1000	Total Assets	<u>188,544,911</u>
	Deferred Outflows of Resources	
1700	Deferred charge on refunding	3,318,719
1705	Deferred outflows relating to pension activities	1,797,336
	Total Deferred Outflows of Resources	<u>5,116,055</u>
	Liabilities	
2110	Accounts payable	983,518
2140	Interest payable	186,046
2160	Accrued wages payable	862,875
2180	Due to other governments	1,077,136
2200	Accrued expenses	63,682
2300	Unearned revenue	1,565
	Noncurrent Liabilities:	
2501	Due within one year	5,303,386
2502	Due in more than one year	107,528,988
2540	Net pension liability	7,579,756
2000	Total Liabilities	<u>123,586,952</u>
	Deferred Inflows of Resources	
2605	Deferred inflows relating to pension activities	2,318,670
	Total Deferred Inflows of Resources	<u>2,318,670</u>
	Net Position	
3200	Net investment in capital assets	38,809,563
	Restricted for:	
3820	Federal and state programs	49,301
3850	Debt service	1,713,901
3900	Unrestricted	27,182,579
3000	Total net position	<u>\$ 67,755,344</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2015

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	Primary Governmental Activities
	Governmental activities:				
11	Instruction	\$ 34,372,414	\$ 500,046	\$ 4,208,526	\$ (29,663,842)
12	Instructional resources and media services	953,849	117,328	56,707	(779,814)
13	Curriculum and staff development	780,393		126,765	(653,628)
21	Instructional leadership	450,987		28,353	(422,634)
23	School leadership	3,501,560	211,190	277,160	(3,013,210)
31	Guidance, counseling, and evaluation services	1,745,148	23,465	308,808	(1,412,875)
32	Social work services	141,692		70,548	(71,144)
33	Health services	514,789		674,900	160,111
34	Student transportation	1,119,563		141,031	(978,532)
35	Food services	4,700,625	918,577	2,987,858	(794,190)
36	Extracurricular activities	2,208,518	3,447,917	56,707	1,296,106
41	General administration	2,449,625	11,733	113,414	(2,324,478)
51	Facilities maintenance and operations	8,427,619	41,935	311,888	(8,073,796)
52	Security and monitoring services	637,390			(637,390)
53	Data processing services	1,382,793		56,707	(1,326,086)
61	Community services	165,754	11,733	132,404	(21,617)
72	Interest on long-term debt	4,014,593			(4,014,593)
73	Bond issuance cost and fees	520,916			(520,916)
81	Facilities repairs and maintenance	168,145			(168,145)
91	Contracted instructional services between schools	13,770			(13,770)
93	Payments related to shared services arrangements	206,349			(206,349)
95	Payments to Juvenile Justice Alternative Education Programs	7,219			(7,219)
99	Other governmental charges	415,370			(415,370)
TG	Total governmental activities	<u>\$ 68,899,081</u>	<u>\$ 5,283,924</u>	<u>\$ 9,551,776</u>	<u>(54,063,381)</u>

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	41,334,748
DT	Property taxes, levied for debt service	8,819,711
SF	State-aid formula grants	5,331,891
IE	Investment earnings	58,374
MI	Miscellaneous	69,778
TR	Total general revenues	<u>55,614,502</u>
CN	Change in net position	1,551,121
NB	Net position - beginning	78,427,859
PA	Prior period adjustments	(12,223,636)
NE	Net position - ending	<u>\$ 67,755,344</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit C-1

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2015

Data Control Codes		General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
1110	Cash and cash equivalents	\$ 26,429,241	\$ 1,715,352	\$ 877,785	\$ 29,022,378
	Receivables:				
1220	Delinquent property taxes receivables	2,671,536	360,119		3,031,655
1230	Allowance for uncollectible taxes (credit)	(1,302,125)	(175,524)		(1,477,649)
1240	Receivables from other governments	789,037		911,100	1,700,137
1260	Due from other funds	2,284,635			2,284,635
1290	Other receivables	28,735		23,218	51,953
1300	Inventories, at cost	114,326		39,296	153,622
1410	Prepaid items	693,468			693,468
1910	Long-term investments	4,012,689			4,012,689
1000	Total Assets	\$ 35,721,542	\$ 1,899,947	\$ 1,851,399	\$ 39,472,888
Liabilities, Deferred Inflows, and Fund Balance					
Liabilities:					
2110	Accounts payable	\$ 633,964	\$	\$ 252,563	\$ 886,527
2160	Accrued wages payable	755,560		105,616	861,176
2170	Due to other funds	229,209		984,204	1,213,413
2180	Payable to other governments	1,067,143		9,993	1,077,136
2300	Unearned revenues			1,565	1,565
2000	Total Liabilities	2,685,876		1,353,941	4,039,817
Deferred Inflows of Resources					
2600	Unavailable property tax revenues	1,369,411	184,594		1,554,005
	Total Deferred Inflows of Resources	1,369,411	184,594		1,554,005
Fund Balances:					
Nonspendable:					
3410	Inventories	114,326		39,296	153,622
3430	Prepaid items	693,468			693,468
Restricted:					
3450	Federal/State grant restrictions			10,005	10,005
3480	Debt service		1,715,353		1,715,353
3490	Other purposes				
Committed:					
3545	Other purposes			448,157	448,157
Assigned:					
3590	Other assigned	17,000,000			17,000,000
3600	Unassigned	13,858,461			13,858,461
3000	Total fund balances	31,666,255	1,715,353	497,458	33,879,066
4000	Total Liabilities, Deferred Inflows, and Fund Balances	\$ 35,721,542	\$ 1,899,947	\$ 1,851,399	\$ 39,472,888

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
August 31, 2015

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ 33,879,066
	Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable.	147,959,081
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	1,554,005
3	Deferred amount on refunding	3,318,719
4	Deferred outflows relating to pension activities	1,797,336
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
5	General obligation bonds	(103,880,000)
6	Premiums on issuance	(8,638,829)
7	Accrued compensated absences	(313,545)
8	Accrued interest payable	(186,046)
9	Net pension liability	(7,579,756)
10	Deferred inflows relating to pension activities	(2,318,670)
11	Addition of Internal Service fund net position	<u>2,163,983</u>
19	Net position - governmental activities	<u><u>\$ 67,755,344</u></u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2015

Exhibit C-3

Data Control Codes		General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
5700	Local, intermediate, and out-of-state	\$ 44,690,963	\$ 8,826,082	\$ 2,147,922	\$ 55,664,967
5800	State program revenues	7,708,795		206,262	7,915,057
5900	Federal program revenues	617,647		6,419,602	7,037,249
5020	Total revenues	<u>53,017,405</u>	<u>8,826,082</u>	<u>8,773,786</u>	<u>70,617,273</u>
Expenditures					
Current:					
0011	Instruction	29,083,295		3,424,954	32,508,249
0012	Instructional resources and media services	707,124		111,362	818,486
0013	Curriculum and staff development	680,739		98,412	779,151
0021	Instructional leadership	442,565			442,565
0023	School leadership	3,093,859		282,969	3,376,828
0031	Guidance, counseling and evaluation services	1,508,228		218,702	1,726,930
0032	Social work services	73,376		72,803	146,179
0033	Health services	471,311		28,900	500,211
0034	Student transportation	1,068,877		55,971	1,124,848
0035	Food services			4,661,504	4,661,504
0036	Extracurricular activities	1,668,478		265,889	1,934,367
0041	General administration	2,388,541		10,080	2,398,621
0051	Facilities maintenance and operations	8,290,752		27,981	8,318,733
0052	Security and monitoring services	676,372			676,372
0053	Data processing services	1,354,650		10,088	1,364,738
0061	Community services	15,276		148,595	163,871
Debt service:					
0071	Principal on long-term debt		5,200,000		5,200,000
0072	Interest on long-term debt		4,334,880		4,334,880
0073	Bond issuance costs and fees		520,916		520,916
Capital outlay:					
0081	Facilities acquisition and construction	3,276,275		1,186,154	4,462,429
Intergovernmental:					
0091	Contracted instructional services	13,770			13,770
0093	Payments related to shared services arrangements	206,349			206,349
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	7,219			7,219
0099	Other governmental charges	415,370			415,370
6030	Total Expenditures	<u>55,442,426</u>	<u>10,055,796</u>	<u>10,604,364</u>	<u>76,102,586</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(2,425,021)</u>	<u>(1,229,714)</u>	<u>(1,830,578)</u>	<u>(5,485,313)</u>
Other Financing Sources (Uses)					
7901	Refunding bonds issued		44,050,000		44,050,000
7915	Transfers in	1,329,689		1,003,358	2,333,047
7916	Premium on issuance of bonds		5,192,183		5,192,183
8911	Transfers out	(1,003,358)			(1,003,358)
8949	Payment to bond refunding escrow agent		(48,723,494)		(48,723,494)
7080	Total other financing sources and uses	<u>326,331</u>	<u>518,689</u>	<u>1,003,358</u>	<u>1,848,378</u>
1200	Net change in fund balances	(2,098,690)	(711,025)	(827,220)	(3,636,935)
0100	Fund Balance - beginning	<u>34,945,814</u>	<u>2,426,378</u>	<u>1,324,678</u>	<u>38,696,870</u>
1300	Prior period adjustment	<u>(1,180,869)</u>			<u>(1,180,869)</u>
3000	Fund Balance - ending	<u>\$ 31,666,255</u>	<u>\$ 1,715,353</u>	<u>\$ 497,458</u>	<u>\$ 33,879,066</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE FOR GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2015

Exhibit C-4

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ (3,636,935)
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which the governmental funds capital outlay (\$4,487,341) exceeded depreciation (\$2,993,633) in the current period.	1,493,708
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(99,537)
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	5,200,000
	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities and amounts paid to refunding agents are treated as a decrease in long-term liabilities.	
4	Proceeds from issuance on bonds	(44,050,000)
5	Premium on issuance of bonds	(5,192,183)
6	Payment to escrow agent for refunding	48,723,494
7	Pension contributions made after the net pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position.	1,187,420
8	Premiums on bonds issued are treated as other financing sources in the governmental funds. In the government-wide financial statements, premiums are amortized over the life of the bonds.	410,671
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
9	Pension expense for the pension plan measurement year	(700,613)
10	Increase in interest payable not recognized in fund statements	21,504
11	Decrease in long-term portion of accrued compensated absences	20,176
12	Amortization of deferred charge on refunding	(111,888)
13	Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental funds (see D-2).	(1,714,696)
		<u>(1,714,696)</u>
	Change in net position of governmental activities (see B-1)	<u>\$ 1,551,121</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

August 31, 2015

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Funds</u>
	Assets	
	Current Assets:	
1110	Cash and cash equivalents	\$ 3,346,985
	Receivables:	
1260	Due from other funds	258,467
	Total current assets	<u>3,605,452</u>
	Non-Current assets	
1530	Furniture and equipment	63,240
1574	Accumulated depreciation - Furniture and Equipment	(12,648)
	Total non-current assets	<u>50,592</u>
1000	Total Assets	<u>3,656,044</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	96,991
2160	Accrued wages payable	1,699
2170	Due to other funds	1,329,689
2200	Accrued expenses	63,682
2000	Total Liabilities	<u>1,492,061</u>
	Net Position	
3900	Unrestricted net position	2,163,983
3000	Total Net Position	<u>\$ 2,163,983</u>
4000	Total Liabilities and Net Position	<u>\$ 3,656,044</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
For the Year Ended August 31, 2015

Exhibit D-2

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Funds</u>
	Operating Revenues	
5700	Charges for Services	\$ 258,467
5020	Total Operating Revenues	<u>258,467</u>
	Operating Expenses	
6100	Payroll costs	62,359
6200	Purchased and contracted services	65,911
6300	Supplies and materials	362,289
6400	Claims expense and other operating expenses	141,372
6449	Depreciation	12,648
6030	Total Operating Expenses	<u>644,579</u>
1200	Operating Income (Loss)	<u>(386,112)</u>
	Non-Operating Revenues (Expenses)	
7020	Investment earnings	1,105
	Total Nonoperating Revenues (Expenses)	<u>1,105</u>
	Income (Loss) before Transfers	<u>(385,007)</u>
	Transfers	
8911	Transfers out	<u>(1,329,689)</u>
1200	Change in Net Position	(1,714,696)
0100	Net Position - beginning	<u>3,878,679</u>
3300	Net Position - ending	<u>\$ 2,163,983</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended August 31, 2015

Exhibit D-3

	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:	
Cash payments for insurance claims	\$ (118,923)
Cash payments to suppliers for goods and services	(346,462)
Cash payments to employees	(60,660)
Net Cash Provided by (Used for) Operating Activities	<u>(526,045)</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers to other funds	(1,329,689)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(1,329,689)</u>
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(63,240)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(63,240)</u>
Cash Flows from Investing Activities:	
Interest on investments	1,105
Net Cash Provided by Investing Activities	<u>1,105</u>
Net Increase in Cash and Cash Equivalents	(1,917,869)
Cash and Cash Equivalents at Beginning of Year	<u>5,264,854</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 3,346,985</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (386,112)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	12,648
Change in Assets and Liabilities:	
Decrease (increase) in Interfund Receivables	(258,467)
Increase (decrease) in Accounts Payable	81,738
Increase (decrease) in Accrued Wages Payable	1,699
Increase (decrease) in Accrued Expenses	22,449
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (526,045)</u></u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT*Exhibit E-1***STATEMENT OF FIDUCIARY NET POSITION***August 31, 2015*

Data Control Codes		Private Purpose Trust Funds	Agency Fund
	Assets		
1110	Cash and cash equivalents	\$ 138,182	\$ 140,606
1000	Total Assets	\$ 138,182	\$ 140,606
	Liabilities		
2110	Accounts payable	\$	\$ 1,779
2190	Due to others		138,827
2000	Total Liabilities		\$ 140,606
	Net Position		
3800	Restricted	\$ 138,182	

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2015

Exhibit E-2

	Private Purpose Trust Funds
Additions	
Local and intermediate sources	\$ 16,330
Total additions	<u>16,330</u>
Deductions	
Professional and contracted services	18,810
Non-operating expenses	<u>1,095</u>
Total deductions	<u>19,905</u>
Change in net position	(3,575)
Net position, beginning of year	<u>141,757</u>
Net position, end of year	<u><u>\$ 138,182</u></u>

See Notes to the Financial Statements.

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Texas City Independent School District (the “District”) is governed by a seven-member Board of Trustees (the “Board”), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. There are no component units, entities for which the District is considered to be financially accountable, included within the reporting entity.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements while the agency funds have no measurement of focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund types:

- The *internal service funds* accounts for worker's compensation self-insurance funding and a technology equipment replacement fund for non capitalizable equipment.
- The *private purpose trust fund* is used to account for donations for scholarships funds that are received by the District that are to be awarded to current and former students for post-secondary education purposes.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations and the tax office. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to students or users for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and investment income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are charges to the funds and/or employees for self-funded health services. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Note 1 - Summary of Significant Accounting Policies (continued)

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value based on quoted market prices at August 31, 2015. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

Receivables and Payables

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

Property tax receivables include unpaid property taxes at year-end and are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to an average of 49 percent of outstanding property taxes at August 31, 2015. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Galveston County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy.

Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

Inventories and Prepaid Items

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations. A portion of fund balance is classified as non-spendable to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items also include payroll amounts for contract amounts paid to employees prior to the expenditures being incurred.

Note 1 - Summary of Significant Accounting Policies (continued)

Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	60
Building improvements	Remaining life of building or 30 years, whichever is less
Furniture and equipment	5
Information systems (computer equipment)	5
Automobiles and trucks	10
Buses and heavy equipment	15

Compensated Absences

Compensated absences are absences for which employees will be paid, such as sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in long-term liabilities on the statement of net position.

Long-term Obligations

The District's long-term obligations consist of bonded indebtedness and compensated absences. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

Note 1 - Summary of Significant Accounting Policies (continued)

Long-term Obligations (continued)

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

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for compensated absences are accounted for in the general fund. The requirements for health insurance and workers' compensation are accounted for in the internal service fund.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The District has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently 6.94 years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from of differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

Note 1 - Summary of Significant Accounting Policies (continued)

Pensions

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

Fund Equity

The District reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and deferred expenditures have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).
- Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. The fund balances for the Child Nutrition Fund and other grant funds are classified as restricted.
- Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The fund balance of the campus activity fund is committed for use at the campuses per board policy.
- Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. In the general fund the District has assigned fund balance of \$6,500,000 for school renovation, \$1,000,000 for special education, \$1,000,000 for property insurance premiums and \$8,500,000 for catastrophic events.
- Unassigned fund balance – amounts that are available for any purpose. At August 31, 2015, the District reports an unassigned fund balance of \$13,858,461.

The District establishes (and modifies or rescinds) fund balance commitments by passage of resolution. A fund balance commitment is further indicated in the budget document as a commitment. Per Policy CE local, assigned fund balance amounts are established by the Superintendent or his designee.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Data Control Codes

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

Note 1 - Summary of Significant Accounting Policies (continued)

Use of Estimates

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

New Accounting Standards

In the current fiscal year, the District implemented the following new standards:

GASB Statement 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”) establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (“GASB 71”) amends the transition provisions of GASB 68. GASB 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statements and the notes to the financial statements.

Note 2 - Deposits and Investments

Cash Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At August 31, 2015, the amount of cash on hand in the District's Bank of America account was \$2,151,399, with a carrying value of \$1,507,647, all of which was fully collateralized. At August 31, 2015, the amount of cash on hand in the District's Texas First bank account was \$12,037,942, with a carrying value of \$12,037,972, all of which was fully collateralized; therefore the District was in compliance with the Texas School Depository Act.

Investments

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, collateralized mortgage obligations, no-load money market mutual funds, certain municipal securities, qualified commercial paper, repurchase agreements, or investment pools.

Note 2 - Deposits and Investments (continued)

Local Government Investment Pools

For fiscal year 2015, the District invested in the State of Texas TexPool, and Investors Cash Trust (“ICT”) money market mutual fund. TexPool operates in a manner consistent with the SEC’s rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net position and share prices, since those approximate fair values. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. The money market mutual fund listed on the following page consists of shares owned in Investors Cash Trust; an SEC registered money market fund with the stated objective of maintaining a stable net asset value of \$1.00.

At year-end, the District’s cash and investment balances and the weighted average maturity of these investments were as follows:

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (Days)</u>
Governmental Activities		
Cash and deposits	\$ 9,681,141	
Certificates of deposit	<u>4,012,689</u>	521
Investments		
Local Government Investment Pools:		
TexPool	<u>17,595,647</u>	41
	<u>17,595,647</u>	
Investment Securities:		
ICT Money Market Mutual Fund	<u>5,092,575</u>	53
	<u>5,092,575</u>	
Total Investments	<u>26,700,911</u>	106
Total Governmental Activities	<u>36,382,052</u>	
Fiduciary Funds		
Cash and Deposits	143,010	
TexPool	<u>135,778</u>	41
Total Fiduciary Funds	<u>278,788</u>	
Total	<u>\$ 36,660,840</u>	

Note 2 - Deposits and Investments (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. To limit the risk that changes in interest rates will adversely affect the fair value of the investments, the District monitors interest rate risk utilizing weighted average maturity (WAM) analysis. The District requires its investment portfolio to have maturities of less than one year on a WAM basis. However, specific to the District's certificates of deposits, maturities longer than one year are authorized within legal limits as long as the certificates of deposit do not exceed two years to stated maturity.

At August 31, 2015, the District's exposure to interest rate risk as measured by the segmented time distribution by investment type is summarized below:

	Fair Value	Investment Maturity in Years	
		Less than 1	1-2
Certificates of deposit	\$ 4,012,689	\$	\$ 4,012,689
Local Government Investment Pools:			
TexPool	17,731,425	17,731,425	
Investment Securities:			
ICT Money Market Mutual Fund	5,092,575	5,092,575	
	<u>\$ 26,836,689</u>	<u>\$ 22,824,000</u>	<u>\$ 4,012,689</u>

Credit Risk

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2015, the District's investment in TexPool was rated AAAM by Standard and Poor's. The District's investment in the ICT money market mutual fund was rated AAAM by Standard and Poor's.

Concentration of Credit Risk

The District's investment policy, except for investments in local government investment pools, requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District's investment of \$17,731,425 in TexPool (a local government investment pool) represents 66% percent of the District's total investments.

The investments are reported by the District at fair value. There was no change in the fair value of the District's investments during the year ended August 31, 2015. Investment earnings totaled \$58,374 for the year.

Note 3 - Receivables

Receivables as of year-end for the District's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property Taxes	\$ 2,671,536	\$ 360,119	\$	\$ 3,031,655
Due from other governments	789,037		911,100	1,700,137
Other	28,735		23,218	51,953
Gross Receivables	3,489,308	360,119	934,318	4,783,745
Less allowance for doubtful accounts	(1,302,125)	(175,524)		(1,477,649)
Net Total Receivables	\$ 2,187,183	\$ 184,595	\$ 934,318	\$ 3,306,096

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, District reported unearned revenues in the governmental funds in the amount of \$1,565 for grant funds received prior to meeting all eligibility requirements.

Note 4 - Capital Assets

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

	August 31, 2014 As Restated	Additions	(Retirements) and Transfers	Balance August 31, 2015
Capital assets, not being depreciated:				
Land	\$ 1,465,680	\$ 2,951,290	\$	\$ 4,416,970
Construction in progress		332,168		332,168
Total Capital assets, not being depreciated	1,465,680	3,283,458		4,749,138
Capital assets, being depreciated:				
Buildings and improvements	175,448,990	1,018,210		176,467,200
Furniture and equipment	8,811,848	248,913		9,060,761
Total Capital assets, being depreciated	184,260,838	1,267,123		185,527,961
Less accumulated depreciation for:				
Buildings and improvements	(33,141,310)	(2,984,599)		(36,125,909)
Furniture and Equipment	(6,119,835)	(21,682)		(6,141,517)
Total Accumulated depreciation	(39,261,145)	(3,006,281)		(42,267,426)
Governmental Capital Assets	\$ 146,465,373	\$ 1,544,300	\$	\$ 148,009,673

Note 4 - Capital Assets (continued)

Depreciation expense was charged to functions/programs of the District as follows:

<u>Function</u>	<u>Depreciation Expense</u>
Instruction	\$ 2,112,903
Instructional resources and media services	121,266
Curriculum and staff development	8,677
Instructional leadership	5,620
School leadership	127,368
Guidance, counseling and evaluation services	10,276
Social work services	327
Health services	17,493
Student transportation	1,629
Food Services	161,399
Extracurricular activities	273,387
General administration	42,895
Facilities maintenance and operations	82,692
Security and monitoring services	2,088
Data processing services	30,699
Community services	7,562
	<u>\$ 3,006,281</u>

The depreciation expense above, includes a depreciation expense of \$12,648 that has been reported in the Internal Service Funds, see Exhibit H-4 of these financial statements.

In addition, the Internal Service Funds report a capital asset addition of \$63,240 during the current fiscal year, see Exhibit H-3 of these financial statements.

Construction budgets and remaining commitments under related construction contracts as of August 31, 2015, follows:

	<u>Approved Construction Budget</u>	<u>Construction in Progress</u>	<u>Re maining Commitment</u>
Project One - Industrial Trade Center (TCHS)	\$ 3,521,500	\$ 282,540	\$ 444,547
Project Two - Alarm System	49,630	49,628	
	<u>\$ 3,571,130</u>	<u>\$ 332,168</u>	<u>\$ 444,547</u>

Note 5 - Interfund Receivables, Payables, and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, warehouse ordering and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

The composition of interfund balances as of August 31, 2015, is as follows:

	Interfund Receivable	Interfund Payable	Net
Governmental Activities			
General Fund	\$ 2,284,635	\$ 229,209	\$ 2,055,426
Nonmajor Governmental Funds		984,204	(984,204)
Internal Service Funds	<u>258,467</u>	<u>1,329,689</u>	<u>(1,071,222)</u>
Total Governmental Funds	<u>2,543,102</u>	<u>2,543,102</u>	
Total	<u><u>\$ 2,543,102</u></u>	<u><u>\$ 2,543,102</u></u>	<u><u>\$</u></u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Interfund transfers for the year were made as follows:

Transfer Out	Transfer In	Amount	Purpose
General Fund	Child Nutrition Fund	\$ 209,685	Cover operating loss for excess fund balance
General Fund	Capital Projects Fund	793,673	Transferred money for projects that had initially been assigned with bond funds
Workers Compensation Fund	General Fund	1,329,689	Reimbursement of prior year expenditures from Workers Compensation Fund
		<u><u>\$ 2,333,047</u></u>	

Note 6 - Compensated Absences and Other Retirement/Sick Leave Benefits

Upon retirement or death of certain employees, the District pays any accrued sick and vacation leave in a lump sum cash payment to such employee or the employee’s estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments.

The following summarizes the District’s liability and the changes for the year:

	Balance September 1, 2014	Additions	Deductions - Payments to Participants	Balance August 31, 2015
Compensated absences payable	<u><u>\$ 333,721</u></u>	<u><u>\$ 48,962</u></u>	<u><u>\$ (69,138)</u></u>	<u><u>\$ 313,545</u></u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS

Exhibit F-1
(continued)

Note 7 - Long-term Liabilities

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas through the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Texas City Independent School District.

The District is subject to a legal debt margin in which the net indebtedness shall not exceed 10 percent of all assessed real and personal property in the District. At August 31, 2015, the legal debt margin was \$285,235,268.

Changes in Long-term Liabilities

Long-term liability activity for the year ended August 31, 2015, was as follows:

	Balance September 1, 2014	Additions	Retirements	Balance August 31, 2015	Due Within One Year
General Obligation Bonds	\$ 109,775,000	\$ 44,050,000	\$ (49,945,000)	\$ 103,880,000	\$ 5,225,000
Issuance Premiums/Discounts	4,405,204	5,192,183	(958,558)	8,638,829	
Total Bonds and Notes Payable	<u>114,180,204</u>	<u>49,242,183</u>	<u>(50,903,558)</u>	<u>112,518,829</u>	<u>5,225,000</u>
Other Liabilities					
Compensated absences payable	333,721	48,962	(69,138)	313,545	78,386
Total Other Liabilities	<u>333,721</u>	<u>48,962</u>	<u>(69,138)</u>	<u>313,545</u>	<u>78,386</u>
	<u>\$ 114,513,925</u>	<u>\$ 49,291,145</u>	<u>\$ (50,972,696)</u>	<u>\$ 112,832,374</u>	<u>\$ 5,303,386</u>

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These are issued as current interest bonds and term bonds with various amounts of principal maturing each year.

General obligation bonds currently outstanding are as follows:

Issue	Original Issuance amount	Interest Rate (%)	Maturity Date	Debt Outstanding
Unlimited Tax School Building Bonds, Series 2008	\$ 54,565,000	3.5% to 5.0%	2017	\$ 4,980,000
Unlimited Tax School Building Bonds, Series 2009	28,910,000	3.5% to 5.0%	2030	25,805,000
Unlimited Tax School Building Bonds, Series 2010A	25,810,000	2.0-5.0%	2030	22,150,000
Unlimited Tax School Building Bonds, Series 2011	8,845,000	2.0-4.0%	2030	7,120,000
Unlimited Tax School Building Bonds, Series 2015	44,050,000	2.0-5.0%	2030	43,825,000
				<u>\$ 103,880,000</u>

Note 7 - Long-term Liabilities (continued)

Debt service requirements to maturity are as follows:

Year Ending August 31,	Principal	Interest	Totals
2016	\$ 5,225,000	\$ 4,279,026	\$ 9,504,026
2017	5,420,000	4,086,801	9,506,801
2018	5,645,000	3,864,326	9,509,326
2019	5,810,000	3,700,776	9,510,776
2020	5,995,000	3,515,626	9,510,626
2021	6,195,000	3,314,296	9,509,296
2022	6,475,000	3,032,682	9,507,682
2023	6,705,000	2,805,032	9,510,032
2024	7,000,000	2,505,582	9,505,582
2025	7,330,000	2,178,232	9,508,232
2026	7,675,000	1,835,282	9,510,282
2027	8,035,000	1,472,132	9,507,132
2028	8,410,000	1,093,520	9,503,520
2029	8,810,000	693,250	9,503,250
2030	9,150,000	354,876	9,504,876
	<u>\$ 103,880,000</u>	<u>\$ 38,731,439</u>	<u>\$ 142,611,439</u>

During the fiscal year, the District issued Unlimited Tax School Refunding Bonds, Series 2015 totaling \$44,050,000. The proceeds from the sale of the Bonds will be used for (i) refunding a portion of the outstanding Unlimited Tax School Building Bonds, Series 2008 and (ii) paying the costs of issuance of the Bonds. The reacquisition price exceeded the net carrying amount of the refunded debt by \$3,430,607; this resulted in a deferred outflow of resources amortized over the life of the new debt. Total debt service payments after the refunding of bonds resulted in a net present value savings of \$2,928,502.

Prior Years' Refunding of Long-Term Debt

In prior years, the District defeased certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2015, \$44,745,000 of defeased bonds remain outstanding.

Note 8 - Revenues from Local, Intermediate, and Out-of-State Sources

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

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Property Taxes	\$ 41,203,865	\$ 8,778,580	\$	\$ 49,982,445
Penalties, interest and other tax related revenue	227,236	44,315		271,551
Investment Income	53,107	3,187	975	57,269
Co-curricular student activities	3,166,329		1,173,281	4,339,610
Tuition and fees	18,990			18,990
Food Sales			910,971	910,971
Other	21,436		62,695	84,131
	<u>\$ 44,690,963</u>	<u>\$ 8,826,082</u>	<u>\$ 2,147,922</u>	<u>\$ 55,664,967</u>

Note 9 - General Fund Federal Source Revenues

<u>Program or Source</u>	<u>CFDA #</u>	<u>Amount</u>
School Health and Related Service (SHARS)	N/A	<u>\$ 617,647</u>

Note 10 - Operating Leases

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of August 31, 2015.

Rental expenditures for the year ended August 31, 2015, amounted to \$234,180.

Note 11 – Defined Benefit Retirement Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

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 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 postemployment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Note 11 - Defined Benefit Retirement Plan (continued)

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 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	Contribution Rates	
	Plan Fiscal year	
	2014	2015
Member	6.4%	6.7%
Employer	6.8%	6.8%

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions and pension expense for all contributors were as follows:

	Measurement Year		
	Contributions Required and Made	Pension Expense	TRS Contributions Made During Fiscal Year
Member (Employee)	\$ 669,029	\$	\$ 2,573,492
Non-employer contributing agency (State)	1,849,818	1,805,608	1,910,804
District	719,423	700,613	1,187,420

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

Note 11 - Defined Benefit Retirement Plan (continued)

Contributions (continued)

- 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 Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation 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	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

**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 a significant margin for possible future mortality improvement. 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 of Practice No. 35.

Note 11 - Defined Benefit Retirement Plan (continued)

Discount Rate

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

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long Term Expected Portfolio Real Rate of Return*
Global Equity			
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%
Stable Value			
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%
Real Return			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy and Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk Parity	5%	8.9%	0.4%
Alpha			1.0%
Total	100%		8.7%

*The expected Contributions to Returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean

Note 11 - Defined Benefit Retirement Plan (continued)

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2014 Net Pension Liability.

	1% Decrease	Current Discount Rate	1% Increase
	7%	8%	9%
District's proportional share of the net pension liability	\$ 13,544,564	\$ 7,579,756	\$ 3,119,190

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

At August 31, 2015, the District reported a liability of \$7,579,756 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:

	2014
District's proportionate share of the net pension liability	\$ 7,579,756
State's proportionate share of the net pension liability associated with the District	<u>19,531,037</u>
Total	<u>\$ 27,110,793</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 employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2013 thru August 31, 2014.

At August 31, 2014 and 2013, the employer's proportion of the collective net pension liability was 0.0284%, which was substantially the same from its proportion measured as of August 31, 2013. The change in proportion is immaterial and therefore disregarded this year.

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 reporting 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 \$700,613 as well as revenue of \$1,805,608 representing pension expense incurred by the State on behalf of the District.

Note 11 - Defined Benefit Retirement Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Inflows of Resources Related to Pension (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 117,223	\$
Changes of assumptions	492,693	
Net difference between projected and actual earnings on pension plan investments		2,316,683
Changes in proportion and differences between District contributions and proportionate share of contributions		1,987
District contributions subsequent to the measurement date	<u>1,187,420</u>	
Total	<u>\$ 1,797,336</u>	<u>\$ 2,318,670</u>

The \$1,187,420 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2016. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended	
August 31	Amount
2016	\$ (476,836)
2017	(476,836)
2018	(476,836)
2019	(476,835)
2020	102,335
2021	96,254

Note 12 - Retiree Health Plan

Plan Description

The Texas City Independent School 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 TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

Note 12 - Retiree Health Plan (continued)

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. The State of Texas and active public school employee contribution rates were 1% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2015, 2014, and 2013. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1%.

Contributions made by the State, District, and staff members for the years ended August 31, 2015, 2014, and 2013 are as follows:

For the Year Ended August 31	State TRS Care Contributions Made on Behalf of the District	District Required Contributions to TRS Care	Staff Members' Contributions to TRS Care	Total Covered Payroll
2015	\$ 350,166	\$ 245,203	\$ 249,668	\$ 38,410,331
2014	345,382	233,490	242,757	37,346,693
2013	159,533	208,873	228,060	35,085,789

For the current fiscal year and each of the past two years, the District's contributions were equal to 100% of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the state.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2015, 2014, and 2013, the subsidy payments received by the TRS-Care on-behalf of the district were \$108,283, \$92,706, and \$86,443 respectively. The payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 13 - Risk Management

Property/Liability

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance.

Health Insurance

The Board of Trustees approved the district's participation in the TRS (Texas Retirement System) Active Care Health Insurance Program as sponsored by the Teacher Retirement System of Texas and administered by Blue Cross Blue Shield of Texas and Medco Health (pharmacy) effective September 1, 2007. This is a premium-based plan; payments are made on a monthly basis for all covered employees.

Note 13 - Risk Management (continued)

Workers' Compensation

During the year ended August 31, 2015, employees of the Texas City Independent School District were provided workers' compensation benefits which were self-funded from accumulated assets provided directly by the District, the plan sponsor. The District is solely responsible for the cost of all claims, both reported and unreported. All claims were submitted, processed, and approved by a third party administrator acting as an agent for the District. The plan was documented by contractual agreement. The District was protected against unanticipated, catastrophic individual or aggregate loss by stop-loss coverage carried through Safety National Casualty Corp. which limited annual claims paid from the Plan for the year ended August 31, 2015, to \$250,000 per occurrence with a maximum level of indemnity of \$3,000,000 and aggregate losses exceeding \$1,250,000 over a two year period.

Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums are reported as revenues in the internal service fund.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$300,000 up to the statutory limits for any given claim. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverage for each of the past three fiscal years. Changes in the balances of claims liabilities during the past three years are as follows:

Fiscal Year	Beginning of Year Accrual	Current Year Estimates	Claims Payments	End of Year Accrual
2013	\$ 39,675	\$ 279,364	\$ (240,778)	\$ 78,261
2014	78,261	71,313	(108,341)	41,233
2015	41,233	141,372	(118,923)	63,682

Note 14 - Shared Service Arrangements / Joint Ventures

The District participates in a shared services arrangement for Juvenile Justice Alternative Education Program with five other school districts. Although 21.9% of the activity of the shared services arrangement is attributable to the District’s participation, 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, Dickinson ISD, 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 Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Presented below are the revenues and expenditures attributable to the District’s participation:

Revenues	
5700 Local revenue from member districts	\$ 60,816
	<u>\$ 60,816</u>
Expenditures	
6100 Payroll costs	\$ 55,020
6200 Contracted services	5,467
6300 Supplies and materials	268
6400 Miscellaneous operating costs	61
	<u>\$ 60,816</u>

The District participates in a shared services arrangement for the Galveston County Transforming Lives Cooperative program with five other school districts. Although only a portion of the overall activity of the shared services arrangement is attributable to the District’s participation, 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, Dickinson ISD, 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 Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Revenues attributable to the District’s participation totaled \$7,219. Expenditures in the same amount were attributable to the District’s participation, all of which were used for payroll costs.

The District participates in a shared services arrangement for the Galveston - Brazoria Co-op for Hearing with one other school district. Although 8.0% of the activity of the shared services arrangement is attributable to the District’s participation, 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, Clear Creek Independent School District, 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 Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Note 14 - Shared Service Arrangements / Joint Ventures (continued)

Presented below are the revenues and expenditures attributable to the District’s participation.

Revenues	
5700 Local revenue from member districts	\$ 91,138
	<u>\$ 91,138</u>
Expenditures	
6100 Payroll costs	\$ 71,425
6200 Contracted services	9,952
6300 Supplies and materials	8,175
6400 Miscellaneous operating costs	1,586
	<u>\$ 91,138</u>

The District participates in a shared services arrangement for services for visually impaired students with one other school district. Although only a portion of the overall activity of the shared services arrangement is attributable to the District’s participation, 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, Galveston Independent School District, 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 Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Revenues attributable to the District’s participation totaled \$19,374. Expenditures in the same amount were attributable to the District’s participation, all of which were used for payroll costs.

Note 15 - Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

Note 16 - Contracted Instructional Services between Schools

During the year ended August 31, 2015, the District was required to pay to purchase attendance credits to equalize its wealth per weighted average daily attendance (“WADA”). The purchase of WADA was made from the State of Texas. The final amount payable will be determined by the Texas Education Agency.

Note 17 - Other Postemployment Benefits

The District does not provide postemployment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the district.

Note 18 - Prior Period Adjustment

Implementation of New Accounting Standards

The District has implemented the GASB Statement No. 68 *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ending August 31, 2015. As a result the beginning net position of the District's governmental activities has been restated on the Statement of Activities to reflect the net pension liability and deferred outflows of resources relating to pension contributions made after the prior measurement date of the plan.

Correction of an Error

The District recorded a prior period adjustment for the correction of an error for capital assets, eliminating assets and accumulated depreciation for items previously reported that were no longer with the District. To assess the value of capital assets, the District conducted an outside inventory count in order to tag assets and identify those assets that were previously disposed.

Additionally, the District recorded a prior period adjustment for the correction of an error for prepaid items for items previously reported that had not been properly removed.

Summary

The following is a summary of the prior period adjustments to the net position of the governmental activities:

Net Position as originally presented	\$ 78,427,859
Prior Period Restatement	
Net Pension Liability (measurement date as of 8/31/2013)	(9,307,320)
Deferred Outflow of Resources (contributions made to TRS during the fiscal year)	719,423
Effect of correction of an error - capital assets	(2,454,870)
Effect of correction of an error - prepaid items	(1,180,869)
Net Position as restated	<u><u>\$ 66,204,223</u></u>

The following is a summary of the prior period adjustment to the fund balance in the governmental funds:

Fund Balance as originally presented	\$ 38,696,870
Prior Period Restatement	
Effect of correction of an error - prepaid items	(1,180,869)
Fund Balance as restated	<u><u>\$ 37,516,001</u></u>

Note 19 - Subsequent Events

The District passed a \$0.13 tax rate increase for fiscal year 2016. The adopted budget for fiscal year 2016 was based on a tax rate of \$1.4298, which triggered a tax ratification election. The tax ratification election was held November 3, 2015, where the maintenance and operations rate of \$1.17 was approved by voters. The total tax rate of \$1.4298 includes \$1.17 for maintenance and operations and \$0.2598 for interest and sinking.

In October of 2015, a local industry successfully contested their property valuation from \$237.8 million to \$90.2 million resulting in a \$2.1 million revenue reduction for the 2016 fiscal year.

Effective July 1, 2016, Texas City Independent School District will annex La Marque Independent School District as directed by the Texas Education Agency.

REQUIRED SUPPLEMENTARY INFORMATION

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended August 31, 2015

Exhibit G-1

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 42,696,153	\$ 44,589,625	\$ 44,690,963	\$ 101,338
5800	State program revenues	8,427,319	8,391,151	7,708,795	(682,356)
5900	Federal program revenues	484,743	617,447	617,647	200
5020	Total revenues	<u>51,608,215</u>	<u>53,598,223</u>	<u>53,017,405</u>	<u>(580,818)</u>
Expenditures					
Current:					
0011	Instruction	29,061,699	29,084,416	29,083,295	1,121
0012	Instructional resources and media services	735,649	733,063	707,124	25,939
0013	Curriculum and staff development	698,369	681,480	680,739	741
0021	Instructional leadership	467,798	466,468	442,565	23,903
0023	School leadership	3,065,159	3,146,989	3,093,859	53,130
0031	Guidance, counseling and evaluation services	1,729,700	1,671,199	1,508,228	162,971
0032	Social work services	127,691	97,831	73,376	24,455
0033	Health services	542,130	523,898	471,311	52,587
0034	Student transportation	1,479,877	1,504,877	1,068,877	436,000
0036	Extracurricular activities	1,651,116	1,677,629	1,668,478	9,151
0041	General administration	2,554,610	2,559,468	2,388,541	170,927
0051	Facilities maintenance and operations	8,843,436	9,117,999	8,290,752	827,247
0052	Security and monitoring services	758,889	758,624	676,372	82,252
0053	Data processing services	1,316,107	1,398,307	1,354,650	43,657
0061	Community services	43,335	43,335	15,276	28,059
Capital Outlay:					
0081	Facilities acquisition and construction	108,040	3,629,540	3,276,275	353,265
Intergovernmental:					
0091	Contracted instructional services	605,505	650,000	13,770	636,230
0093	Payments related to shared services arrangements	196,617	234,028	206,349	27,679
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	100,000	50,000	7,219	42,781
0099	Payments to other governments	390,000	435,000	415,370	19,630
6030	Total Expenditures	<u>54,475,727</u>	<u>58,464,151</u>	<u>55,442,426</u>	<u>3,021,725</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(2,867,512)</u>	<u>(4,865,928)</u>	<u>(2,425,021)</u>	<u>2,440,907</u>
Other Financing Sources (Uses)					
7915	Transfers in	1,694,288	1,694,288	1,329,689	(364,599)
8911	Transfers out	(364,599)	(1,714,599)	(1,003,358)	711,241
7080	Total other financing sources and uses	<u>1,329,689</u>	<u>(20,311)</u>	<u>326,331</u>	<u>346,642</u>
1200	Net change in fund balances	(1,537,823)	(4,886,239)	(2,098,690)	2,787,549
0100	Fund balances - beginning	34,945,814	34,945,814	34,945,814	
1300	Prior period adjustment			(1,180,869)	(1,180,869)
3000	Fund balances - ending	<u>\$ 33,407,991</u>	<u>\$ 30,059,575</u>	<u>\$ 31,666,255</u>	<u>\$ 1,606,680</u>

The District adopts annual appropriations type budgets for the General Fund, Child Nutrition Special Revenue Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The remaining special revenue funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to federal, state, and locally imposed project length budgets and monitoring through submission of reimbursement reports.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made during the fiscal year ended August 31, 2015. During the year ended August 31, 2015, the Board of Trustees approved budget amendments increasing expenditures as follows:

	General Fund	Child Nutrition Fund	Debt Service Fund
Amendments Approved	\$ 3,988,424	\$ 400,001	\$ 307,960

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 20, 2014. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S PROPORTIONAL SHARE OF
THE NET PENSION LIABILITY
Teacher Retirement System of Texas

Exhibit G-3

	<u>2014</u>
District's proportion of the net pension liability	0.0284%
District's proportionate share of the net pension liability	\$ 7,579,756
State's proportionate share of the net pension liability associated with the District	<u>19,531,037</u>
Total	<u>\$ 27,110,793</u>
District's covered-employee payroll (for Measurement Year)	\$ 37,346,693
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	20.3%
Plan fiduciary net position as a percentage of the total pension liability *	83.25%
Plan's net pension liability as a percentage of covered-employee payroll *	72.89%

The amounts presented for each Plan year which ends the preceding August 31 of the District's fiscal year.

Net pension liability is calculated using an new methodology and will be presented prospectively in accordance with GASB 68.

* Per TRS' CAFR

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
Teacher Retirement System of Texas
Last Five Fiscal Years

Exhibit G-4

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contributions	\$ 1,187,420	\$ 719,423	\$ 629,983	\$ 522,545	\$ 638,313
Contributions in relation to the contractual required contributions	<u>1,187,420</u>	<u>719,423</u>	<u>629,983</u>	<u>522,545</u>	<u>638,313</u>
contribution deficiency (excess)	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
District's covered employee payroll	\$ 38,410,331	\$ 37,346,693	\$ 35,085,789	\$ 34,377,357	\$ 34,906,879
Contributions as a percentage of covered employee payroll	3.09%	1.93%	1.80%	1.52%	1.83%

Note: The District adopted the provisions of GASB Statement No. 68 and GASB Statement No. 71 during the fiscal year ended August 31, 2015.

A. Changes in Assumptions

Modifications to the actuarial methods and assumptions are based on a study of actual experience as adopted on April 8, 2011. The assumptions and methods used in the current valuation are the same except for the following modifications:

- Small reductions in the rates of retirements at most age and service combinations.
- Decrease in the post-retirement rates of mortality for both males and females.
- The salary increase assumption in the first year of employment was reduced.
- The method for determining the actuarial value of assets was modified to a method that sets the actuarial value of assets as the expected actuarial value of assets plus 20% of the difference between the actual market value of the assets and the expected actuarial value of assets.

Amounts reported for 2014 reflect the adoption of the new mortality assumption that the average life expectancy for members over 65 years of age will increase by roughly nine months over the next four years.

OTHER SUPPLEMENTARY INFORMATION

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2015

Data Control Codes	205	211 ESEA Title I, A - Improving Basic Program	224 IDEA B - Formula	
	Head Start			
Assets				
1110	Cash and temporary investments	\$	\$	\$
Receivables:				
1240	Receivables from other governments	241,689	192,268	133,770
1290	Other receivables			
1310	Inventories, at cost			
1000	Total Assets	\$ 241,689	\$ 192,268	\$ 133,770
Liabilities and Fund Balances				
Liabilities:				
Current Liabilities:				
2110	Accounts payable	\$ 2,518	\$ 4,058	\$ 7,785
2160	Accrued wages payable	20,234	13,923	22,369
2170	Due to other funds	218,937	174,287	103,616
2180	Due to other governments			
2300	Unearned revenues			
2000	Total Liabilities	241,689	192,268	133,770
Fund Balances:				
Nonspendable:				
3410	Inventories			
Restricted:				
3450	Federal/State grant restrictions			
Committed:				
3545	Other purposes			
3000	Total fund balances			
4000	Total Liabilities and Fund Balances	\$ 241,689	\$ 192,268	\$ 133,770

225	240	244	255	263	289
IDEA B - Preschool	Child Nutrition Fund	Vocational Ed. - Basic	ESEA Title II, A - Training and Recruiting	ESEA Title III, A - English Lang. Acquisition	Locally Defined Special Revenue Fund
\$	\$ 130,463	\$	\$	\$	\$ 10,005
4,718	275,009	7,388	47,404	8,854	
	23,218				
	39,296				
<u>\$ 4,718</u>	<u>\$ 467,986</u>	<u>\$ 7,388</u>	<u>\$ 47,404</u>	<u>\$ 8,854</u>	<u>\$ 10,005</u>
\$	\$ 131,772	\$	\$ 5,035	\$ 120	\$
560	41,527	807	5,792	404	
4,158	255,391	6,581	36,577	8,330	
<u>4,718</u>	<u>428,690</u>	<u>7,388</u>	<u>47,404</u>	<u>8,854</u>	
	39,296				
					10,005
	39,296				10,005
<u>\$ 4,718</u>	<u>\$ 467,986</u>	<u>\$ 7,388</u>	<u>\$ 47,404</u>	<u>\$ 8,854</u>	<u>\$ 10,005</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NONMAJOR GOVERNMENTAL FUNDS

August 31, 2015

Data Control Codes	393 Texas Successful Schools Program	397 Advanced Placement Incentive	410 Instructional Materials Allotment
Assets			
1110	Cash and temporary investments	\$ 9,993	\$ 48,919
Receivables:			
1240	Receivables from other governments		
1290	Other receivables		
1310	Inventories, at cost		
1000	Total Assets	\$ 9,993	\$ 48,919
Liabilities and Fund Balance			
Liabilities:			
Current Liabilities:			
2110	Accounts payable	\$	\$ 47,354
2160	Accrued wages payable		
2170	Due to other funds		
2180	Due to other governments	9,993	
2300	Unearned revenues		1,565
2000	Total Liabilities	9,993	48,919
Fund Balances:			
Nonspendable:			
3410	Inventories		
Restricted:			
3450	Federal/State grant restrictions		
Committed:			
3545	Other purposes		
3000	Total fund balances		
4000	Total Liabilities and Fund Balances	\$ 9,993	\$ 48,919

Exhibit H-1
Page 2 of 2

461	699	
Campus Activity Fund	Capital Projects	Total Nonmajor Governmental Funds
\$ 484,813	\$ 193,592	\$ 877,785
		911,100
		23,218
		39,296
<u>\$ 484,813</u>	<u>\$ 193,592</u>	<u>\$ 1,851,399</u>
\$ 36,656	\$ 17,265	\$ 252,563
		105,616
	176,327	984,204
		9,993
		1,565
<u>36,656</u>	<u>193,592</u>	<u>1,353,941</u>
		39,296
		10,005
<u>448,157</u>	<u> </u>	<u>448,157</u>
<u>448,157</u>	<u> </u>	<u>497,458</u>
<u>\$ 484,813</u>	<u>\$ 193,592</u>	<u>\$ 1,851,399</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2015

Data Control Codes	205	211	224
Revenues	Head Start	ESEA Title I, A - Improving Basic Program	IDEA B - Formula
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	1,180,942	940,898	969,542
5020 Total revenues	<u>1,180,942</u>	<u>940,898</u>	<u>969,542</u>
Expenditures			
Current:			
0011 Instruction	856,819	829,613	784,809
0012 Instruction resources and media services			
0013 Curriculum and instructional staff development	28,162	40,737	23,992
0023 School leadership	78,686		
0031 Guidance, counseling and evaluation services			160,741
0032 Social work services		70,548	
0033 Health services	28,900		
0034 Student transportation	55,971		
0035 Food service			
0036 Extracurricular activities			
0041 General administration			
0051 Plant maintenance and operations			
0053 Data processing services			
0061 Community services	132,404		
Capital outlay:			
0081 Facilities acquisition and construction			
6030 Total Expenditures	<u>1,180,942</u>	<u>940,898</u>	<u>969,542</u>
1100 Excess (deficiency) of revenues over expenditures			
Other Financing Sources (Uses)			
7915 Transfers in			
7080 Total other financing sources and uses			
1200 Net change in fund balances			
0100 Fund balance - beginning			
3000 Fund balance - ending	<u>\$</u>	<u>\$</u>	<u>\$</u>

225	240	244	255	263	289
IDEA B - Preschool	Child Nutrition Fund	Vocational Ed. - Basic	ESEA Title II, A - Training and Recruiting	ESEA Title III, A - English Lang. Acquisition	Locally Defined Special Revenue Fund
\$	\$ 918,735 20,333	\$	\$	\$	\$
32,212	2,967,525	56,781	240,933	27,449	3,320
32,212	3,906,593	56,781	240,933	27,449	3,320
32,212		20,496	237,163	27,329	
		1,631	3,770	120	
		34,654			
	4,661,504				
32,212	4,661,504	56,781	240,933	27,449	
	(754,911)				3,320
	209,685				
	209,685				
	(545,226)				3,320
	584,522				6,685
\$	\$ 39,296	\$	\$	\$	\$ 10,005

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2015

Data Control Codes		393	397	410
		Texas Successful Schools Program	Advanced Placement Incentive	Instructional Materials Allotment
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues		1,758	184,171
5900	Federal program revenues			
5020	Total revenues		<u>1,758</u>	<u>184,171</u>
	Expenditures			
	Current:			
0011	Instruction		1,758	186,514
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development			
0023	School leadership			
0031	Guidance, counseling and evaluation services			
0032	Social work services			
0033	Health services			
0034	Student transportation			
0035	Food service			
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0053	Data processing services			
0061	Community services			
	Capital outlay:			
0081	Facilities acquisition and construction			
6030	Total Expenditures		<u>1,758</u>	<u>186,514</u>
1100	Excess (deficiency) of revenues over expenditures			<u>(2,343)</u>
	Other Financing Sources (Uses)			
7915	Transfers in			
7080	Total other financing sources and uses			
1200	Net change in fund balances			(2,343)
0100	Fund balance - beginning			<u>2,343</u>
3000	Fund balance - ending	<u>\$</u>	<u>\$</u>	<u>\$</u>

461	699	
Campus Activity Fund	Capital Projects	Total Nonmajor Governmental Funds
\$ 1,173,670	\$ 55,517	\$ 2,147,922
		206,262
		6,419,602
<u>1,173,670</u>	<u>55,517</u>	<u>8,773,786</u>
448,241		3,424,954
111,362		111,362
		98,412
204,283		282,969
23,307		218,702
2,255		72,803
		28,900
		55,971
		4,661,504
265,889		265,889
10,080		10,080
27,981		27,981
162	9,926	10,088
16,191		148,595
	1,186,154	1,186,154
<u>1,109,751</u>	<u>1,196,080</u>	<u>10,604,364</u>
<u>63,919</u>	<u>(1,140,563)</u>	<u>(1,830,578)</u>
	793,673	1,003,358
	<u>793,673</u>	<u>1,003,358</u>
63,919	(346,890)	(827,220)
<u>384,238</u>	<u>346,890</u>	<u>1,324,678</u>
<u>\$ 448,157</u>	<u>\$</u>	<u>\$ 497,458</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit H-3

COMBINING STATEMENT OF NET POSITION

INTERNAL SERVICE FUNDS

For the Year Ended August 31, 2015

Data Control Codes		773	797	Total
		Worker's Compensation	Technology Equipment	
Assets				
Current assets:				
1110	Cash and cash equivalents	\$ 2,109,485	\$ 1,237,500	\$ 3,346,985
Receivables:				
1260	Due from other funds	258,467		258,467
	Total Current Assets	<u>2,367,952</u>	<u>1,237,500</u>	<u>3,605,452</u>
Non-Current assets				
1530	Furniture and equipment		63,240	63,240
1574	Accumulated depreciation - Furniture and Equipment		(12,648)	(12,648)
	Total non-current assets		<u>50,592</u>	<u>50,592</u>
1000	Total Assets	<u>2,367,952</u>	<u>1,288,092</u>	<u>3,656,044</u>
Liabilities				
Current Liabilities:				
2110	Accounts payable	2,492	94,499	96,991
2160	Accrued wages payable	1,699		1,699
2170	Due to other funds	1,329,689		1,329,689
2200	Accrued expenses	63,682		63,682
2000	Total Liabilities	<u>1,397,562</u>	<u>94,499</u>	<u>1,492,061</u>
Net Position				
3900	Unrestricted net position	970,390	1,193,593	2,163,983
3000	Total Net Position	<u>\$ 970,390</u>	<u>\$ 1,193,593</u>	<u>\$ 2,163,983</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
For the Year Ended August 31, 2015

Exhibit H-4

Data Control Codes		773	797	Total
		Worker's Compensation	Technology Equipment	
Operating Revenues				
5700	Charges for Services	\$ 258,467	\$	\$ 258,467
5020	Total operating revenues	<u>258,467</u>		<u>258,467</u>
Operating Expenses				
6100	Payroll costs	62,359		62,359
6200	Purchased and contracted services	62,821	3,090	65,911
6300	Supplies and materials	9,810	352,479	362,289
6400	Claims expense and other operating expenses	141,372		141,372
6449	Depreciation		12,648	12,648
6030	Total Operating Expenses	<u>276,362</u>	<u>368,217</u>	<u>644,579</u>
1200	Operating Income (Loss)	<u>(17,895)</u>	<u>(368,217)</u>	<u>(386,112)</u>
Non-Operating Revenues (Expenses)				
7020	Earnings - temporary deposits and investments	1,105		1,105
	Total Nonoperating Revenues	<u>1,105</u>		<u>1,105</u>
	Income (Loss) before Transfers	(16,790)	(368,217)	(385,007)
Transfers				
8911	Transfers out	<u>(1,329,689)</u>		<u>(1,329,689)</u>
1200	Change in Net Position	(1,346,479)	(368,217)	(1,714,696)
Net Position				
0100	Net Position - beginning	<u>2,316,869</u>	<u>1,561,810</u>	<u>3,878,679</u>
3300	Net Position - ending	<u>\$ 970,390</u>	<u>\$ 1,193,593</u>	<u>\$ 2,163,983</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended August 31, 2015

Exhibit H-5

	773	797	
	<u>Worker's Compensation</u>	<u>Technology Equipment</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash payments for insurance claims	\$ (118,923)	\$	\$ (118,923)
Cash payments to suppliers for goods and services	(72,757)	(273,705)	(346,462)
Cash payments to employees	(60,660)		(60,660)
Net Cash Provided by (Used for) Operating Activities	<u>(252,340)</u>	<u>(273,705)</u>	<u>(526,045)</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers to other funds	(1,329,689)		(1,329,689)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(1,329,689)</u>		<u>(1,329,689)</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition of capital assets		(63,240)	(63,240)
Net Cash Provided by (Used for) Capital and Related Financing Activities		<u>(63,240)</u>	<u>(63,240)</u>
Cash Flows from Investing Activities:			
Interest on investments	1,105		1,105
Net Cash Provided by Investing Activities	<u>1,105</u>		<u>1,105</u>
Net Increase in Cash and Cash Equivalents	(1,580,924)	(336,945)	(1,917,869)
Cash and Cash Equivalents at Beginning of Year	3,690,409	1,574,445	5,264,854
Cash and Cash Equivalents at End of Year	<u>\$ 2,109,485</u>	<u>\$ 1,237,500</u>	<u>\$ 3,346,985</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ (17,895)	\$ (368,217)	\$ (386,112)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Depreciation		12,648	12,648
Change in Assets and Liabilities:			
Decrease (increase) in Interfund Receivables	(258,467)		(258,467)
Increase (decrease) in Accounts Payable	(126)	81,864	81,738
Increase (decrease) in Accrued Wages Payable	1,699		1,699
Increase (decrease) in Accrued Expenses	22,449		22,449
Net Cash Provided by (Used for) Operating Activities	<u>\$ (252,340)</u>	<u>\$ (273,705)</u>	<u>\$ (526,045)</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit H-6

COMBINING STATEMENT OF FIDUCIARY NET POSITION

August 31, 2015

		828	848	849		
<u>Data Control Codes</u>		<u>Project Garden Grant</u>	<u>Employee Scholarship Fund</u>	<u>Heatherington Scholarship</u>	<u>Total Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets						
1110	Cash and cash equivalents	\$ 3,201	\$ 95,394	\$ 39,587	\$ 138,182	\$ 140,606
1000	Total Assets	<u>\$ 3,201</u>	<u>\$ 95,394</u>	<u>\$ 39,587</u>	<u>\$ 138,182</u>	<u>\$ 140,606</u>
Liabilities						
2110	Accounts payable	\$	\$	\$	\$	\$ 1,779
2190	Due to others					138,827
2000	Total Liabilities					<u>\$ 140,606</u>
Net Position						
3800	Restricted	<u>\$ 3,201</u>	<u>\$ 95,394</u>	<u>\$ 39,587</u>	<u>\$ 138,182</u>	

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit H-7

COMBINING STATEMENT OF REVENUES, EXPENSES, AND

CHANGES IN FIDUCIARY NET POSITION

For the Year Ended August 31, 2015

	828	848	849	
	Project	Employee	Heatherington	
	Garden	Scholarship	Scholarship	Total
	Grant	Fund		
Additions				
Local and Intermediate Sources	\$	\$ 16,286	\$ 44	\$ 16,330
Total additions		16,286	44	16,330
Deductions				
Professional and contracted services		18,810		18,810
Other operating expenses		1,095		1,095
Total deductions		19,905		19,905
Change in net position		(3,619)	44	(3,575)
Net position, beginning of year	3,201	99,013	39,543	141,757
Net position, end of year	\$ 3,201	\$ 95,394	\$ 39,587	\$ 138,182

REQUIRED TEA SCHEDULES

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2015

Last Ten Fiscal Years	1		2	3	10
	Tax Rates			Net Assessed/Appraised Value For School Tax Purposes	Beginning Balance 9/1/2014
	Maintenance	Debt Service			
2006 and prior	Various	Various		Various	\$ 507,356
2007	1.370050	0.078304		3,818,528,205	68,762
2008	1.040050	0.072700		4,070,666,320	63,640
2009	1.040000	0.144930		4,368,445,589	83,126
2010	1.040000	0.176000		4,118,093,421	107,540
2011	1.040000	0.248600		3,660,903,461	134,494
2012	1.040000	0.255300		3,766,001,390	160,778
2013	1.040000	0.229200		4,036,710,841	213,697
2014	1.040000	0.250900		3,737,856,457	325,007
2015	1.040000	0.221600		3,960,387,445	
1000 Totals					\$ 1,664,400

Exhibit J-1

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/2015
\$	\$ 17,607	\$ 1,006	\$ (24,162)	\$ 464,581
	4,606	263	(4,418)	59,475
	5,179	362	(2,870)	55,229
	11,506	1,603	(3,620)	66,397
	14,566	2,465	(2,786)	87,723
	21,902	5,235	(651)	106,706
	29,659	7,280	(518)	123,321
	58,394	12,869	(1,114)	141,320
	103,460	24,960	(14,315)	182,272
<u>49,964,248</u>	<u>40,937,210</u>	<u>8,722,775</u>		<u>304,263</u>
<u>\$ 49,964,248</u>	<u>\$ 41,204,089</u>	<u>\$ 8,778,818</u>	<u>\$ (54,454)</u>	<u>1,591,287</u>
				<u>1,440,368</u>
				<u>\$ 3,031,655</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit J-2

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION FUND

For the Year Ended August 31, 2015

Data Control Codes	Child Nutrition Fund				
	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 1,152,024	\$ 1,152,024	\$ 918,735	\$ (233,289)
5800	State program revenues	18,917	18,917	20,333	1,416
5900	Federal program revenues	3,044,883	3,044,883	2,967,525	(77,358)
5020	Total revenues	<u>4,215,824</u>	<u>4,215,824</u>	<u>3,906,593</u>	<u>(309,231)</u>
Expenditures					
Current:					
0035	Food services	4,605,578	5,005,579	4,661,504	344,075
6030	Total Expenditures	<u>4,605,578</u>	<u>5,005,579</u>	<u>4,661,504</u>	<u>344,075</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(389,754)</u>	<u>(789,755)</u>	<u>(754,911)</u>	<u>34,844</u>
Other Financing Sources (Uses)					
7915	Transfers in		400,000	209,685	(190,315)
	Total other financing sources and uses		<u>400,000</u>	<u>209,685</u>	<u>(190,315)</u>
1200	Net change in fund balances	(389,754)	(389,755)	(545,226)	(155,471)
0100	Fund balances - beginning	<u>584,522</u>	<u>584,522</u>	<u>584,522</u>	
3000	Fund balances - ending	<u>\$ 194,768</u>	<u>\$ 194,767</u>	<u>\$ 39,296</u>	<u>\$ (155,471)</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit J-3

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2015

Data Control Codes		Debt Service			
		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
	Revenues				
5700	Local revenues	\$ 8,838,797	\$ 8,838,797	\$ 8,826,082	\$ (12,715)
5020	Total revenues	<u>8,838,797</u>	<u>8,838,797</u>	<u>8,826,082</u>	<u>(12,715)</u>
	Expenditures				
	Debt Service:				
0071	Principal on long-term debt	4,773,650	5,201,650	5,200,000	1,650
0072	Interest on long-term debt	4,975,000	4,337,044	4,334,880	2,164
0073	Bond issuance costs and fees	3,000	520,916	520,916	
6030	Total Expenditures	<u>9,751,650</u>	<u>10,059,610</u>	<u>10,055,796</u>	<u>3,814</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(912,853)</u>	<u>(1,220,813)</u>	<u>(1,229,714)</u>	<u>(8,901)</u>
	Other Financing Sources (Uses)				
7901	Refunding bonds issued		44,050,000	44,050,000	
7916	Premium on issuance of bonds		4,981,454	5,192,183	210,729
8949	Payment to bond refunding escrow agent		(48,723,494)	(48,723,494)	
7080	Total other financing sources and uses		<u>307,960</u>	<u>518,689</u>	<u>210,729</u>
0100	Net change in fund balances	(912,853)	(912,853)	(711,025)	201,828
1300	Fund balances - beginning	<u>2,426,378</u>	<u>2,426,378</u>	<u>2,426,378</u>	
3000	Fund balances - ending	<u>\$ 1,513,525</u>	<u>\$ 1,513,525</u>	<u>\$ 1,715,353</u>	<u>\$ 201,828</u>

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FEDERAL AWARDS SECTION

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

To the Board of Trustees
Texas City Independent School District
Texas City, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Texas City 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 District’s basic financial statements, and have issued our report thereon dated December 8, 2015.

Internal Control Over Financial Reporting

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

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

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

To the Board of Trustees
Texas City Independent School District

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Texas City, Texas
December 8, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees
Texas City Independent School District
Texas City, Texas

Report on Compliance for Each Major Federal Program

We have audited Texas City Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2015. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2015.

To the Board of Trustees
Texas City Independent School District

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Whitley Penn LLP

Texas City, Texas
December 8, 2015

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2015

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	No
Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers
U.S. Department of Agriculture:	
<i>Child Nutrition Cluster:</i>	
School Breakfast Program	10.553
National School Lunch Program (cash assistance)	10.555
National School Lunch Program (non-cash assistance)	10.555
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2015

II. Financial Statement Findings

None reported.

III. Federal Awards Findings and Questioned Costs

None reported.

IV. Status of Prior Year Findings

None reported.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2015

Exhibit K-1

(2A) Pass Through Entity Identifying Number	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	District Fund Number	(2) Federal CFDA Number	(3) Federal Expenditures
U.S. Department of Education				
Passed Through Texas Education Agency:				
15610101084906	<i>ESEA, Title I, Part A</i>	211	84.010A	\$ 940,898
156600010849066600	<i>IDEA-B Formula *</i>	224	84.027A	969,542
156610010849066610	<i>IDEA-B Preschool *</i>	225	84.173A	32,212
16420006084906	<i>Carl D. Perkins Basic Grant</i>	244	84.048A	7,388
15420006084906	<i>Carl D. Perkins Basic Grant</i>	244	84.048A	49,393
15694501084906	<i>Title II, Part A, Teacher/Principal Training</i>	255	84.367A	240,933
15671001084906	<i>Title III, Part A, LEP</i>	263	84.365A	27,449
69551402	<i>Summer School LEP</i>	289	84.369A	3,320
Total U.S. Department of Education				<u>2,271,135</u>
U.S. Department of Health & Human Services				
Direct Award				
06CH706503	<i>Head Start</i>	205	93.600	820,728
06CH706502	<i>Head Start</i>	205	93.600	360,214
Total U.S. Department of Health & Human Services				<u>1,180,942</u>
U.S. Department of Agriculture				
Passed Through the Texas Department of Agriculture:				
Non Cash assistance (Commodities):				
084-906	<i>National School Lunch Program **</i>	240	10.555	110,350
Passed Through Texas Education Agency:				
Cash assistance:				
71301501	<i>National School Lunch Program **</i>	240	10.555	2,134,726
71401501	<i>School Breakfast Program**</i>	240	10.553	722,449
Passed Through Texas Education Agency				<u>2,857,175</u>
Total U.S. Department of Agriculture				<u>2,967,525</u>
Total Expenditures of Federal Awards				<u>\$ 6,419,602</u>

* Special Education Cluster

** Child Nutrition Cluster

Note 1 -Basis of Accounting

The District accounts for all awards under federal programs in the General and Certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2015. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

Note 3 - Reconciliation to Basic Financial Statements

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Total shown on Schedule of Expenditures of Federal Awards	\$ 6,419,602
Federal revenue accounted for in the General Fund	
Medicaid SHARS	617,647
Total Federal Revenue - Exhibit C-3	<u>\$ 7,037,249</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
Required Responses to Selected School First Indicators
8/31/2015

Exhibit L-1

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ -
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 7,579,756
SF13	Pension Expense (6147) at fiscal year-end.	\$ 700,613

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