SANTA ROSA
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL
AND
COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2015

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
Santa Rosa, Texas
Year Ended August 31, 2015

TRUSTEES

Raul Garza - President

Hector Lumbrera - Vice-President

Sandra Rickford - Secretary

Bobby De La Fuente

Leah Theys

Danny Theys

Arnulfo Castaneda

SUPERINTENDENT

Heriberto Villarreal

BUSINESS MANAGER

Hilda Rendon

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2015

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Santa Rosa Independent School District	Cameron	031-914
Name of School District	County	Co.-Dist. Number

We the undersigned, do hereby certify that the attached annual financial reports of the above named school district were reviewed and 7 approved -- 0 disapproved for the year ended August 31, 2015 at a meeting of the board of school trustees of such school district on the 14th day of December, 2015.

Signature of Board Secretary

Signature of Board President

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FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
LONG CHILTON, LLP
A PARTNERSHIP OF PROFESSIONAL CORPORATIONS AND INDIVIDUALS

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Santa Rosa Independent School District

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 the Santa Rosa Independent School 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.

Auditors' 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 auditors' 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.

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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 Santa Rosa Independent School District, as of August 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note B to the financial statements, in 2015, the District adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions and GASB Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension supplementary information on pages 17-26 and 66-69 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 Santa Rosa Independent School District's basic financial statements. The introductory section and the accompanying financial information listed as Texas Education Agency Required Schedules in the table of contents are presented in accordance with requirements of the Texas Education Agency 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 Texas Education Agency Required Schedules 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, 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 Texas Education Agency Required 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of the Santa Rosa Independent School 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 Santa Rosa Independent School District's internal control over financial reporting and compliance.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
December 14, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Santa Rosa I.S.D.'s annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2015. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was $17,143,305 at August 31, 2015. Net position decreased by $1,315,175 due to a prior period adjustment of $1,891,809 for implementation of GASBS No 68, combined with an excess of revenues over expenses in the current year of $576,634.
- The general fund reported a fund balance this year of $5,892,072, which is an increase of $519,292 over the prior year.
- The District received a "pass" rating for the Financial Integrity Reporting System of Texas (FIRST) for 2014, earning 30 of 30 points. The Texas Administrative Code Rule 109.1001 "Financial Accountability Ratings" provides for only two ratings for 2014-2015 – P for Pass if it scores within the acceptable range established by the commissioners for a P rating or F for substandard achievement if it scores below the pass range. Effective for the 2015-2016 and all subsequent school years there will be an expanded rating system of A, B, C or F with the commissioner establishing the applicable ranges for each rating. The FIRST rating evaluates the quality of performance in the management of school district's financial resources.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, *and required supplementary information.*

The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1, Required Components of the District's Annual Financial Report

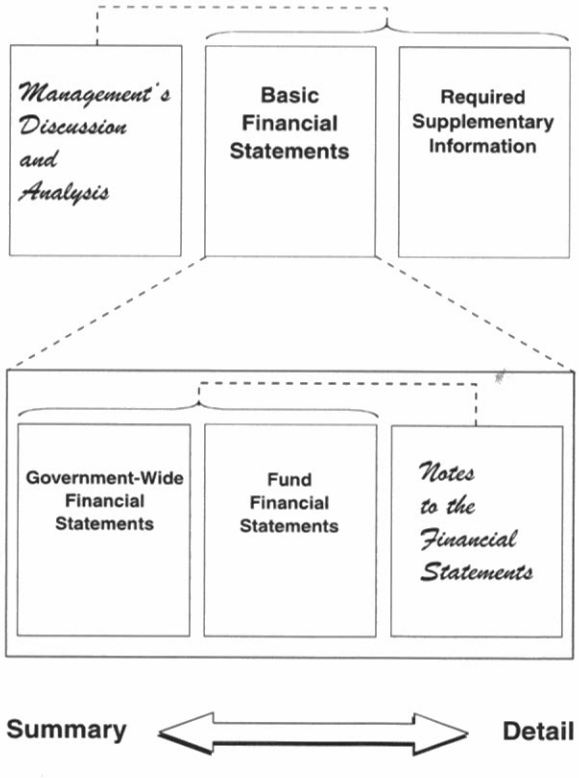


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

		Fund Statements		
Type of Statements	**Government-wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures & changes in fund balances	• Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and deferred outflows, liabilities and deferred inflows, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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

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

- Over time, increases or decreases in the District's Net position are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

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

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

1. Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.*
2. Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
3. Statement No. 69, *Government Combinations and Disposals of Government Operations*
4. Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
5. Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

a. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
b. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
c. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

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

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

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

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined by the state legislature for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement. Net position as of September 1, 2014 was decreased by $1,891,809 to reflect the cumulative effect of adoption.

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

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

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

The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required

to make a payment on the guarantee. The Statement requires a government that has issued an obligation guaranteed in a nonexchange transaction to recognize revenue to the extent of the reduction in its guaranteed liabilities. The Statement requires a government that is required to repay a guarantor for making a payment on a guaranteed obligation or legally assuming the guaranteed obligation to continue to recognize a liability until legally released as an obligor. When a government is released as an obligor, the government should recognize revenue as a result of being relieved of the obligation. This Statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units.

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

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

Fund Financial Statements

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

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

The District has the following kinds of funds:

Governmental funds—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

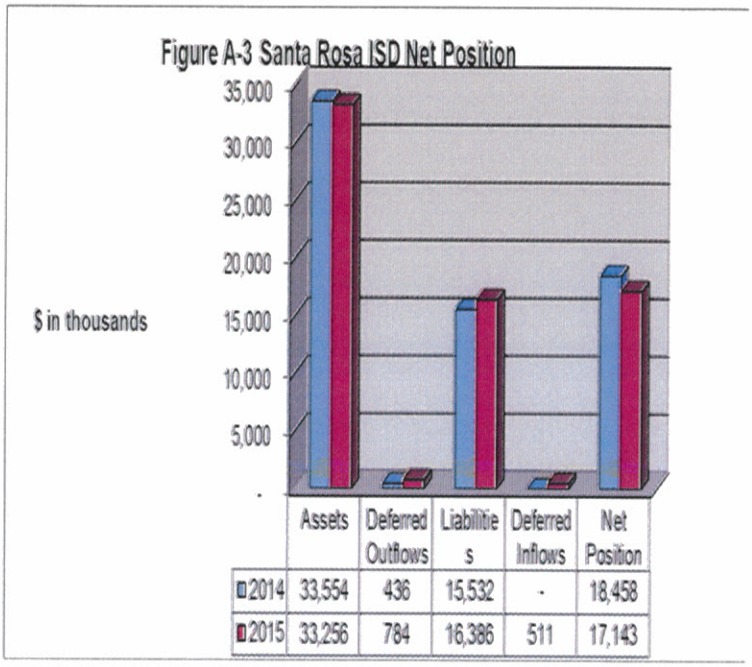
Fiduciary funds—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary Net position and a statement of changes in fiduciary Net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was $17,143,305 as of August 31, 2015, a decrease of 7.13%. (See Table A-1).

Table A-1
Santa Rosa Independent School District's Net Position
(in thousands of dollars)

	Governmental Activities	
	2015	2014
Current & other assets	$ 6,818	$ 6,433
Capital assets	26,438	27,121
Total assets	**$ 33,256**	**$ 33,554**
Deferred outflows of resources	784	436
Total deferred outflows of resources	**784**	**436**
Current liabilities	739	877
Long-term liabilities	15,647	14,655
Total liabilities	**16,386**	**15,532**
Deferred inflows of resources	511	-
Total deferred inflows of resources	511	-
Net Position:		
Net investment in capital assets	12,864	13,088
Restricted	233	160
Unrestricted	4,046	5,210
Total Net Position	**$ 17,143**	**$ 18,458**



Net position may serve over time as a useful indicator of a government's financial position. In the case of Santa Rosa ISD, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $17,143,305 at the close of August 31, 2015.

A significant portion of Santa Rosa ISD's Net position (75%) reflects the investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. Santa Rosa ISD uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Santa Rosa ISD's investment in 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.

A small portion of the Net position (1.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted Net position ($4,046,324) may be used to meet the government's ongoing obligations to citizens and creditors.

Governmental Activities

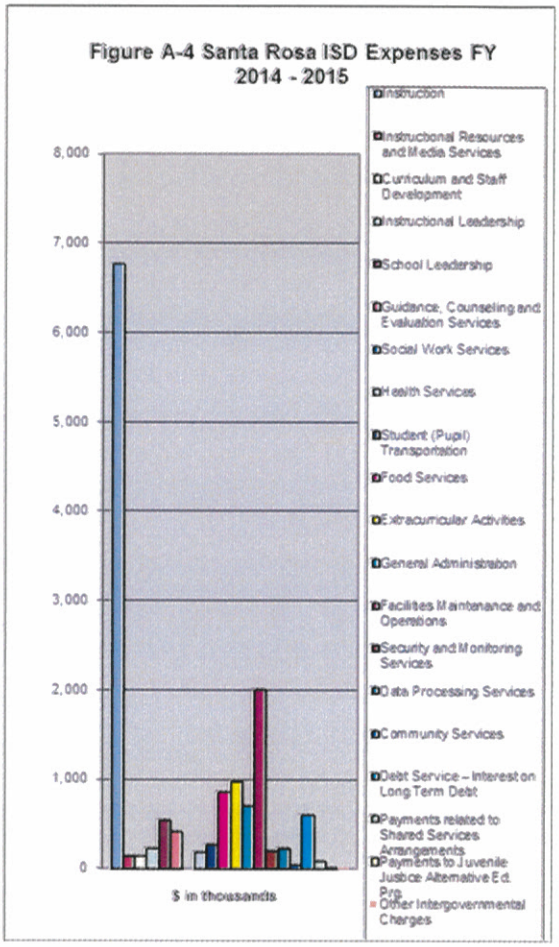
- Property tax rates remained at $1.3722/$100; property taxable values increased by 2.4 % from the prior year.
- The cost of all governmental activities this year was $14,420,919, a decrease of $328,626.
- Some of the cost was paid by those who directly benefited from the programs $199,527 or by grants and contributions $2,444,033.

Table A-2

Changes in Santa Rosa Independent School District's Net position

(in thousands of dollars)

	Governmental Activities	
	2015	2014
Program Revenues:		
Charges for Services	$ 200	$ 224
Operating Grants and Contributions	2,444	3,060
General Revenues		
Property Taxes	1,021	853
State Aid – Formula	10,098	9,682
Grants and Contributions not Restricted	1,148	1,141
Investment Earnings	18	15
Other	69	148
Total Revenues	14,998	15,123
Instruction	6,761	7,008
Instructional Resources and Media Services	149	143
Curriculum and Staff Development	149	133
Instructional Leadership	229	251
School Leadership	548	523
Guidance, Counseling and Evaluation Services	415	404
Social Work Services	-	8
Health Services	181	178
Student (Pupil) Transportation	270	214
Food Services	866	917
Extracurricular Activities	977	956
General Administration	703	667
Facilities Maintenance and Operations	2,000	2,048
Security and Monitoring Services	199	133
Data Processing Services	228	247
Community Services	39	150
Debt Service – Interest on Long Term Debt	604	702
Payments related to Shared Services Arrangements	87	58
Payments to Juvenile Justice Alternative Ed. Prg.	1	1
Other Intergovernmental Charges	15	8
Total Expenses	14,421	14,749
Increase (Decrease) in Net position	577	374
Beginning net position	18,458	18,084
Prior period adjustment	(1,892)	-
Beginning net position, as restated	16,566	18,084
Ending net position	$ 17,143	$ 18,458



The restatement of the beginning net position in fiscal year 2015 is the result of the District implementing GASB Statements No. 68 and 71 $(1,891,809), as further described in Note T.

Figure A-5 Sources of Revenues for FY 2014-2015

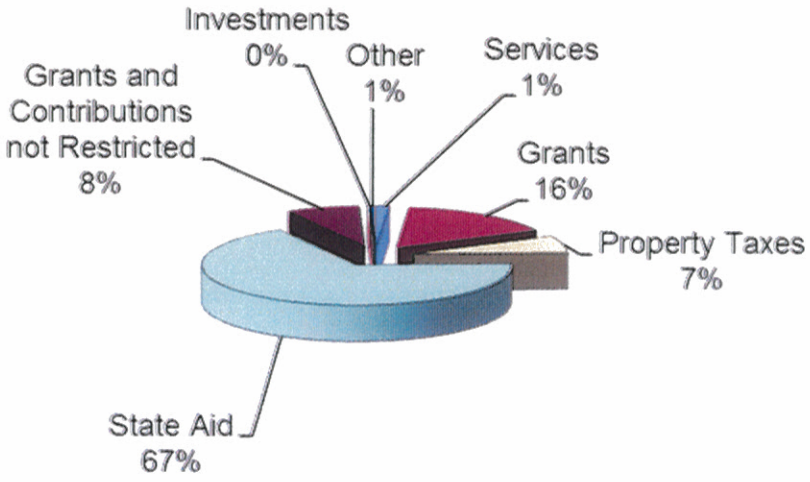


Table A-3 presents the cost of each of the District's largest functions/programs as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

Table A-3
Net Cost of Selected District Programs/Functions
(in thousands of dollars)

	Total Cost of Services		% Change	Net Cost (Income) of Services		% Change
	2015	2014		2015	2014	
Instruction	$6,761	$7,008	(3.51)%	$5,711	$5,554	2.83%
School Leadership	548	523	4.78 %	521	498	4.62%
Food Services	866	917	(5.56)%	11	18	(38.88)%
Facilities Maintenance & Operations	2,000	2,048	(2.30)%	1,960	2,009	(2.44)%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2015, the District had invested $26,437,545 in a broad range of capital assets, including land, equipment, buildings and vehicles. (See Table A-4.) This amount represents a net decrease (including additions and deductions) of 2.52% over last year. More detailed information about the District's capital assets is presented in note H to the financial statements.

Table A-4
District's Capital Assets
(in thousands of dollars)

	Governmental Activities	
	2015	2014
Land	$305	$305
Buildings and improvements	32,313	32,185
Furniture & Equipment	4,710	4,399
Totals at historical cost	**37,328**	**36,889**
Total accumulated depreciation	10,891	9,769
Net capital assets	**$26,437**	**$27,120**

Long-Term Debt

At year-end the District had $11,735,000 in General Obligation Bonds as shown in Table A-5. Of this amount, $615,000 is due within the next year. The total long-term debt outstanding as of August 31, 2015 is $15,646,947. More detailed information about the District's debt is presented in the notes to the financial statements.

The District's current underlying credit rating is "AAA" by Fitch based on a guaranty provided by the Texas Permanent School Fund (PSF), whose bond guaranty program is rated "AAA" by Fitch.

Table A-5
District's Long-Term Debt
(In thousands of dollars)

General Obligation Bonds	Governmental Activities	
	2015	2014
Bonds – Series 2001	$ -	$ 115
Bonds – Refunding Series 2007	7,840	8,210
Bonds – Series 2008	3,895	3,995
Total General Obligation Bonds	**$ 11,735**	**$ 12,320**
Capital Lease	$ 1,723	$ 1,780
Premium on issuance of Bonds	469	498
Compensated Absences	50	57
Net pension liability	1,670	1,967
Total Long-Term Debt	**$ 15,647**	**$ 16,622**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, Santa Rosa ISD uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

General Fund

The fund balance of the Santa Rosa ISD's General Fund is $5,892,072 as of August 31, 2015. It increased by $519,292 during the current fiscal year; an increase of 9.67%.

Fund Balances

GASB Statement No. 54 establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. GASB No. 54 provides for two major types of fund balances, which are non-spendable and spendable.

Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. The District has inventories and prepaid insurance that are considered non-spendable.

The spendable fund balances include restricted, committed, assigned and unassigned based upon the hierarchy of spending constraints. ***Restricted:*** fund balances that are constrained by external parties, constitutional provisions or enabling legislation; ***committed:*** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority (the board of trustees); ***assigned:*** fund balances that contained self-imposed constraints of the government to be used for a particular purpose; and ***unassigned:*** fund balance of the general fund that has not been constrained for any particular purpose.

As of August 31, 2015, the District's governmental funds reported ending fund balances of $5,925,797. The unassigned fund balance of $5,758,789 or 97% of the total fund balance is available for spending at the government's discretion. Of the current ending fund balances, the following categories are recorded and primary users noted in accordance with GASB No. 54.

- $24,150 is recorded as non-spendable for inventories;
- $142,858 is Restricted; $109,133 in food service, $31,290 in debt service, and $2,435 in capital projects
- $5,758,789 is the remaining fund balance and is recorded as Unassigned.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District revised its budget numerous times during the year, resulting in overall budgeted appropriations of $13,176,671 compared to the original budget of $12,972,035, resulting in a budgeted decrease in fund balance of $204,636. Budget amendments included amendments for acquisition of computers ($190,350), and additional positions were added ($14,286). Actual expenditures were $841,546 below final budgeted amounts, resulting in a positive change in fund balance of $519,292. Some of the more notable variances are:

- Instruction was less than budgeted due to loss of personnel during the year which were not filled.
- Extracurricular activities were less than budgeted due to not using as much allotted extra duty pay, and there was less travel to state conferences, playoffs, and lower amounts of UIL expenses.
- Administration was less than budgeted due to decreases in fees and reduced travel costs; there were school administration personnel changes and a decrease in supplies and travel.
- Facilities maintenance was less than budgeted due to two other vacant positions which had not been filled, and also lower utility costs in the current year.
- Food service was less than budgeted due to reduced food costs
- Data processing services was less than budgeted due to reduced service fees and fees for equipment
- Transportation was less than budgeted due to one less filled position and reduced equipment repair costs.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2015 budget preparation is up $6,139,787 from 2015.
- General operating fund spending per student increases in the 2016 budget from $11,841 to $12,967, a 10% increase.
- The District's 2016 refined average daily attendance is expected to be 1,083; down .014% from last year.
- The total combined tax rate for fiscal year 2016 is increasing from 1.3722 to 1.466. The increased rate was enacted to increase the tax rate for debt service which will now be .296, up from the previous rate of .2022.

These indicators were taken into account when adopting the general fund budget for 2016. Expenditures as budgeted are $14,043,899, an increase of 13.85% from 2014-2015 actual expenditures. If these estimates are realized, the District's budgetary general fund balance is expected to decrease about 18.35% due to the slight decrease in enrollment, the increase in spending per student of about 10%, additional equipment and supplies for instructional purposes, facilities upgrades, increasing personnel and security, and additional funding for after school programs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office at 102 Jesus R. Cruz Street, Santa Rosa, Texas 78593.

BASIC

FINANCIAL STATEMENTS

SANTA ROSA ISD
STATEMENT OF NET POSITION
AUGUST 31, 2015

Data Control Codes		Primary Government Governmental Activities
ASSETS		
1110	Cash and Cash Equivalents	$ 6,093,014
1220	Property Taxes Receivable (Delinquent)	289,800
1230	Allowance for Uncollectible Taxes	(28,980)
1240	Due from Other Governments	429,878
1290	Other Receivables, net	10,572
1300	Inventories	24,150
	Capital Assets:	
1510	Land	305,271
1520	Buildings, Net	24,599,806
1530	Furniture and Equipment, Net	1,532,468
1000	Total Assets	33,255,979
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred Charge for Refunding	410,763
1705	Deferred Outflow Related to TRS	372,866
1700	Total Deferred Outflows of Resources	783,629
LIABILITIES		
2110	Accounts Payable	343,842
2140	Interest Payable	65,502
2150	Payroll Deductions & Withholdings	5,594
2160	Accrued Wages Payable	318,717
2180	Due to Other Governments	4,307
2190	Due to Student Groups	619
	Noncurrent Liabilities	
2501	Due Within One Year	930,287
2502	Due in More Than One Year	13,046,932
2540	Net Pension Liability (District's Share)	1,669,728
2000	Total Liabilities	16,385,528
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred Inflow Related to TRS	510,775
2600	Total Deferred Inflows of Resources	510,775
NET POSITION		
3200	Net Investment in Capital Assets	12,864,264
3820	Restricted for Federal and State Programs	133,283
3850	Restricted for Debt Service	96,792
3860	Restricted for Capital Projects	2,435
3900	Unrestricted	4,046,531
3000	Total Net Position	$ 17,143,305

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

SANTA ROSA ISD
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		1	Program Revenues 3	4	Net (Expense) Revenue and Changes in Net Position 6
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:					
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 6,761,544	$ -	$ 1,050,122	$ (5,711,422)
12	Instructional Resources and Media Services	148,536	-	47,174	(101,362)
13	Curriculum and Staff Development	148,956	-	137,040	(11,916)
21	Instructional Leadership	229,197	-	143,039	(86,158)
23	School Leadership	548,404	-	27,111	(521,293)
31	Guidance, Counseling and Evaluation Services	415,363	82,478	72,760	(260,125)
33	Health Services	181,441	-	47,398	(134,043)
34	Student (Pupil) Transportation	269,810	-	15,486	(254,324)
35	Food Services	865,877	85,171	769,884	(10,822)
36	Extracurricular Activities	976,749	31,878	21,185	(923,686)
41	General Administration	702,870	-	21,711	(681,159)
51	Facilities Maintenance and Operations	2,000,166	-	39,944	(1,960,222)
52	Security and Monitoring Services	198,635	-	9,281	(189,354)
53	Data Processing Services	227,830	-	5,532	(222,298)
61	Community Services	38,933	-	36,366	(2,567)
72	Debt Service - Interest on Long Term Debt	604,487	-	-	(604,487)
93	Payments related to Shared Services Arrangements	86,542	-	-	(86,542)
95	Payments to Juvenile Justice Alternative Ed. Prg.	995	-	-	(995)
99	Other Intergovernmental Charges	14,584	-	-	(14,584)
	[TP] TOTAL PRIMARY GOVERNMENT:	$ 14,420,919	$ 199,527	$ 2,444,033	(11,777,359)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	870,588
DT	Property Taxes, Levied for Debt Service	150,502
SF	State Aid - Formula Grants	10,098,466
GC	Grants and Contributions not Restricted	1,147,579
IE	Investment Earnings	17,768
MI	Miscellaneous Local and Intermediate Revenue	69,090
TR	Total General Revenues	12,353,993
CN	Change in Net Position	576,634
NB	Net Position - Beginning	18,458,480
PA	Prior Period Adjustment	(1,891,809)
NE	Net Position--Ending	$ 17,143,305

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

SANTA ROSA ISD
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2015

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
	ASSETS				
1110	Cash and Cash Equivalents	$ 5,742,545	$ 306,343	$ 44,126	$ 6,093,014
1220	Property Taxes - Delinquent	247,972	-	41,828	289,800
1230	Allowance for Uncollectible Taxes (Credit)	(24,797)	-	(4,183)	(28,980)
1240	Receivables from Other Governments	364,153	-	65,725	429,878
1260	Due from Other Funds	51,702	-	3	51,705
1290	Other Receivables	10,572	-	-	10,572
1300	Inventories	24,150	-	-	24,150
1000	Total Assets	$ 6,416,297	$ 306,343	$ 147,499	$ 6,870,139
	LIABILITIES				
2110	Accounts Payable	$ 23,910	$ 303,908	$ 16,024	$ 343,842
2150	Payroll Deductions and Withholdings Payable	5,594	-	-	5,594
2160	Accrued Wages Payable	305,675	-	13,042	318,717
2170	Due to Other Funds	3	-	51,702	51,705
2180	Due to Other Governments	-	-	4,307	4,307
2190	Due to Student Groups	619	-	-	619
2000	Total Liabilities	335,801	303,908	85,075	724,784
	DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable Revenue - Property Taxes	188,424	-	31,134	219,558
2600	Total Deferred Inflows of Resources	188,424	-	31,134	219,558
	FUND BALANCES				
	Nonspendable Fund Balance:				
3410	Inventories	24,150	-	-	24,150
	Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	109,133	-	-	109,133
3480	Retirement of Long-Term Debt	-	-	31,290	31,290
3490	Other Restricted Fund Balance	-	2,435	-	2,435
3600	Unassigned Fund Balance	5,758,789	-	-	5,758,789
3000	Total Fund Balances	5,892,072	2,435	31,290	5,925,797
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 6,416,297	$ 306,343	$ 147,499	$ 6,870,139

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

SANTA ROSA ISD
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
AUGUST 31, 2015

	Total Fund Balances - Governmental Funds	$	5,925,797
1	Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets was $37,328,168 and accumulated depreciation was $10,890,623. The net effect of including the capital assets is to increase net position.		26,437,545
2	Long-term liabilities including bonds payable and unamortized bond premiums are not due and payable in the current period and therefore are not reported as liabilities in the funds. Liabilities at year end include bonds payable of $11,735,000, capital leases of $1,722,967, and unamortized bond premium of $468,582. The net effect of including the 2015 long term debt and unamortized bond premiums in governmental activities is to (decrease) net position.		(13,926,549)
3	Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of $1,669,728, a Deferred Resource Inflow related to TRS in the amount of $510,775 and a Deferred Resource Outflow related to TRS in the amount of $372,866. This amounted to a decrease in Net Position in the amount of $1,807,637.		(1,807,637)
4	Deferred charges from refunding bonds are not financial resources and therefore are not reported in governmental funds. Including the deferred charges from refunding bonds which are deferred outflows of net position increases net position.		410,763
5	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue of 219,558, recognizing the liabilities associated with maturing long-term debt of accrued interest (65,502) and recognizing the liability for compensated absences (50,670). The net effect of these reclassifications and recognitions is to increase net position.		103,386
19	**Net Position of Governmental Activities**	$	17,143,305

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

SANTA ROSA ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 1,164,832	$ 1,228	$ 168,652	$ 1,334,712
5800	State Program Revenues	10,554,858	-	1,049,282	11,604,140
5900	Federal Program Revenues	1,009,236	-	1,076,699	2,085,935
5020	Total Revenues	12,728,926	1,228	2,294,633	15,024,787
	EXPENDITURES:				
	Current:				
0011	Instruction	5,705,918	-	774,156	6,480,074
0012	Instructional Resources and Media Services	93,619	-	43,583	137,202
0013	Curriculum and Instructional Staff Development	-	-	137,040	137,040
0021	Instructional Leadership	75,054	-	138,145	213,199
0023	School Leadership	506,258	-	-	506,258
0031	Guidance, Counseling and Evaluation Services	328,538	-	55,987	384,525
0033	Health Services	127,493	-	40,585	168,078
0034	Student (Pupil) Transportation	249,607	-	-	249,607
0035	Food Services	804,896	-	-	804,896
0036	Extracurricular Activities	900,119	-	-	900,119
0041	General Administration	648,426	-	-	648,426
0051	Facilities Maintenance and Operations	1,841,603	-	-	1,841,603
0052	Security and Monitoring Services	183,613	-	-	183,613
0053	Data Processing Services	276,672	-	-	276,672
0061	Community Services	-	-	36,366	36,366
	Debt Service:				
0071	Principal on Long Term Debt	244,192	-	585,000	829,192
0072	Interest on Long Term Debt	92,562	-	521,828	614,390
	Capital Outlay:				
0081	Facilities Acquisition and Construction	154,434	-	-	154,434
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	86,542	-	-	86,542
0095	Payments to Juvenile Justice Alternative Ed. Prg.	995	-	-	995
0099	Other Intergovernmental Charges	14,584	-	-	14,584
6030	Total Expenditures	12,335,125	-	2,332,690	14,667,815
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	393,801	1,228	(38,057)	356,972
	OTHER FINANCING SOURCES (USES):				
7913	Capital Leases	187,010	-	-	187,010
7915	Transfers In	724,408	-	61,519	785,927
8911	Transfers Out (Use)	(785,927)	-	-	(785,927)
7080	Total Other Financing Sources (Uses)	125,491	-	61,519	187,010
1200	Net Change in Fund Balances	519,292	1,228	23,462	543,982
0100	Fund Balance - September 1 (Beginning)	5,372,780	1,207	7,828	5,381,815
3000	Fund Balance - August 31 (Ending)	$ 5,892,072	$ 2,435	$ 31,290	$ 5,925,797

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

SANTA ROSA ISD
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

Total Net Change in Fund Balances - Governmental Funds	$	543,982
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2015 capital outlays $438,280 and debt principal payments of $829,192 is to increase the change in net position.		1,267,472
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(1,121,476)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include reclassifying the proceeds of capital leases (187,010), recognizing the change in accrued interest on long term debt of $6,424, recording the amortization of bond premiums/discounts net of amortization of deferred outflows on refundings of $3,479, and recognizing the change in the obligations for compensated absences of $6,825. The net effect of these reclassifications and recognitions is to decrease net position.		(170,282)
Certain Property tax revenues are deferred in the funds. This is the change in those amounts for the current period.		(27,234)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2014 caused the change in the ending net position to increase in the amount of $238,509. The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The amounts expensed for FY2015 were $259,378 for pension expense columns 6 - 12 from TRS data and the amounts de-expended for the net deferred resouce inflow recognized by TRS in the measurement period were $105,041. This caused a net decrease in the change in net position of $154,337. The impact of all of these is to increase the change in net position by $84,172.		84,172
Change in Net Position of Governmental Activities	$	576,634

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

SANTA ROSA ISD
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2015

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	$ 1,843	$ 42,802
Total Assets	1,843	$ 42,802
LIABILITIES		
Due to Other Governments	-	$ 10,228
Due to Student Groups	-	32,574
Total Liabilities	-	$ 42,802

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

SANTA ROSA ISD
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2015

	Private Purpose Trust Funds
Change in Net Position	-
Total Net Position - September 1 (Beginning)	1,843
Total Net Position - August 31 (Ending)	$ 1,843

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

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NOTE A – REPORTING ENTITY

This report includes the financial statements of the funds required to account for those activities, organizations and functions which are related to the Santa Rosa Independent School District (the District) and which are controlled by or dependent upon the District's governing body, the Board of Trustees. The Board of Trustees (the Board), includes seven eligible members elected at large by the qualified voters of the Santa Rosa Independent School District, the Board has the exclusive power and duty to govern and oversee the management of the public schools of the District; all powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board.

The District receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 *The Financial Reporting Entity* as amended by GASBS No. 61, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115. The District has no component units as defined by GASB Statement No. 39.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. Basis of Presentation

Government-Wide Statements:

The government-wide financial statements consist of the statement of net position and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental 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.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that compromise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

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

Capital Projects Fund. The capital projects fund of the District accounts for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and related capital asset acquisitions.

Other Governmental Funds

Additionally, the District reports the following fund type(s):

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

Special Revenue Funds. Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods.

Fiduciary Funds

Scholarship Private-Purpose Trust Fund. The Scholarship Private-Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties to award scholarships to former students of the District.

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

2. ***Measurement Focus, Basis of Accounting and Financial Statement Presentation***

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within the 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Unearned revenue is reported in the governmental funds when a potential revenue does not meet both the "measurable and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

3. ***New Accounting Standards Adopted***

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

- Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.*
- Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
- Statement No. 69, *Government Combinations and Disposals of Government Operations*
- Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

1. Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
2. Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
3. Pension plan assets are legally protected from the creditors of employers, nonemployer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

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

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

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

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

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

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

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

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

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

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

4. *Budgets*

The official school budget was prepared for adoption for required Governmental Fund Types by August 31, 2014. The budget was formally adopted by the board of school trustees at a duly advertised public meeting prior to the expenditure of funds. The budget was amended by the board of school trustees throughout the year. Expenditures may not legally exceed budgeted appropriations at the function level.

5. *Cash and Cash Equivalents*

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

6. *Investments*

Money market investments which are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances and U. S. Treasury and agency obligations are reported at amortized cost which approximates fair value.

7. *Inventory*

Inventory is valued at cost (average). The District accounts for the food inventory by using the purchase method whereby purchases of inventories are recognized as expenditures when the goods are received. The District accounts for school supply and maintenance inventory by the consumption method whereby expenditures are recognized when the inventory items are used. Reported inventories are equally offset by non-spendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

8. *Prepayments*

Prepayments are expenditures that will benefit periods beyond August 31, 2015. The District does not have any prepayments in the current year.

9. *Capital Assets*

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

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

Assets Class	Estimated Useful Lives
Buildings and Improvements	25-50
Vehicles	8
Furniture and Equipment	5-10

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

10. *Interfund Activity*

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position. Since the District does not report Business type activities, no internal balances or transfers are reported on the government wide statements.

11. *Long-term Obligations*

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts are deferred charges and amortized over the term of the related debt.

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

12. *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

13. *Compensated Absences*

Each employee shall earn state personal leave at the rate of one-half workday for each 18 workdays of employment, up to the statutory maximum of five workdays annually and is cumulative. The local leave policy is that all employees shall earn two workdays of local convenience leave per school year; two days shall be earned at the same rate as state personal leave and may be taken at the employee's discretion and are non-cumulative.

14. *Accounting System*

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by TEA in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

15. *Data Control Codes*

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

16. *Fund Balance Reporting*

GASB Statement No. 54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories. The District has inventories that are considered nonspendable.

In addition to the nonspendable fund balance, GASB Statement No. 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- **Restricted**: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

- **Committed**: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the Board of Trustees. Committed amounts cannot be used for any other purpose unless the governing board changes or lifts the constraint taking the same formal action that imposed the constraint originally.

- **Assigned**: fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the Superintendent or the Assistant Superintendent for Business Services.

- **Unassigned**: fund balance of the general fund that is not constrained for any particular purpose.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, The District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

17. *Deferred Outflows and Inflows of Resources*

Deferred outflows of resources represent the consumption of the District's net position that is applicable to a future reporting period. Deferred inflows of resources represent the District's acquisition of net position applicable to a future reporting period. The District has an accounting loss on refunding bonds which is a deferred resource outflow and also has unavailable revenues from property taxes which are deferred resource inflows under this standard. These are also deferred inflows and outflows related to the District's net pension liability.

NOTE C - DEPOSITS AND INVESTMENTS

Investment Accounting Policy

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

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the act. The District's management believes that it has complied in all material respects with the requirements of the act and the District's investment policies.

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

The Act determines the types of investments, which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, the state of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The District policy authorizes all the State allowable investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the District's investment policy, and Government Code Chapter 2257 "Collateral For Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public fund investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a $1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than 0.995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

NOTE C - DEPOSITS AND INVESTMENTS - Continued

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

Cash Deposits

At August 31, 2015, the District's carrying amount had a balance of $3,426,026 (cash, certificates of deposit, and interest-bearing savings accounts) and the bank balance was $3,689,820. In addition to these cash and cash equivalents, the District maintains $2,711,633 in a government investment pool. Except as noted below, the District's cash deposits at August 31, 2015 and during the year ended August 31, 2015 were entirely covered by FDIC insurance or by pledged collateral held in the District's name by a bank other than the pledging bank.

The District's cash deposits at August 31, 2015 are maintained primarily at Elsa State Bank of Elsa. These deposits were entirely covered by FDIC insurance or pledged collateral held by the District's agent bank, except that the District was undercollateralized in the amount of $45,588 in the month of October 2014. Except for that issue, the deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

a. Name of Bank: Elsa State Bank of Elsa, Texas.
b. Amount of bond and/or market value of securities pledged as of the date of the highest combined balance on deposit was $4,781,317.
c. Largest cash, savings and time deposit combined account balance amounted to $5,076,905 and occurred during the month of October 2014.
d. Total amount of FDIC coverage at the time of largest combined balance was $250,000.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity:

Description	CUSIP	Amount	Maturity	Days
TexPool	N/A	$2,711,633	N/A	Daily

NOTE C - DEPOSITS AND INVESTMENTS - Continued

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by the District's investment policy and the Texas Public Fund Investment Act and the actual rating as of year end for each investment:

Description	Minimum Legal Rating	Amount	Rating	Percentage
TexPool	AAA	$2,711,633	AAA	100%

Concentration of Credit Risk

The Investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act. The above mentioned investments represents 100% of total District investments.

Public Funds Investment Pools

TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United Stated Government agency securities and placed through a primary government securities dealer.

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safekeep, and invest public funds and securities more efficiently and economically. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. TexPool operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the District's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAA by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

TexPool investments consist exclusively of U. S. Government securities, repurchase agreements collateralized by U. S. government securities, and AAA-rated no-load money market mutual funds. TexPool is rated AAA by Standards & Poor's, the highest rating a local government investment pool can achieve. The weighted average maturities of the pool cannot exceed 60 days, with the maximum maturity of any investment limited to 13 months. TexPool, like its participants, are governed by the Texas Public Funds Investment act, and are in full compliance with the Act.

NOTE C - DEPOSITS AND INVESTMENTS - Continued

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

NOTE D - PROPERTY TAX

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during a 60 day period after the close of the school fiscal year. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2014 tax rate was $1.170 for maintenance and $0.202 for debt service per $100 assessed valuation.

The 2014 assessed valuation was $78,746,327. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. At August 31, 2015 outstanding taxes in the general fund and debt service fund was $247,972 and $41,828 with a corresponding allowance for doubtful accounts of $24,797 and $4,183.

NOTE E - DUE TO AND FROM OTHER GOVERNMENTS AND AGENCIES

Amounts due to and from other governments and agencies are as follows:

	Due To	Due From
General Fund		
Texas Education Agency:		
Foundation Revenues	$ -	$331,095
U. S. Department of Agriculture:		
School Breakfast Program/National Lunch Program	-	33,059
Other Governmental Funds		
Texas Education Agency:		
ESEA Title I, Part A	-	24,341
ESEA Title I, Part C	-	5,653
Gear up Grant	-	29,765
ESEA Title II, Part A	-	5,483
State Textbook Fund	4,307	482
Total due to/from other governments and agencies	$ 4,307	$429,878

NOTE F - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2015 were:

Due to	Due From	
Debt Service Fund	General Fund	$ 3
General fund	Nonmajor governmental funds	51,702
		$ 51,705

The balances resulted primarily from amounts paid out of the general fund for activities in special revenue funds for which cash has not yet been collected in the special revenue fund. All amounts are scheduled to be repaid within one year.

NOTE G – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2015, were as follows:

	Property Taxes	Other Governments	Other Receivables - Net	Due From Other Funds	Total Receivables
Governmental Activities:					
General Fund	$247,972	$364,153	$ 10,572	$ 51,702	$674,399
Nonmajor Governmental Funds	41,828	65,725	-	3	107,556
Total Governmental Activities	$289,800	$429,878	$ 10,572	$ 51,705	$781,955
Amounts not scheduled for collection during the subsequent year	$ -	$ -	$ -	$ -	$ -

Payables at August 31, 2015, were as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Governments	Due to Other Funds	Total Payables
Governmental Activities:					
General Fund	$ 23,910	$311,269	$ -	$ 3	$335,182
Capital Projects Fund	303,908	-	-	-	303,908
Nonmajor Governmental Funds	16,024	13,042	4,307	51,702	85,075
Total Governmental Activities	$343,842	$324,311	$ 4,307	$ 51,705	$724,165
Amounts not scheduled for payment during the subsequent year	$303,908	$ -	$ -	$ -	$303,908

NOTE H – CAPITAL ASSETS

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

	Balance Sept. 1, 2014	Increase	Decrease	Transfers	Balance Aug. 31, 2015
Governmental activities					
Capital assets not being depreciated:					
Land	$ 305,271	$ -	$ -	$ -	$ 305,271
Total capital assets not being depreciated	305,271	-	-	-	305,271
Capital assets being depreciated:					
Buildings and improvements	32,185,440	127,517	-	-	32,312,957
Furniture and equipment	4,399,177	310,763	-	-	4,709,940
Total capital assets being depreciated	36,584,617	438,280	-	-	37,022,897
Less accumulated depreciation:					
Building and improvements	7,067,181	645,970	-	-	7,713,151
Furniture and equipment	2,701,966	475,506	-	-	3,177,472
Total accumulated depreciation	9,769,147	1,121,476	-	-	10,890,623
Total capital assets being depreciated, net	26,815,470	(683,195)	-	-	26,132,274
Governmental activities capital assets, net	$27,120,741	$ (683,195)	$ -	$ -	$26,437,545

Depreciation was charged to the following functions:

Government Activities:	
11 – Instruction	$ 555,283
12 – Instructional Resources and Media Services	12,164
13 – Curriculum and Staff Development	12,150
21 – Instructional Leadership	18,902
23 – School Leadership	44,885
31 – Guidance, Counseling and Evaluation Services	34,092
33 – Health Services	14,902
34 – Student Transportation	21,453
35 – Food Services	70,998
36 – Cocurricular/Extracurricular Activities	79,665
41 – General Administration	57,489
51 – Plant Maintenance and Operations	161,692
52 – Security and Monitoring Services	15,972
53 – Data Processing Services	18,604
61 – Community Services	3,225
	$1,121,476

NOTE I - LONG-TERM OBLIGATIONS

Long–term obligations include bonds, capital leases and compensated absences. Changes in long-term obligations for the year ended August 31, 2015 are as follows:

Governmental Activities	Beginning Balance 09/01/14	Increase	Decrease	Ending Balance 08/31/15	Due Within One Year
General Obligation Bonds					
Bond Series 2001	$ 115,000	$ -	$(115,000)	$ -	$ -
Bond Series 2007 Refunding	8,210,000	-	(370,000)	7,840,000	510,000
Bond Series 2008	3,995,000	-	(100,000)	3,895,000	105,000
Total general obligation bonds	12,320,000	-	(585,000)	11,735,000	615,000
Premium on issuance – Refunding					
Bond Series 2007	484,062	-	(28,474)	455,588	-
Premium on issuance					
Bond Series 2008	13,559	-	(565)	12,994	-
Capital leases	1,780,149	187,010	(244,192)	1,722,967	315,287
Compensated absences	57,495	64,103	(70,928)	50,670	-
Total general long term debt	14,655,265	251,113	(929,159)	13,977,219	930,287
Net pension liability	1,966,987	-	(297,259)	1,669,728	-
Total governmental activities	$16,622,252	$251,113	$(1,226,418)	$15,646,947	$930,287

General Obligation Bonds:

On September 27, 2001, the District issued $4,100,000 in Unlimited Tax School Building Bonds, Series 2001. The purpose of the bond issuance was to construct and equip a new elementary school and to pay the related issuance costs. The bonds mature or are subject to mandatory redemption prior to maturity, on August 15 in each of the years and in the amounts shown on the Official Bond Statement. Interest on the $4,100,000 accrued from September 27, 2001, and is payable February 15 and August 15 of each year commencing August 15, 2002. Furthermore, interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and the interest rate ranges from 4.30% - 5.80%. Principal and interest on the bonds is payable to U. S. National Bank Association (Paying Agent/Registrar). All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal and interest on all bonds. Additionally, the payment of the bonds is guaranteed by the Permanent School Fund of Texas. During the year ended August 31, 2015, these bonds matured and have been paid in full. $ -

NOTE I - LONG-TERM OBLIGATIONS - Continued

In December 2007, the District issued $7,340,000 in current interest serial bonds with a 4% interest rate, $1,685,000 in current interest term bonds with interest rates ranging from 4.125% to 4.250% and $129,998 in capital appreciation bonds to advance refund $9,154,998 outstanding of Unlimited Tax School Building Bonds, Series 1997, 2000 and 2001 (*"refunded bonds"*) with interest rates of 4.3% to 7%. The current interest serial bonds mature in the years 2008 through 2027 in installments ranging from $235,000 to $660,000. The current interest term bonds of $955,000 and $730,000 mature on August 15, 2029 and August 15, 2031, respectively. The capital appreciation bonds mature in the years 2010 to 2013 in installments ranging from $230,000 to $355,000. The net proceeds were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds and to pay the costs of issuance of the bonds. As a result, the refunded bonds are considered to be defeased and the liability for those bonds, has been removed from the long-term debt account.	$ 7,840,000
On September 1, 2008, the District issued $4,545,000 in Unlimited Tax School Building Bonds, Series 2008. The purpose of the bond issuance was to remodel and equip the old high school and to pay the related issuance costs. The bonds mature or are subject to mandatory redemption prior to maturity, on August 15 in each of the years and in the amounts shown in the Official Bond Statement. Interest on the $4,545,000 accrued from September 1, 2008, and is payable February 15 and August 15 of each year commencing February 15, 2009. Furthermore, interest is calculated on the basis of a 360-day year consisting of twelve 30-day months and the interest rate ranges from 3.125% - 5.250%. Principal and interest on the bonds is payable to Regions Bank (Paying Agent/Registrar). All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal and interest on all bonds. Additionally, the payment of the bonds is guaranteed by the Permanent School Fund of Texas.	3,895,000
Total general obligation bonds	$11,735,000

Capital Leases:

During the year ended August 31, 2011, the District entered into two capital leases for an energy management system with TAC Americas, Inc. (TAC). The capital leases are payable in 30 semi-annual installment payments. The lease is secured by the components of the energy management system (primarily air conditioning units and fluorescent lights) and matures in September 1, 2024. TAC has guaranteed that the annual payments over the 15 year life of the contracts will be funded by energy costs reductions. If the energy cost savings do not equal the payment, TAC will fund the difference.	$ 1,266,748

NOTE I - LONG-TERM OBLIGATIONS - Continued

During the year ended August 31, 2012, the District entered into a capital lease for an energy conservation system with Government Capital Corporation. The capital lease is payable in 20 semi-annual installment payments. The lease is secured by the components of the energy management system (primarily air conditioning units and fluorescent lights) and matures on March 1, 2021.	$ 78,183
During the year ended August 31, 2013, the District entered into a capital lease for computer lab equipment which is operated as one system in a computer lab. Payments are due in 3 annual installments. The lease is secured by the lab equipment and matures on September 1, 2015.	68,759
During the year ended August 31, 2014, the District entered into a capital lease for computer equipment. Payments are due in 3 annual installments. The lease is secured by the lab equipment and matures on September 1, 2016.	122,267
During the year ended August 31, 2015, the District entered into a capital lease for computer equipment. Payments are due in 3 annual installments. The lease is secured by the lab equipment and matures on September 1, 2017.	187,010
Total capital leases	$1,722,967

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

Year Ending	Bonds Payable		Capital Lease		Total
August 31,	Principal	Interest	Principal	Interest	Requirement
2016	$ 615,000	$ 498,113	$ 315,287	$ 88,120	$ 1,516,520
2017	640,000	473,906	248,058	72,880	1,434,844
2018	665,000	448,700	192,854	62,252	1,368,806
2019	690,000	422,513	133,954	54,647	1,301,113
2020	725,000	394,913	141,878	46,723	1,308,514
2021-2025	3,165,000	1,548,820	690,936	103,619	5,508,375
2026-2030	3,190,000	929,648	-	-	4,119,648
2031-2035	1,275,000	375,603	-	-	1,650,603
2036-2038	770,000	82,163	-	-	852,163
	$11,735,000	$5,174,378	$1,722,967	$428,241	$19,060,586

NOTE J - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Capital Projects	Other Funds	Total Governmental Funds
Property taxes	$ 892,724	$ -	$155,600	$1,048,324
Food sales	83,370	-	-	83,370
Investment income	13,920	1,228	2,620	17,768
Penalties, interest and other tax-related income	58,661	-	10,432	69,093
Co-curricular student activities	31,878	-	-	31,878
Other	84,279	-	-	84,279
Total government activities	$1,164,832	$ 1,228	$168,652	$1,334,712

NOTE K – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Unavailable revenues from property taxes in the general fund and the debt service fund at August 31, 2015 were $188,424 and $31,134 respectively.

At the government-wide financial statements (Exhibit A-1), the District reports cumulative deferred charges on refundings as a Deferred Outflows of Resources in the amount of $410,763. Deferred inflows/outflows of resources related to pension liabilities are $510,775 and $372,866, respectively.

NOTE L - GENERAL FUND FEDERAL SOURCE REVENUES

Programs or Source	CFDA Number	Amount
School Breakfast Program	10.553	$ 269,610
National School Lunch Program	10.555	457,015
USDA – Donated Commodities	10.565	38,785
Indirect Costs	Various	139,687
SHARS	-	100,239
National School Lunch Program Equipment Assistance	10.579	3,900
		$1,009,236

NOTE M - CONTINGENT LIABILITIES

The District participates in a number of grant programs funded by State and Federal Agencies. These programs are subject to compliance audits by the grantor agencies or their representatives.

Audits of all of these programs for the year ended August 31, 2015 have not been conducted. Accordingly, the District's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

The District is a party to various legal actions, none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingencies.

NOTE N – DEFINED BENEFIT PENSION PLAN

Plan Description

The District participates in a cost-sharing multiple-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.

NOTE N – DEFINED BENEFIT PENSION PLAN - Continued

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. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

Contributions

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

NOTE N – DEFINED BENEFIT PENSION PLAN - Continued

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

	2014	2015
Member	6.4%	6.7%
Non-employer contributing entity (state)	6.8%	6.8%
Employer	6.8%	6.8%

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

Employer Contributions	$158,480
Member Contributions	472,687
Nonemployer contributing agency (state) Contributions	361,434

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all 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.

NOTE N – DEFINED BENEFIT PENSION PLAN - Continued

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.

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:

NOTE N – DEFINED BENEFIT PENSION PLAN – Continued

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

NOTE N – DEFINED BENEFIT PENSION 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 In Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability	$2,983,703	$1,669,728	$687,119

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

At August 31, 2014, the District reported a liability of $1,669,728 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$1,669,728
State's proportionate share that is associated with the District	3,816,143
Total	$5,485,871

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 the employer's proportion of the collective net pension liability was .0062510%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2013. The Notes to the Financial Statements for August 31, 2014 for TRS stated that the change in proportion was 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 09/01/2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

NOTE N – DEFINED BENEFIT PENSION PLAN – Continued

For the year ended August 31, 2015, the District recognized pension expense of $352,795 and revenue of $352,795 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 25,823	$ -
Changes in actuarial assumptions	108,534	510,337
Difference between projected and actual investment earnings		
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	438
Total net amounts per August 31, 2014 measurement date	134,357	510,775
Contributions paid to TRS subsequent to the measurement date	238,509	-
Total	$372,866	510,775

The $238,509 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:

Pension Plan Years Ended August 31:	Pension Expense Amount
2015	$(104,992)
2016	(104,992)
2017	(104,992)
2018	(104,992)
2019	22,592
Thereafter	20,958

NOTE O - POSTEMPLOYMENT HEALTH BENEFITS FOR PUBLIC SCHOOL EMPLOYEES

Plan Description. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Texas Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care.

That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy. Funding for the free basic coverage is provided by the program based upon public school district payroll. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. 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 0.5% and 0.65% of public school payroll, respectively, for fiscal year 2014 and 1.0% and 0.65% for fiscal years 2013 and 2012. School districts contribute a percentage of payroll set at 0.55% for fiscal years 2014, 2013 and 2012. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2015, 2014, and 2013, the State's contributions to TRS-Care were $9,648, $12,976 and $9,198, respectively, the active member contributions were $46,960, $48,066 and $48,322 respectively, and the school district's contributions were $39,737, $40,616 and $41,042, respectively, which equaled the required contributions each year.

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 TRS-Care on behalf of the District were $31,112, $20,299 and $20,601, respectively.

NOTE P - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2015, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year. In addition, there were no settlements exceeding insurance for each of the past three fiscal years.

NOTE P - RISK MANAGEMENT - Continued

Health Coverage

Effective September 1, 2003, the District entered into a health insurance contract with TRS-Active Care. These plans are fully-funded, pure premium plans for which the District pays premiums of $240, respectively per month per employee to the plan, and the employees, at their option, may authorize payroll withholdings to pay premiums for dependents. Terms of coverage and premium costs are included in the contractual provisions.

The determination of such claims and expenses and the appropriateness of the related liability is continually reviewed and updated. It is reasonably possible that the accrued estimated liability for self-insured claims may need to be revised in the near term.

Workers' Compensation Insurance

During the year ended August 31, 2015, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund ("the Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All districts participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the District is responsible for a certain amount of claims liability as outlined on the District's Contribution and Coverage Summary document. After the District's deductible has been met, the Fund is responsible for additional claims.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of $1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2013, the Fund carries a discounted reserve of $56,905,750 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2015, member districts will have no additional liability beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of Independent auditors to conduct an independent financial audit after the close of each plan year on August 31st and is approved by the Fund's Board of Trustees in February the following year. The Fund's audited financial statements as of August 31, 2015, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

NOTE Q - JOINT VENTURE - SHARED SERVICE ARRANGEMENTS

The District participates in a shared service arrangement with the Regional Service Center ("Region One"). Those programs provided through the shared services include the Teacher and Principal Training through the ESEA Title II, Part A. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Region One Education Service Center, 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 Santa Rosa 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		
5929	Federal revenue distributed by TEA	$73,350
5930		
	Total revenue	$73,350
Expenditures		
6100	Payroll costs	$12,030
6200	Purchased and contracted services	53,356
6300	Supplies and materials	705
6400	Miscellaneous operating expenses	7,259
	Total expenditures	$73,350

NOTE R - COMPLIANCE AND ACCOUNTABILITY

Finance-Related Legal and Contractual Provision

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

School districts in Texas must comply with constitutional provisions, statutory laws, public policy established by common law, Title 19 of the Texas Administrative Code, and with regulations of the Texas Education Agency.

As noted in Note C, the District's deposits were not fully secured at all times during the year.

NOTE S – FUND BALANCES

The District has classified its fund balances according to GASB Statement No. 54, with the following hierarchy:

Nonspendable: The District has inventories of $24,150.

Spendable: The District has classified spendable fund balances as *Restricted, Committed, Assigned* and *Unassigned* and considered each to have been spent when expenditures are incurred.

Restricted for Food Service, Federal and State Programs, Debt Service and Capital Projects – Federal laws, Texas statutes and local ordinances require that certain revenues be specifically designed for the purposes of food service, federal and state programs, debt service, and capital projects. The funds have been included in the restricted category of fund balance.

Unassigned – the unassigned fund balance has no constraints.

	General Fund	Other Governmental Funds: Capital Projects	Other Governmental Funds: Other Funds	Total Governmental Funds
Fund balances				
Nonspendable				
Inventories				
Food service	$ 24,150	$ -	$ -	$ 24,150
Restricted				
Food service	109,133	-	-	109,133
Debt service	-	-	31,290	31,290
Capital projects	-	2,435	-	2,435
Unassigned	5,758,789	-	-	5,758,789
	$5,892,072	$ 2,435	$ 31,290	$5,925,797

NOTE T – PRIOR PERIOD ADJUSTMENT

During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the District must assume their proportionate share of the Net Pension Liability of the Teacher Retirement System of Texas. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior adjustment is $(1,891,809). The restated beginning net position is $16,566,671.

REQUIRED SUPPLEMENTARY INFORMATION

SANTA ROSA ISD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 1,130,593	$ 1,130,593	$ 1,164,832	$ 34,239
5800	State Program Revenues	10,374,661	10,374,661	10,554,858	180,197
5900	Federal Program Revenues	1,138,300	1,138,300	1,009,236	(129,064)
5020	Total Revenues	12,643,554	12,643,554	12,728,926	85,372
	EXPENDITURES:				
	Current:				
0011	Instruction	5,630,592	5,835,227	5,705,918	129,309
0012	Instructional Resources and Media Services	97,241	97,241	93,619	3,622
0021	Instructional Leadership	79,910	79,910	75,054	4,856
0023	School Leadership	524,697	524,697	506,258	18,439
0031	Guidance, Counseling and Evaluation Services	336,592	336,592	328,538	8,054
0033	Health Services	132,439	132,439	127,493	4,946
0034	Student (Pupil) Transportation	326,990	326,990	249,607	77,383
0035	Food Services	871,150	871,150	804,896	66,254
0036	Extracurricular Activities	1,023,767	1,023,767	900,119	123,648
0041	General Administration	720,419	720,419	648,426	71,993
0051	Facilities Maintenance and Operations	2,049,499	2,049,499	1,841,603	207,896
0052	Security and Monitoring Services	190,046	190,046	183,613	6,433
0053	Data Processing Services	358,677	358,677	276,672	82,005
	Debt Service:				
0071	Principal on Long Term Debt	345,016	260,363	244,192	16,171
0072	Interest on Long Term Debt	-	84,654	92,562	(7,908)
	Capital Outlay:				
0081	Facilities Acquisition and Construction	155,000	155,000	154,434	566
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	100,000	100,000	86,542	13,458
0095	Payments to Juvenile Justice Alternative Ed. Prg.	15,000	15,000	995	14,005
0099	Other Intergovernmental Charges	15,000	15,000	14,584	416
6030	Total Expenditures	12,972,035	13,176,671	12,335,125	841,546
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(328,481)	(533,117)	393,801	926,918
	OTHER FINANCING SOURCES (USES):				
7913	Capital Leases	-	190,350	187,010	(3,340)
7915	Transfers In	-	846,268	724,408	(121,860)
8911	Transfers Out (Use)	-	(907,787)	(785,927)	121,860
7080	Total Other Financing Sources (Uses)	-	128,831	125,491	(3,340)
1200	Net Change in Fund Balances	(328,481)	(404,286)	519,292	923,578
0100	Fund Balance - September 1 (Beginning)	5,372,780	5,372,780	5,372,780	-
3000	Fund Balance - August 31 (Ending)	$ 5,044,299	$ 4,968,494	$ 5,892,072	$ 923,578

EXHIBIT G-2

SANTA ROSA ISD

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

TEACHER RETIREMENT SYSTEM OF TEXAS

FOR THE YEAR ENDED AUGUST 31, 2015

		2015
District's Proportion of the Net Pension Liability (Asset)		0.006251%
District's Proportionate Share of Net Pension Liability (Asset)	$	1,669,728
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District		3,816,143
Total	$	5,485,871
District's Covered-Employee Payroll	$	7,385,729
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll		22.61%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2014 - the period from September 1, 2013 - August 31, 2014.

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

EXHIBIT G-3

SANTA ROSA ISD
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2015

	2015
Contractually Required Contribution	$ 246,192
Contribution in Relation to the Contractually Required Contribution	(238,509)
Contribution Deficiency (Excess)	$ 7,683
District's Covered-Employee Payroll	$ 7,346,222
Contributions as a Percentage of Covered-Employee Payroll	3.35%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 - August 31, 2014.

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

Stewardship, compliance, and accountability

I. Budgetary information

The Board adopts an "appropriated budget" on a basis consistent with GAAP for the general fund and debt service fund. At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these two funds.

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

- Prior to August 20 for a fiscal year start date of September 1, the District prepares a budget based on the modified zero-based budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.

- After one or more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.

- Prior to August 31st for a fiscal year start date of September 1, the Board legally adopts the budget for the general fund and debt service fund.

- After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.

- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate administrator. Transfers may be authorized within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year-end.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments.

One instance was noted in which expenditures exceeded budgeted amounts at the functional level as detailed in the General Fund – Budgetary comparison Schedule (Exhibit G-1). Function 0072 interest on long-term debt exceeded budgeted amounts by $7,908. This was because amounts budgeted for interest on capital leases was incorrectly included in capital lease principal (Function 71). In total, Functions 71 and 72 do not exceed budgeted amounts.

II. Pension

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

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

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OTHER SUPPLEMENTARY INFORMATION

SANTA ROSA ISD
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2015

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2006	and prior years	Various	Various	$ Various
2007		1.460000	0.160000	59,748,334
2008		1.330000	0.222000	60,091,791
2009		1.040000	0.292000	62,692,177
2010		1.060000	0.233000	69,940,046
2011		1.040000	0.332220	68,070,681
2012		1.170000	0.202200	67,645,946
2013		1.170000	0.202200	69,683,751
2014		1.170000	0.202200	71,342,643
2015	(School year under audit)	1.170000	0.202200	78,746,327
1000	TOTALS			

(10) Beginning Balance 9/1/2014	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2015
$ 45,694	$ -	$ 3,069	$ 245	$ (667)	$ 41,713
8,910	-	390	47	(588)	7,885
8,185	-	312	67	(498)	7,308
11,443	-	2,011	565	50	8,917
16,514	-	3,616	795	(455)	11,648
25,842	-	7,295	2,330	(511)	15,706
31,430	-	11,447	1,979	(445)	17,559
50,326	-	19,092	3,299	(329)	27,606
118,095	-	57,684	9,968	143	50,586
-	1,055,163	808,929	139,800	(5,562)	100,872
$ 316,439	$ 1,055,163	$ 913,845	$ 159,095	$ (8,862)	$ 289,800

SANTA ROSA ISD
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 165,444	$ 165,444	$ 168,652	$ 3,208
5800	State Program Revenues	899,865	899,865	900,119	254
5020	Total Revenues	1,065,309	1,065,309	1,068,771	3,462
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long Term Debt	585,000	585,000	585,000	-
0072	Interest on Long Term Debt	521,828	521,828	521,828	-
6030	Total Expenditures	1,106,828	1,106,828	1,106,828	-
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(41,519)	(41,519)	(38,057)	3,462
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	61,519	61,519	61,519	-
1200	Net Change in Fund Balances	20,000	20,000	23,462	3,462
0100	Fund Balance - September 1 (Beginning)	7,828	7,828	7,828	-
3000	Fund Balance - August 31 (Ending)	$ 27,828	$ 27,828	$ 31,290	$ 3,462

FEDERAL AWARDS SECTION

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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 *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Santa Rosa Independent School District

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 the Santa Rosa Independent School District, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise Santa Rosa Independent School District's basic financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Rosa Independent School 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*.

In addition, we noted certain other matters that we reported to management of Santa Rosa Independent School District in a separate letter dated December 14, 2015.

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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.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
December 14, 2015

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

To the Board of Trustees
Santa Rosa Independent School District

Report on Compliance for Each Major Federal Program

We have audited Santa Rosa Independent School District's 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 Santa Rosa Independent School District's major federal programs for the year ended August 31, 2015. Santa Rosa Independent School 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Santa Rosa Independent School 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 Santa Rosa Independent School 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 Santa Rosa Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Santa Rosa Independent School 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.

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Report on Internal Control over Compliance

Management of Santa Rosa Independent School 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 Santa Rosa Independent School 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 Santa Rosa Independent School 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a significant deficiency.

Santa Rosa Independent School District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Santa Rosa Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
December 14, 2015

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SANTA ROSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

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

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiencies identified that are not considered to be material weakness(es)?	__X__ yes	_____ none reported
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	_____ yes	__X__ no

Identification of major programs:

CFDA Number(s)	*Name of Federal Program or Cluster*
84.010	Title I Part A, Improving Basic Programs

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__ yes	_____ no

SECTION II - FINANCIAL STATEMENT FINDINGS

PROGRAM DESCRIPTION	DESCRIPTION

No findings were reported in the current year.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

PROGRAM DESCRIPTION	DESCRIPTION
2015-001	
ESEA, Title I, Part A Improving Basic Programs – CFDA 84.010	Substitute Semi-Annual Time and Effort Certifications
Criteria:	Semi-annual certifications should accurately document the correct federal programs in which an employee works so as to support the charges being posted for that employee to that program.
Condition Found:	One semi-annual certification was completed under the substitute system of time and effort certification process for employees supported by multiple cost objectives where the employee was being paid with Title I, Part A funds but the certification did not indicate that employee was supported by Title I, Part A funding. The certification documented the employees as being supported by both local funds and migrant funds.
Context:	Upon further investigation including interviews with the staff and other paperwork related to this employee's responsibilities, this employee does in fact work only on Title I, Part A or Migrant funded activities. The semi-annual certification form appears to have been filled out incorrectly due to human error and did not reflect the reality of the employee's day to day job duties. The certification had been signed by the employee and a supervisor but the error was not corrected.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS - Continued

PROGRAM DESCRIPTION	DESCRIPTION
Effect:	The process of tying in the actual funding of employees in the finance department with the documentation being filled out and signed by employees and supervisors does not appear to be working properly. If this is not corrected, errors coding employees to specific cost objectives could be made which would result in either the spending of local funds for which grant funds are available or the inappropriate spending of grant funds where they should not be spent.
Recommendation:	We recommend the District further educate all employees involved in the certification process so that they are fully aware of the purpose of the certification form and how their job is funded. We also recommend that after each period in which certifications are obtained, a staff member in finance who is not involved in the certification process review the payroll coding related to certifications received to verify they are correct.

PROGRAM DESCRIPTION	STATUS OF PRIOR YEAR FINDING/NEW COMPLIANCE
Schedule Reference Number: (14-1)	**Security of Deposits** In October of 2014, the District was inadequately secured by FDIC insurance and pledged collateral. However this occurred prior to issuance of the prior year finding 14-1. No more instances of this matter are noted and the corrective action from the prior year appears properly implemented. No additional corrective action is deemed necessary.

PROGRAM DESCRIPTION	CORRECTIVE ACTION PLAN
Schedule Reference Number: (2015-001)	**Substitute Semi-Annual Time and Effort Certifications**
Corrective Action Plan:	This issue occurred in 2015 which was the year the District transitioned to substitute time and effort certifications. This was a new process for staff and this item was unfortunately completed incorrectly. The District has and will continue to provide additional training to employees involved in the certification process and also monitor the certification process regularly.
Contact Person:	Hilda Rendon Business Manager
Implementation Time Frame:	Within the next fiscal year.

SANTA ROSA ISD
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2015

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through Region One ESC			
GEAR UP	84.334S		$ 71,212
Total Passed Through Region One ESC			$ 71,212
Passed Through State Department of Education			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101031914	$ 9,120
ESEA, Title I, Part A - Improving Basic Programs	84.010A	15610101031914	736,415
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101031914	9,717
Total CFDA Number 84.010A			755,252
ESEA, Title I, Part C - Migratory Children	84.011	14615001031914	12,133
ESEA, Title I, Part C - Migratory Children	84.011	15615001031914	119,039
ESEA, Title I, Part C - Migratory Children	84.011	16615001031914	3,325
Total CFDA Number 84.011			134,497
Career and Technical - Basic Grant	84.048	15420006031914	25,437
Title III, Part A - English Language Acquisition	84.365A	15671001031914	16,952
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	15694501031914	73,350
Total Passed Through State Department of Education			$ 1,005,488
TOTAL U.S. DEPARTMENT OF EDUCATION			$ 1,076,700
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through the State Department of Agriculture			
*School Breakfast Program	10.553		$ 313,701
*National School Lunch Program - Cash Assistance	10.555		412,924
*National School Lunch Prog. - Non-Cash Assistance	10.555		38,785
Total CFDA Number 10.555			451,709
Total Child Nutrition Cluster			765,410
Equipment Assistance Grant	10.579		3,900
Total Passed Through the State Department of Agriculture			$ 769,310
TOTAL U.S. DEPARTMENT OF AGRICULTURE			$ 769,310
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,846,010

*Clustered Programs

SANTA ROSA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2015

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Santa Rosa Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

NOTE B - PROGRAM REPORTING

SHARS and $84,710 of indirect cost are accounted for in the general fund. The National School Lunch Program, School Breakfast Program Commodity Supplemental Food Program, and Summer Feeding Program are accounted for in the General Fund. Expenditures are not specifically attributable to these revenues and are shown on this schedule in an amount equal to revenue for balancing purposes only.

Reconciliation

Amount of federal revenues Exhibit C-3	$2,085,935
Less amounts not considered to be federal awards, excluded on the Schedule of Expenditures of Federal Awards:	
School Health and Related Service Program (SHARS)	100,239
Indirect costs	139,686
Total expenditures of federal awards, per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	$1,846,010

SCHOOLS FIRST QUESTIONNAIRE

Santa Rosa ISD — Fiscal Year 2015

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?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	0
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	$1,669,728
SF13	Pension Expense (6147) at fiscal year-end.	$154,337

MEMORANDUM OF ADVISORY COMMENTS

SANTA ROSA INDEPENDENT SCHOOL DISTRICT

August 31, 2015

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS
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To the Board of Trustees and Management
Santa Rosa Independent School District

In planning and performing our audit of the financial statements of the Santa Rosa Independent School District for the year ended August 31, 2015, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report, dated December 14, 2015, on the financial statements of the Santa Rosa Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the audit committee, management, the Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
December 14, 2015

COMMENTS AND OBSERVATIONS

Consolidate Fixed Asset Schedules

Currently there are several different schedules which are used to accumulate the list of assets and associated depreciation for the District. This can makes reconciling and rolling forward the asset listing a more burdensome task than it needs to be, and a full list of asset details is not available in one list. This appears to be due to the fact that a method of tracking fixed assets and depreciation was implemented several years ago but prior information was not brought up to date in that software. We recommend consolidating the asset detail information into this software so all information is readily available and amounts in the financial report can easily be tied to a detail schedule of assets and depreciation.

Funding Sources in Campus Improvement Plans

While auditing federal programs and reviewing campus improvement plans, it was noted that a certain program in which the District participates in conjunction with Texas State Technical College (TSTC) for summer school, was identified in the improvement plan as being funded with local funding sources. However, this program is being funded by federal funds and is in fact an allowable activity and cost under Title I, Part A schoolwide program. We recommend that the campus improvement plans be written so that the funding sources identified in them accurately reflect the reality of what funding is to be used.

INFORMATIONAL COMMENTS – NEW ACCOUNTING AND COMPLIANCE STANDARDS

CHANGES IN THE SINGLE AUDIT PROCESS AND RELATED COMPLIANCE REQUIREMENTS

The Office of Management and Budget (OMB) has issued new guidance affecting the single audit process and the compliance requirements related to federal grants. Included in these changes is an increase in the threshold determining when a single audit is required. Beginning with fiscal year 2016, a single audit will be required when federal expenditures exceed $750,000. It is important to note, however, that even if a single audit is not required, this does not relieve the District of its need to maintain adequate controls over compliance and be compliant with OMB and grantor requirements.

The new guidance, which is in Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), supersedes and streamlines eight existing OMB Circulars (OMB Circulars A-21, A-87, A-89, A-102, A-110, A-122, A-133 and A-50), will result in changes to requirements and standards relating to indirect costs, time and effort reporting, and administrative requirements. These requirements must be implemented for all new federal awards or funding increments to existing federal awards made after December 26, 2014. Management should be aware of the need to determine what guidance and requirements are applicable to specific awards, as the effective date could cause some grants to effectively have two different sets of requirements. We recommend that management begin to study and evaluate the impact of these changes for purposes of its grant management and compliance oversight