

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2015

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2015

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CERTIFICATE OF BOARD

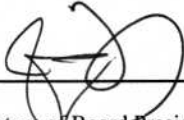
Santa Gertrudis Independent School District
Name of School District

Kleberg
County

137-904
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's reports of the above named school district were reviewed and 1 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
28 day of January, 2016.

C. Montalvo
Signature of Board Secretary


Signature of Board President

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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Independent Auditor's Report

UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Board of Trustees
Santa Gertrudis Independent School District
P.O. Box 592
Kingsville, Texas 78364

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for Santa Gertrudis Independent School District (the "District") as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Santa Gertrudis Independent School District as of August 31, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note Y to the financial statements, the District adopted new accounting guidance, GASB Statement No. 68, Accounting and Reporting for Pensions. My opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

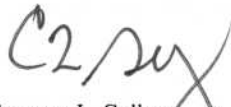
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Budgetary Comparison Schedule for the General Fund, Schedule of District's Proportionate Share of the Net Pension Liability (TRS) and Schedule of District Contributions to TRS as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedure to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the TEA required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements and the TEA required schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

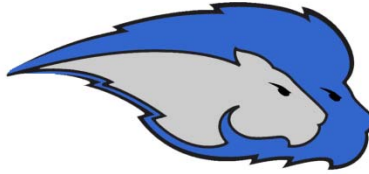
In accordance with *Government Auditing Standards*, I have also issued my report dated January 27, 2016, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Cameron L. Gulley
Certified Public Accountant

January 27, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Santa Gertrudis Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2015. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one activity type:

Governmental activities - All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these services.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

Governmental funds - All of the District's basic services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 16 and 17. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Total net position of the District's governmental activities increased from \$9,541,485 to \$10,150,885. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from \$3,582,183 to \$3,932,959 at August 31, 2015 due to current year surpluses offset by implementation of new accounting pronouncement GASB 68 requiring accrual at the local level for the District's proportionate share of the unfunded net pension liability of the Teacher Retirement System of Texas (the "TRS"). Current assets (primarily consisting of cash and receivables) increased by \$1,092,780. Capital assets decreased by \$123,929 due to current year depreciation expense in excess of asset additions. Long-term liabilities increased by \$404,588 due to principal retirements (net of GASB 68 net pension liability increase) during the year. Other liabilities of the District decreased by \$95,516 due to changes in ending accrued payroll liabilities. Deferred resource inflows and outflows are categories which mainly deal with charges related to GASB 68.

Table I Santa Gertrudis Independent School District Net Position			
	Governmental Activities 2015	Governmental Activities 2014	Variance Increase/ (Decrease)
Current and other assets	\$ 5,155,712	\$ 4,062,932	\$ 1,092,780
Capital assets	10,968,345	11,092,274	(123,929)
Deferred resource outflows related to TRS	166,686	0	166,686
Total assets and deferred resource outflows	16,290,743	15,155,206	1,135,537
Long-term liabilities	5,679,588	5,275,000	404,588
Other liabilities	243,205	338,721	(95,516)
Deferred resource inflows related to TRS	217,065	0	217,065
Total liabilities and deferred resource inflows	6,139,858	5,613,721	526,137
Net position:			
Net investment in capital assets	5,985,326	5,803,295	182,031
Restricted for debt service	232,600	156,007	76,593
Unrestricted	3,932,959	3,582,183	350,776
Total net position	\$ 10,150,885	\$ 9,541,485	\$ 609,400

Table II Santa Gertrudis Independent School District Changes in Net Position			
	Governmental Activities 2015	Governmental Activities 2014	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	\$ 1,411,103	\$ 1,698,992	\$ (287,889)
Operating grants and contributions	589,075	656,127	(67,052)
General Revenues:			
Maintenance and operations taxes	2,029,651	1,884,135	145,516
Debt service taxes	634,883	627,501	7,382
State aid - formula grants	4,965,183	4,084,886	880,297
Investment earnings	2,040	1,477	563
Miscellaneous	(29,801)	12,161	(41,962)
Total Revenues	9,602,134	8,965,279	636,855

Table II - Continued Santa Gertrudis Independent School District Changes in Net Position			
	Governmental Activities 2015	Governmental Activities 2014	Variance Favorable/ (Unfavorable)
Expenses:			
Instruction, curriculum and media services	3,889,817	3,686,114	(203,703)
Instructional and school leadership	627,341	456,783	(170,558)
Student support services	528,152	449,065	(79,087)
Child nutrition	410,152	378,592	(31,560)
Extracurricular activities	726,985	543,637	(183,348)
General administration	423,095	621,966	198,871
Plant maintenance, security & data processing	1,547,266	1,256,918	(290,348)
Community service	24,224	9,727	(14,497)
Debt service	170,055	178,245	8,190
Other intergovernmental charges	64,168	59,233	(4,935)
Total Expenses	8,411,255	7,640,280	(770,975)
Increase in Net Position	1,190,879	1,324,999	(134,120)
Net Position - beginning of year	9,541,485	8,216,486	1,324,999
Prior period adjustment	(581,479)	0	(581,479)
Net Position - end of year	\$ 10,150,885	\$ 9,541,485	\$ 609,400

The District's total revenues increased by \$636,955. Most of the revenue increase was driven by a 7.5% increase in enrollment for the year. The enrollment growth fueled an increase in state aid by over \$880,000. Additionally, property tax valuations were approximately 8% more than last year which raised tax revenues for the year by a net of \$150,000. Operating grants were less because of reduced federal funding.

Overall, expenses of the District increased by \$770,975. The higher expenses were a result of increased instructional expenses related to the sharp rises in student population. Increases in payroll costs related to instruction, instructional and school leadership, student support services, child nutrition and extracurricular activities all were because of payroll cost increases as a result of the increased student enrollments over the past two years. Plant maintenance expenses were higher due to increased facilities utilization costs at Poteet Hall on the campus of Texas A&M Kingsville. General administration expenses were lower due to re-allocation of payroll expenses to other functional categories (primarily to data processing costs).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$4,915,489, an increase of \$1,190,667 from last year's fund balance of \$3,724,822. The primary reasons parallel the items described in the previous section with the exception of the debt principal payments classified as expenditures in the fund level financial statements and depreciation classified as an expense in the government-wide financial statements. See Exhibit C-2 for a reconciliation of the fund balances to net position highlighted above.

Over the course of the year, the Board of Trustees revised the District's budget numerous times. The most significant amendments were to instruction for additional payroll costs, student transportation for capital expenditures, and facilities maintenance and operations for capital improvements.

The District's General Fund balance of \$4,626,315 reported on pages 14 and 37 differs from the General Fund's budgetary fund balance of \$2,747,885 reported in the budgetary comparison schedule on page 37. This is principally due to revenues being approximately \$1.3 million more than budgeted due to higher enrollment and prior year state aid payments.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2015, the District had \$14,252,122 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents an increase of \$260,302 (net of dispositions) from last fiscal year. The following additions were made during the year:

Portable building and improvements	\$ 44,734
2016 Bluebird buses (2)	183,156
2015 Chevrolet suburban	35,945
HVAC improvements	64,913
Band instruments	28,710
Computer servers	18,292
Campus security system	21,025
Other equipment and improvements	40,937
Total Asset Additions	\$ 437,712

Debt

The District had two outstanding long-term debt instruments at year-end. One, in the form of a bond (with a balance of \$4,800,000), was obtained to finance a new elementary school and the other was a long-term loan payable (with a balance of \$170,000) obtained to finance capital expenditures during the 2014-15 fiscal year. During the year, the District made bond payments totaling \$635,069 (\$475,000 in principal and \$160,069 in interest) and loan payments totaling \$32,696 (\$30,000 in principal and \$2,696 in interest). Total annual payments vary from approximately \$671,000 to \$729,000 until final maturity in 2023.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District should remain financially stable during the 2015-16 fiscal year. Revenues and expenditures are budgeted to be \$7.35 million. The tax rate adopted by the board of trustees was set at \$1.4038 (an increase of \$0.0384/\$100 from last year's rate). The fund balance is projected to approximate \$4.26 million by August 31, 2016.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at: Santa Gertrudis Independent School District, P. O. Box 592, Kingsville, Texas 78364.

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BASIC FINANCIAL STATEMENTS

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2015

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,476,664
1120 Current Investments	2,691,638
1220 Property Taxes Receivable (Delinquent)	20,723
1230 Allowance for Uncollectible Taxes	(10,686)
1240 Due from Other Governments	921,441
1290 Other Receivables, net	4,587
1490 Other Current Assets	51,345
Capital Assets:	
1520 Buildings, Net	10,320,969
1530 Furniture and Equipment, Net	647,376
1000 Total Assets	16,124,057
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	166,686
1700 Total Deferred Outflows of Resources	166,686
LIABILITIES	
2110 Accounts Payable	115,209
2140 Interest Payable	13,019
2150 Payroll Deductions & Withholdings	(4,010)
2160 Accrued Wages Payable	116,298
2177 Due to Fiduciary Funds	142
2200 Accrued Expenses	2,547
Noncurrent Liabilities	
2501 Due Within One Year	525,000
2502 Due in More Than One Year	4,445,000
2540 Net Pension Liability (District's Share)	709,588
2000 Total Liabilities	5,922,793
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	217,065
2600 Total Deferred Inflows of Resources	217,065
NET POSITION	
3200 Net Investment in Capital Assets	5,985,326
3850 Restricted for Debt Service	232,600
3900 Unrestricted	3,932,959
3000 Total Net Position	\$ 10,150,885

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 3,730,716	\$ 1,037,271	\$ 335,012	\$ (2,358,433)
12 Instructional Resources and Media Services	110,234	-	3,935	(106,299)
13 Curriculum and Staff Development	48,867	-	4,335	(44,532)
21 Instructional Leadership	122,919	-	4,878	(118,041)
23 School Leadership	504,422	-	22,104	(482,318)
31 Guidance, Counseling and Evaluation Services	143,593	-	4,562	(139,031)
33 Health Services	83,369	-	4,569	(78,800)
34 Student (Pupil) Transportation	301,190	-	9,409	(291,781)
35 Food Services	410,152	217,329	141,775	(51,048)
36 Extracurricular Activities	726,985	156,003	24,318	(546,664)
41 General Administration	423,095	-	17,174	(405,921)
51 Facilities Maintenance and Operations	1,217,690	500	10,930	(1,206,260)
52 Security and Monitoring Services	7,514	-	-	(7,514)
53 Data Processing Services	322,062	-	6,074	(315,988)
61 Community Services	24,224	-	-	(24,224)
72 Debt Service - Interest on Long Term Debt	161,805	-	-	(161,805)
73 Debt Service - Bond Issuance Cost and Fees	8,250	-	-	(8,250)
99 Other Intergovernmental Charges	64,168	-	-	(64,168)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 8,411,255</u>	<u>\$ 1,411,103</u>	<u>\$ 589,075</u>	<u>\$ (6,411,077)</u>

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	2,029,651
DT	Property Taxes, Levied for Debt Service	634,883
SF	State Aid - Formula Grants	4,965,183
IE	Investment Earnings	2,040
MI	Miscellaneous Local and Intermediate Revenue	12,189
FR	Gain (Loss) on Sale of Assets	(41,990)
TR	Total General Revenues & Transfers	<u>7,601,956</u>
CN	Change in Net Position	1,190,879
NB	Net Position - Beginning	9,541,485
PA	Prior Period Adjustment	(581,479)
NE	Net Position--Ending	<u>\$ 10,150,885</u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2015

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 1,312,224	\$ 164,440	\$ 1,476,664
1120 Investments - Current	2,691,638	-	2,691,638
1220 Property Taxes - Delinquent	18,862	1,861	20,723
1230 Allowance for Uncollectible Taxes (Credit)	(10,375)	(311)	(10,686)
1240 Receivables from Other Governments	777,607	143,834	921,441
1260 Due from Other Funds	7,407	-	7,407
1290 Other Receivables	-	4,587	4,587
1490 Other Current Assets	51,345	-	51,345
1000 Total Assets	<u>\$ 4,848,708</u>	<u>\$ 314,411</u>	<u>\$ 5,163,119</u>
LIABILITIES			
2110 Accounts Payable	\$ 104,612	\$ 10,597	\$ 115,209
2150 Payroll Deductions and Withholdings Payable	(4,010)	-	(4,010)
2160 Accrued Wages Payable	110,943	5,355	116,298
2170 Due to Other Funds	142	7,407	7,549
2200 Accrued Expenditures	2,219	328	2,547
2000 Total Liabilities	<u>213,906</u>	<u>23,687</u>	<u>237,593</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	8,487	1,550	10,037
2600 Total Deferred Inflows of Resources	<u>8,487</u>	<u>1,550</u>	<u>10,037</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3430 Prepaid Items	51,345	-	51,345
Restricted Fund Balance:			
3480 Retirement of Long-Term Debt	-	231,050	231,050
3600 Unassigned Fund Balance	4,574,970	58,124	4,633,094
3000 Total Fund Balances	<u>4,626,315</u>	<u>289,174</u>	<u>4,915,489</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,848,708</u>	<u>\$ 314,411</u>	<u>\$ 5,163,119</u>

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

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

Total Fund Balances - Governmental Funds	\$	4,915,489
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$13,991,820 and the accumulated depreciation was (\$2,899,546). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		5,803,295
2 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 including the 2015 capital outlays and debt principal payments is to decrease net position.		942,712
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 \$709,588, a deferred resource inflow related to TRS in the amount of \$217,065 and a deferred resource outflow related to TRS in the amount of \$166,686. This resulted in a decrease in net position.		(759,967)
4 The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(501,486)
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, reclassifying the proceeds of loans as an increase in loans payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		(249,158)
19 Net Position of Governmental Activities	\$	10,150,885

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 3,131,425	\$ 981,737	\$ 4,113,162
5800 State Program Revenues	5,156,412	109,172	5,265,584
5900 Federal Program Revenues	-	268,709	268,709
5020 Total Revenues	<u>8,287,837</u>	<u>1,359,618</u>	<u>9,647,455</u>
EXPENDITURES:			
Current:			
0011 Instruction	3,350,756	160,367	3,511,123
0012 Instructional Resources and Media Services	97,719	7,132	104,851
0013 Curriculum and Instructional Staff Development	39,986	4,023	44,009
0021 Instructional Leadership	119,696	-	119,696
0023 School Leadership	429,509	64,230	493,739
0031 Guidance, Counseling and Evaluation Services	128,960	-	128,960
0033 Health Services	75,781	-	75,781
0034 Student (Pupil) Transportation	445,044	-	445,044
0035 Food Services	7,185	388,316	395,501
0036 Extracurricular Activities	695,765	18,208	713,973
0041 General Administration	399,754	335	400,089
0051 Facilities Maintenance and Operations	1,340,704	-	1,340,704
0052 Security and Monitoring Services	4,779	-	4,779
0053 Data Processing Services	310,774	-	310,774
0061 Community Services	20,414	3,087	23,501
Debt Service:			
0071 Principal on Long Term Debt	30,000	475,000	505,000
0072 Interest on Long Term Debt	2,696	160,069	162,765
0073 Bond Issuance Cost and Fees	8,250	-	8,250
Capital Outlay:			
0081 Facilities Acquisition and Construction	44,734	-	44,734
Intergovernmental:			
0099 Other Intergovernmental Charges	64,168	-	64,168
6030 Total Expenditures	<u>7,616,674</u>	<u>1,280,767</u>	<u>8,897,441</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>671,163</u>	<u>78,851</u>	<u>750,014</u>
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	18,165	-	18,165
7914 Non-Current Loans	200,000	-	200,000
7915 Transfers In	-	36,397	36,397
8911 Transfers Out (Use)	(36,397)	-	(36,397)
7080 Total Other Financing Sources (Uses)	<u>181,768</u>	<u>36,397</u>	<u>218,165</u>
1200 Net Change in Fund Balances	852,931	115,248	968,179
0100 Fund Balance - September 1 (Beginning)	3,550,896	173,926	3,724,822
1300 Increase (Decrease) in Fund Balance	222,488	-	222,488
3000 Fund Balance - August 31 (Ending)	<u>\$ 4,626,315</u>	<u>\$ 289,174</u>	<u>\$ 4,915,489</u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 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	\$	968,179
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 and debt principal payments is to increase net position.		942,712
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.		(501,486)
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, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of loans, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(262,526)
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 \$109,588. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded as an expense. The net pension expense decreased the change in net position by \$65,588. The result of these amounts is to increase the change in net position.		44,000
Change in Net Position of Governmental Activities	<u>\$</u>	<u>1,190,879</u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2015

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 9,056	\$ 15,591
Investments - Current	6,612	-
Due from Other Funds	-	142
Total Assets	15,668	\$ 15,733
LIABILITIES		
Due to Student Groups	-	\$ 15,733
Total Liabilities	-	\$ 15,733
NET POSITION		
Restricted for Scholarships	15,668	
Total Net Position	\$ 15,668	

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2015

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 17,510
Total Additions	<u>17,510</u>
DEDUCTIONS:	
Other Operating Costs	<u>17,000</u>
Total Deductions	<u>17,000</u>
Change in Net Position	510
Total Net Position - September 1 (Beginning)	<u>15,158</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 15,668</u></u>

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

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED AUGUST 31, 2015

I. Summary of significant accounting policies

Santa Gertrudis Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting entity

The Board of School Trustees (the "Board"), a seven member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Santa Gertrudis Independent School District (the "District"). Because members of the Board are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters; the District is not included in any other governmental "reporting entity" as defined by Governmental Accounting Standards Board ("GASB"), Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. Government-wide and fund financial statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as interfund transfers. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

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

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

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

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors some times require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. Fund accounting

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

Governmental Funds:

2. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
3. **Debt Service Fund** – The debt service fund is used to account for revenues collected to pay interest and related costs and to retire long-term debt.

Fiduciary Funds:

4. **Private Purpose Trust Funds** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District.
5. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Santa Gertrudis Student Activity Fund."

E. Pensions

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

F. Other accounting policies

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expended in the period incurred.

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

4. The District's policy does not permit employees to accumulate unused vacation and sick pay benefits. Therefore, there is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Asset:</u>	<u>Years</u>
Buildings	25
Building Improvements	25
Vehicles	10
Equipment	7
Technology Equipment	5

6. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid “grossing up” the revenues and expenses of the District as a whole.

7. Governmental fund balances are characterized into the following categories:

Non-spendable fund balances include amounts that are not in spendable form (i.e. inventory or prepaid items) or amounts that are required to be maintained intact legally or contractually (i.e. principal in an endowment fund)

Restricted fund balances include amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Committed fund balances include amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority.

Assigned fund balances are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed.

Unassigned fund balance is the residual classification for the government’s general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

District policies concerning fund balances are as follows:

The District’s Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees.

Fund Balance of the District may be committed for a specific source by formal action of the Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action of the Board of Trustees.

When it is appropriate for fund balance to be assigned, only the Board of Trustees has the authority to assign fund balance by formal action by the board.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

At August 31, 2015, the District’s general fund balances were nonspendable, restricted, committed or assigned as follows:

Non-spendable fund balance	\$ 51,345.
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8. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

II. Stewardship, compliance, and accountability

A. Budgetary data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibits J4 and J5.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. There were no appropriated or nonappropriated budget special revenue funds at the end of the current fiscal year.

B. Excess of expenditures over appropriations by more than \$2,500 (as reported on Exhibits G-1 and J-4):

Function 35 - Food Services (General Fund)	\$ 7,185.
Function 35 - Food Services (Food Service Fund)	\$ 55,408.
Function 51 - Facilities Maintenance and Operations	\$ 56,565.
Function 53 - Data Processing Services	\$ 17,774.
Function 99 - Other Governmental Charges	\$ 4,168.

C. Deficit fund equity

None.

III. Detailed notes on all funds

A. Deposits and investments

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not investing in any foreign currency.

District Policies and Legal and Contractual Provisions Governing Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and 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, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

As of August 31, 2015, the District had the following investments.

Investment Type	Investment Maturities (in years)				
	Fair Value	Less than 1 Year	1-5	6-10	More Than 10
Investment Pool	\$2,691,638	\$2,691,638			

Additional policies and contractual provisions governing deposits and investments for the District are specified below:

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in certificates of deposit or publicly funded investment pools to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2015, the District’s investments in certificates of deposit and investment pools were rated A1 by Standard and Poor’s.

Custodial Credit Risk for Investments - To limit the risk that, in the even of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This included securities in securities lending transactions. All of the securities are in the District’s name and held by the District or its agent.

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government’s investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risk to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by limiting all investments denominated in a foreign currency to zero.

B. Property taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District 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 31 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on 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.

D. Interfund balances and transfers

Interfund balances at August 31, 2015 consisted of the following individual fund balances:

Fund	Due From	Due To	Purpose	Current?
General Fund	\$ 7,407	\$ 142	Short-term advance	Yes
Agency Fund	142		Short-term advance	Yes
Nonmajor Special Revenue Fund		1,002	Short-term advance	Yes
Nonmajor Debt Service Fund		6,405	Short-term advance	Yes
Total	<u>\$ 7,549</u>	<u>\$ 7,549</u>		

Interfund transfers for the year ended August 31, 2015 consisted of the following individual amounts:

Fund	Transfers In	Transfers Out	Purpose
Nonmajor Special Revenue Fund	\$ 36,397		Food service operating deficit
General Fund		\$ 36,397	Food service operating deficit
Total	<u>\$ 36,397</u>	<u>\$ 36,397</u>	

E. Disaggregation of receivables and payables

Receivables at August 31, 2015 were as follows:

	Property Taxes	Other Government	Other	Total Receivables
Governmental Activities:				
General Fund	\$ 18,862	\$ 777,607		\$ 796,469
Nonmajor Governmental Funds	1,861	143,834	\$ 4,587	150,282
Total Governmental Activities	<u>\$ 20,723</u>	<u>\$ 921,441</u>	<u>\$ 4,587</u>	<u>\$ 946,751</u>

Payables at August 31, 2015 were as follows:

	Accounts	Salaries and Benefits	Total Payables
Governmental Activities:			
General Fund	\$ 104,612	\$ 109,152	\$ 213,764
Nonmajor Governmental Funds	10,597	5,683	16,280
Total Governmental Activities	<u>\$ 115,209</u>	<u>\$ 114,835</u>	<u>\$ 230,044</u>

F. Capital asset activity

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

	Balance 8/31/14	Additions	Deletions	Balance 8/31/15
Governmental activities:				
Buildings and leasehold improvements	\$ 12,542,830	\$ 44,734	\$ 88,467	\$ 12,499,097
Furniture and equipment	1,448,990	392,978	88,943	1,753,025
Totals	13,991,820	437,712	177,410	14,252,122
Less accum depreciation for:				
Buildings and leasehold improvements	1,873,736	332,704	28,312	2,178,128
Furniture and equipment	1,025,810	168,782	88,943	1,105,549
Total accum depreciation	2,899,546	501,486	117,255	3,283,777
Governmental activities capital assets, net	<u>\$ 11,092,274</u>	<u>\$ (63,774)</u>	<u>\$ 60,155</u>	<u>\$ 10,968,345</u>

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

Governmental activities:	
Instruction	\$ 277,118
Instructional resources and media services	6,157
Curriculum and staff development	4,875
Instructional leadership	3,837
School leadership	15,121
Guidance, counseling, and evaluation services	15,520
Health services	7,969
Student transportation	76,038
Food services	16,049
Extracurricular activities	31,987
General administration	26,072
Plant maintenance and operations	5,245
Security and monitoring service	2,735
Data processing services	12,012
Community services	751
Total depreciation expense - governmental activities	<u><u>\$ 501,486</u></u>

G. Loans payable

The District accounts for long-term debts for maintenance purposes through the General Fund. Long-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from long-term loans are shown in the financial statements as non-current liabilities and principal payments as expenditures in the fund financial statements and reductions in liabilities in the government-wide financial statements. As shown in the following table, the District had the following long-term debt.

	Interest Rate Payable	Balance 8/31/14	Additions	Retirements	Balance 8/31/15
Maintenance Tax Note, Series 2014	2.11%	\$ 0	\$ 200,000	\$ 30,000	\$ 170,000

H. Bonds payable

Bonded indebtedness of the District is accounted for in the Statement of Net Position and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund for the schoolhouse bond and principal and interest expenditures are accounted for in the General Fund for the capital lease obligations.

A summary of changes in general long-term debt for the year ended August 31, 2015 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 8/31/13	Issued	Retired	Amounts Outstanding 8/31/14
School building bonds, series 2008	3.18%	\$7,500,000	\$5,275,000		\$ 475,000	\$4,800,000

I. Commitments under operating leases

The District executed two operating lease agreements at the end of the fiscal year for facility rentals for the next five year as follows:

Beginning for the 2012-13 academic year, the District entered into an operating lease agreement with Texas A&M University - Kingsville for athletic facilities rental and usage. The lease term is for five (5) years due in annual payments on September 15, 2012 of \$80,000 and continuing through the end of the 2016-17 academic year. The lease can be canceled at the end of each one-year period without penalty with notice provided the other party by July 15th of the then-current year. Future operating lease obligations are as follows:

Academic Year	Amount
2015-16	\$ 80,000
2016-17	80,000
Total Lease Obligation	\$ 160,000

Beginning August 1, 2012, the District entered into an operating lease agreement with Texas A&M University - Kingsville (the "lessor") for rental and usage of a 71,648 square foot instructional facility. The lease term is for five (5) years with an initial lease of \$113,120 escalating 4% each year thereafter. Additionally, for renovations made by the lessor, secondary rents are due for the facility payable semi-annually over a 10-year period. If the original lease is terminated before the 10-year amortization period of the secondary rents are completed, all remaining unpaid rents for the secondary lease will become due and payable. Future operating lease obligations for the lease are as follows:

Academic Year	Primary Lease	Secondary Lease	Total Lease
2015-16	\$ 127,245	\$ 95,994	\$ 223,239
2016-17	132,335	93,264	225,599
2017-18	0	95,533	95,533
2018-19	0	95,615	95,615
2019-20	0	94,602	94,602
2020-21	0	94,496	94,496
2021-22	0	94,295	94,295
Total Lease Obligation	\$ 259,580	\$ 663,799	\$ 923,379

J. Debt service requirements - bonds and capital leases

Future debt service requirements are as follows:

Year Ended August 31,	General Obligations		Loans Payable		Total Requirements
	Principal	Interest	Principal	Interest	
2016	\$ 500,000	\$ 144,690	\$ 25,000	\$ 1,794	671,484
2017	525,000	128,393	25,000	1,530	679,923
2018	550,000	111,300	30,000	1,266	692,566
2019	580,000	93,333	30,000	949	704,282
2020	610,000	74,412	30,000	633	715,045
2020-2023	2,035,000	99,136	30,000	316	2,164,452
Totals	\$ 4,800,000	\$ 651,264	\$ 170,000	\$ 6,488	\$ 5,627,752

K. Accumulated unpaid vacation and sick leave benefits

N/A.

L. 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.

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.pds#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.

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 districts 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 district 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%
Employers	6.8%	6.8%

Employer # 137904 - 2014 District Contributions	\$67,350
Employer # 137904 - 2014 Member Contributions	\$248,886
Employer # 137904 - 2014 NECE On-behalf Contributions	\$196,787

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

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.

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

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

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

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	\$1,267,991	\$709,588	\$292,007

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 \$709,588 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	\$709,588
State's proportionate share that is associated with the District	2,077,743
Total	<u>\$2,787,331</u>

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

At August 31, 2014 the District's proportion of the collective net pension liability was 0.0026565%. 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 September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2014, the District recognized pension expense of \$192,083 and revenue of \$192,083 for support provided by the State.

At August 31, 2014, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experiences	\$10,974	
Changes in actuarial assumptions	46,124	
Differences between projected and actual investment earnings		\$216,879
Changes in proportion and differences between the District's contributions and the proportionate share of contributions		186
Total	\$57,098	\$217,065

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

Year ended August 31,	Pension Expense Amount
2015	\$(44,619)
2016	\$(44,619)
2017	\$(44,619)
2018	\$(44,619)
2019	\$9,601
Thereafter	\$8,908

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

	Deferred Outflows of Resources	Deferred Inflows of Resource
Total net amounts per August 31, 2014 measurement date	\$57,098	\$217,065
Contributions paid to TRS subsequent to the measurement date	109,588	
Total	\$166,686	\$217,065

M. Health care coverage

During the year ended August 31, 2015, employees of the District were covered by a health insurance plan (the “Plan”). The District contributed premiums of \$352 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. Latest financial statements for TRS - Care are available for the year ended August 31, 2015, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

N. Changes in long-term liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds Payable	\$ 5,275,000		\$ 475,000	\$ 4,800,000	\$ 505,000
Loans Payable	0	\$ 200,000	30,000	170,000	25,000
Net Pension Liability	0	709,588		709,588	0
Total	\$ 5,275,000	\$ 909,588	\$ 505,000	\$ 5,679,588	\$ 530,000

O. Unearned revenues

None.

P. Due from state and federal agencies

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2015, are summarized below. Except for funds directly received from the U.S. Department of Education, all federal grants are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

Fund	State Entitlements	Federal Grants	Total
General Fund	\$ 691,556		\$ 691,556
Nonmajor Governmental Funds		\$ 67,169	67,169
Net Total Receivables	\$ 691,556	\$ 67,169	\$ 758,725

Q. Revenue from local and intermediate sources

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

Description	General Fund	Nonmajor Funds	Private Purpose Trust Fund	Total
Property taxes (including penalties and interest)	\$2,031,960	\$635,905		\$2,667,865
Services to other districts	1,032,613			1,032,913
Food sales		217,329		217,319
Investment income	1,923	117	\$10	2,050
Co-curricular student activities	36,401	119,602		156,003
Other income	28,528	8,784	17,500	54,812
Total	\$3,131,425	\$981,737	\$17,510	\$4,130,672

R. School district retiree health plan

Plan Description. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-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 website 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. 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 employee contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2013.

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2015	0.65%	\$ 25,964	1.00%	\$ 39,970	0.55%	\$ 21,964
2014	0.65%	\$ 25,066	1.00%	\$ 38,563	0.55%	\$ 21,210
2013	0.65%	\$ 24,162	0.50%	\$ 18,586	0.55%	\$ 20,445

Federal Government Retiree Drug Subsidy - Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2015, 2014 and 2013 were \$17,372, \$11,567 and \$11,193, respectively.

S. Litigation

N/A.

T. Construction and other significant commitments and contingencies

N/A.

U. Joint ventured shared-service arrangements

The District participated in an interlocal agreement, authorized by the Interlocal Cooperation Act, Texas Government Code Section 791, with Driscoll Independent School District (“DISD”) for the operation of the Academy High School (“AHS”). Under the tuition transfer agreement (“TTA”), the District was the fiscal agent and the responsible district for AHS in all matters. The TTA originally started on August 1, 2002. However, agreement was terminated effective June 30, 2015.

DISD, pursuant to the provisions of Texas Education Code 25.038, 25.039, and 19 Tex. Admin. Code 61.1012, paid tuition to the District for its resident students to attend AHS. The annual tuition amount was negotiated by and agreed to by the superintendents. This amount allowed for the most financially beneficial amount for both districts but did not exceed the maximum tuition limit set by TEA. Upon determination of the actual dollar amount per student for a given school year, the superintendents of the part districts informed the respective boards of trustees of the tuition amount per student, and the boards ratified the tuition amount for that school year.

V. Risk management

The District is exposed to various risks of loss related to torts, thefts, damages to and destruction of assets, errors and omissions, injuries to employees, and other natural disasters. The District maintains commercial insurance to cover losses related to damages to and destruction of assets and losses due to general and specific liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements that exceeding insurance coverage for each of the past three fiscal years.

W. Subsequent events

Management has evaluated subsequent events through January 28, 2016; the date which the financial statements were available for distribution. There were none noted.

X. Commitments and contingencies

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

Y. Prior period adjustment

Change in accounting principles - During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the District assumed 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 period adjustment is \$(803,967). The restated beginning net position is \$8,737,518.

Correction of prior year payroll liabilities - During the previous two fiscal years, the District overpaid TRS contributions to the State of Texas for miscalculations in above-statutory minimum contributions. Additionally, employee benefit payments and federal payroll tax deposits were not properly accrued and reported. The net effect differences were not yet known as to collectibility until the current fiscal year. The total collectible portion of those overpayments relative to TRS and payroll tax deposits of \$222,488 was recorded as a beginning fund balance adjustment.

REQUIRED SUPPLEMENTARY INFORMATION

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
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	\$ 3,103,137	\$ 3,103,137	\$ 3,131,425	\$ 28,288
5800	State Program Revenues	3,912,152	3,912,152	5,156,412	1,244,260
5020	Total Revenues	7,015,289	7,015,289	8,287,837	1,272,548
EXPENDITURES:					
Current:					
0011	Instruction	3,270,005	3,385,016	3,350,756	34,260
0012	Instructional Resources and Media Services	100,000	102,010	97,719	4,291
0013	Curriculum and Instructional Staff Development	15,000	41,060	39,986	1,074
0021	Instructional Leadership	107,671	121,712	119,696	2,016
0023	School Leadership	446,503	447,078	429,509	17,569
0031	Guidance, Counseling and Evaluation Services	145,660	147,660	128,960	18,700
0033	Health Services	80,000	85,000	75,781	9,219
0034	Student (Pupil) Transportation	320,000	457,500	445,044	12,456
0035	Food Services	-	-	7,185	(7,185)
0036	Extracurricular Activities	543,000	707,525	695,765	11,760
0041	General Administration	577,400	639,000	399,754	239,246
0051	Facilities Maintenance and Operations	1,080,000	1,281,139	1,340,704	(59,565)
0052	Security and Monitoring Services	15,000	15,500	4,779	10,721
0053	Data Processing Services	100,000	293,000	310,774	(17,774)
0061	Community Services	8,000	20,800	20,414	386
Debt Service:					
0071	Principal on Long Term Debt	100,000	100,000	30,000	70,000
0072	Interest on Long Term Debt	5,000	5,000	2,696	2,304
0073	Bond Issuance Cost and Fees	10,000	10,000	8,250	1,750
Capital Outlay:					
0081	Facilities Acquisition and Construction	100,000	100,000	44,734	55,266
Intergovernmental:					
0099	Other Intergovernmental Charges	60,000	60,000	64,168	(4,168)
6030	Total Expenditures	7,083,239	8,019,000	7,616,674	402,326
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(67,950)	(1,003,711)	671,163	1,674,874
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	18,165	18,165
7914	Non-Current Loans	-	200,000	200,000	-
8911	Transfers Out (Use)	-	-	(36,397)	(36,397)
7080	Total Other Financing Sources (Uses)	-	200,000	181,768	(18,232)
1200	Net Change in Fund Balances	(67,950)	(803,711)	852,931	1,656,642
0100	Fund Balance - September 1 (Beginning)	3,550,896	3,550,896	3,550,896	-
1300	Increase (Decrease) in Fund Balance	-	-	222,488	222,488
3000	Fund Balance - August 31 (Ending)	\$ 3,482,946	\$ 2,747,185	\$ 4,626,315	\$ 1,879,130

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED AUGUST 31, 2015

	2015
District's Proportion of the Net Pension Liability (Asset)	0.0026565%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 709,588
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	2,077,743
Total	\$ 2,787,331
District's Covered Employee Payroll	\$ 3,856,302
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	18.40%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	83.25%

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."

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
FOR FISCAL YEAR 2015

	2015
Contractually Required Contribution	\$ 109,588
Contribution in Relation to the Contractually Required Contribution	(109,588)
Contribution Deficiency (Excess)	\$ -
District's Covered Employee Payroll	\$ 3,997,029
Contributions as a percentage of Covered Employee Payroll	2.74%

Note: GASB 68, Paragraph 81.2.b 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."

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2015

Changes of benefit terms.

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

Changes of assumptions.

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

COMBINING SCHEDULES

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2015

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
ASSETS			
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ -
1220 Property Taxes - Delinquent	-	-	-
1230 Allowance for Uncollectible Taxes (Credit)	-	-	-
1240 Receivables from Other Governments	-	3,535	-
1290 Other Receivables	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ 3,535</u>	<u>\$ -</u>
LIABILITIES			
2110 Accounts Payable	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	-	3,249	-
2170 Due to Other Funds	-	-	-
2200 Accrued Expenditures	-	286	-
2000 Total Liabilities	<u>-</u>	<u>3,535</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3480 Retirement of Long-Term Debt	-	-	-
3600 Unassigned Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ -</u>	<u>\$ 3,535</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	265 Title IV, B Community Learning	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
\$ (5,105)	\$ -	\$ -	\$ (50,371)	\$ -	\$ -	\$ 59,126	\$ 3,650
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
13,263	-	-	50,371	-	-	-	67,169
4,587	-	-	-	-	-	-	4,587
<u>\$ 12,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,126</u>	<u>\$ 75,406</u>
\$ 10,597	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,597
2,106	-	-	-	-	-	-	5,355
-	-	-	-	-	-	1,002	1,002
42	-	-	-	-	-	-	328
<u>12,745</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,002</u>	<u>17,282</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	58,124	58,124
-	-	-	-	-	-	58,124	58,124
<u>\$ 12,745</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,126</u>	<u>\$ 75,406</u>

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2015

Data Control Codes	599 Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ 160,790	\$ 164,440
1220 Property Taxes - Delinquent	1,861	1,861
1230 Allowance for Uncollectible Taxes (Credit)	(311)	(311)
1240 Receivables from Other Governments	76,665	143,834
1290 Other Receivables	-	4,587
1000 Total Assets	<u>\$ 239,005</u>	<u>\$ 314,411</u>
LIABILITIES		
2110 Accounts Payable	\$ -	\$ 10,597
2160 Accrued Wages Payable	-	5,355
2170 Due to Other Funds	6,405	7,407
2200 Accrued Expenditures	-	328
2000 Total Liabilities	<u>6,405</u>	<u>23,687</u>
DEFERRED INFLOWS OF RESOURCES		
2601 Unavailable Revenue - Property Taxes	1,550	1,550
2600 Total Deferred Inflows of Resources	<u>1,550</u>	<u>1,550</u>
FUND BALANCES		
Restricted Fund Balance:		
3480 Retirement of Long-Term Debt	231,050	231,050
3600 Unassigned Fund Balance	-	58,124
3000 Total Fund Balances	<u>231,050</u>	<u>289,174</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 239,005</u>	<u>\$ 314,411</u>

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-
5900 Federal Program Revenues	2,914	68,821	448
5020 Total Revenues	<u>2,914</u>	<u>68,821</u>	<u>448</u>
EXPENDITURES:			
Current:			
0011 Instruction	2,914	68,821	448
0012 Instructional Resources and Media Services	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-
0023 School Leadership	-	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	-	-	-
0041 General Administration	-	-	-
0061 Community Services	-	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	-	-
0072 Interest on Long Term Debt	-	-	-
6030 Total Expenditures	<u>2,914</u>	<u>68,821</u>	<u>448</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	-	-
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	265 Title IV, B Community Learning	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
\$ 217,329	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128,389	\$ 345,718
1,630	-	-	-	29,607	1,270	-	32,507
132,960	6,259	4,299	53,008	-	-	-	268,709
351,919	6,259	4,299	53,008	29,607	1,270	128,389	646,934
-	-	4,299	53,008	29,607	1,270	-	160,367
-	-	-	-	-	-	7,132	7,132
-	4,023	-	-	-	-	-	4,023
-	2,236	-	-	-	-	61,994	64,230
388,316	-	-	-	-	-	-	388,316
-	-	-	-	-	-	18,208	18,208
-	-	-	-	-	-	335	335
-	-	-	-	-	-	3,087	3,087
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
388,316	6,259	4,299	53,008	29,607	1,270	90,756	645,698
(36,397)	-	-	-	-	-	37,633	1,236
36,397	-	-	-	-	-	-	36,397
-	-	-	-	-	-	37,633	37,633
-	-	-	-	-	-	20,491	20,491
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 58,124	\$ 58,124

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		599 Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
5700	Total Local and Intermediate Sources	\$ 636,019	\$ 981,737
5800	State Program Revenues	76,665	109,172
5900	Federal Program Revenues	-	268,709
5020	Total Revenues	<u>712,684</u>	<u>1,359,618</u>
EXPENDITURES:			
Current:			
0011	Instruction	-	160,367
0012	Instructional Resources and Media Services	-	7,132
0013	Curriculum and Instructional Staff Development	-	4,023
0023	School Leadership	-	64,230
0035	Food Services	-	388,316
0036	Extracurricular Activities	-	18,208
0041	General Administration	-	335
0061	Community Services	-	3,087
Debt Service:			
0071	Principal on Long Term Debt	475,000	475,000
0072	Interest on Long Term Debt	160,069	160,069
6030	Total Expenditures	<u>635,069</u>	<u>1,280,767</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	77,615	78,851
OTHER FINANCING SOURCES (USES):			
7915	Transfers In	-	36,397
1200	Net Change in Fund Balance	77,615	115,248
0100	Fund Balance - September 1 (Beginning)	<u>153,435</u>	<u>173,926</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 231,050</u>	<u>\$ 289,174</u>

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2015

	BALANCE SEPTEMBER 1 2014	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2015
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 15,764	\$ 179,884	\$ 180,057	\$ 15,591
Due From Other Funds	142	-	-	142
Total Assets	<u>\$ 15,906</u>	<u>\$ 179,884</u>	<u>\$ 180,057</u>	<u>\$ 15,733</u>
Liabilities:				
Due to Student Groups	<u>\$ 15,906</u>	<u>\$ 179,884</u>	<u>\$ 180,057</u>	<u>\$ 15,733</u>
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 15,764	\$ 179,884	\$ 180,057	\$ 15,591
Due From Other Funds	142	-	-	142
Total Assets	<u>\$ 15,906</u>	<u>\$ 179,884</u>	<u>\$ 180,057</u>	<u>\$ 15,733</u>
Liabilities:				
Due to Student Groups	<u>\$ 15,906</u>	<u>\$ 179,884</u>	<u>\$ 180,057</u>	<u>\$ 15,733</u>

REQUIRED TEA SCHEDULES

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2015

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2006 and prior years	Various	Various	\$ 230,758,066
2007	1.370000	0.000000	268,349,050
2008	1.040000	0.000000	204,883,748
2009	1.040000	0.290000	177,643,558
2010	1.040000	0.327230	180,898,864
2011	1.040000	0.345700	180,350,957
2012	1.040000	0.415700	149,138,322
2013	1.040000	0.382500	166,833,377
2014	1.040000	0.386800	175,952,280
2015 (School year under audit)	1.040000	0.325400	187,247,855
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
\$ 4,946	\$ -	\$ -	\$ -	\$ (1)	\$ 4,945
1,833	-	-	-	-	1,833
32	-	-	-	-	32
34	-	-	-	-	34
1,481	-	-	-	-	1,481
1,900	-	71	24	95	1,900
1,934	-	173	69	146	1,838
1,590	-	181	67	143	1,485
9,137	-	3,690	1,230	396	4,613
-	2,663,601	2,026,324	634,011	(704)	2,562
<u>\$ 22,887</u>	<u>\$ 2,663,601</u>	<u>\$ 2,030,439</u>	<u>\$ 635,401</u>	<u>\$ 75</u>	<u>\$ 20,723</u>

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 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	\$ 225,000	\$ 225,000	\$ 217,329	\$ (7,671)
5800	State Program Revenues	1,600	1,600	1,630	30
5900	Federal Program Revenues	135,000	135,000	132,960	(2,040)
5020	Total Revenues	361,600	361,600	351,919	(9,681)
EXPENDITURES:					
0035	Food Services	332,908	332,908	388,316	(55,408)
6030	Total Expenditures	332,908	332,908	388,316	(55,408)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	28,692	28,692	(36,397)	(65,089)
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	36,397	36,397
1200	Net Change in Fund Balances	28,692	28,692	-	(28,692)
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ 28,692	\$ 28,692	\$ -	\$ (28,692)

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
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		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 640,083	\$ 640,083	\$ 636,019	\$ (4,064)
5800	State Program Revenues	-	-	76,665	76,665
5020	Total Revenues	640,083	640,083	712,684	72,601
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	475,000	475,000	475,000	-
0072	Interest on Long Term Debt	150,000	160,069	160,069	-
6030	Total Expenditures	625,000	635,069	635,069	-
1200	Net Change in Fund Balances	15,083	5,014	77,615	72,601
0100	Fund Balance - September 1 (Beginning)	153,435	153,435	153,435	-
3000	Fund Balance - August 31 (Ending)	\$ 168,518	\$ 158,449	\$ 231,050	\$ 72,601

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OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Independent Auditor's Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENTAL AUDITING STANDARDS

Board of Trustees
Santa Gertrudis Independent School District
P.O. Box 592
Kingsville, Texas 78364

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Santa Gertrudis Independent School District (the "District") as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated January 27, 2016.

Internal Control Over Financial Reporting

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

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

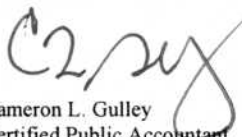
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I identified deficiencies in internal control that I consider to be material weaknesses listed as items 2013-1, 2014-2 and 2015-1 on the accompanying Schedule of Findings and Questioned Costs. However, other material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Cameron L. Gulley
Certified Public Accountant

January 27, 2016

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SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2015

Finding	Statement of Condition	Material Weakness?	Questioned Costs
2013-1	<p>Internal Control Structure - Bank Accounts Were Not Reconciled to General Ledger</p> <p>The District's cash balances related to the following accounts were not reconciled to the general ledger at any time during the year under audit</p> <p><u>Status:</u> The cash accounts were again not reconciled to the general ledger at August 31, 2015. See continuation finding 2013-1 on the accompanying Schedule of Findings and Questioned Costs.</p>	Yes.	None.
2013-2	<p>Internal Control Structure - Overpayment of Teacher Retirement Statutory Minimum Payments</p> <p>The District's above statutory minimum contributions were not calculated correctly resulting in overpayment of state retirement contributions for above statutory minimum salaries.</p> <p><u>Status:</u> The District corrected the prior year monthly TRS contributions and received credit totaling approximately \$123,000 which was applied to current year contributions.</p>	Yes.	Unknown.
2013-3	<p>Internal Control Structure - Failure to Make Payroll Tax Deposits Timely (Or At All)</p> <p>The District failed to make numerous payroll tax deposits either timely or at all in accordance with guidelines established by <i>Internal Revenue Service Circular E</i>.</p> <p><u>Status:</u> The District paid all the prior year payroll tax deposits not made during the current year. Also, all current year payroll tax deposits were made timely.</p>	Yes.	None.
2013-4	<p>State Compliance - Failure to properly meet expenditure requirement for state mandated program revenues</p> <p>The District did not expend all of those revenues in accordance with the minimum expenditure requirements for the following program areas: gifted & talented, compensatory education and bilingual education.</p> <p><u>Status:</u> The District met the current year minimum expenditure requirement for all mandated program revenues received. The carry-over of unexpended program revenues cited above were also fully expended in the current fiscal year.</p>	No.	None.
2014-1	<p>Internal Control Structure - Poor Controls Over Use of Debit Card</p> <p>There was evidence of abuse of use of the District debit card during at least one period of time during the summer months. In July, 2014 a total of \$281 in debit card transactions were made in the states of Tennessee and Virginia by a former school employee.</p> <p><u>Status:</u> The District kept better custody of all cards and they were only issued with an approved purchase order for the amount of use.</p>	No.	\$ 281.

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2015

Finding	Statement of Condition	Material Weakness?	Questioned Costs
2014-2	<p>Internal Control Structure - Approved Budget Exceeded in Seven Functional Categories - General and Food Service Funds</p> <p>There were seven functional categories that exceeded the District's final amended budget by more than \$2,500.</p> <p><u>Status:</u> There were again functional categories that exceeded the District's final amended budget by more than \$2,500 during the current year under audit.</p>	No.	None.

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

I. Summary of Auditor's Results

A. Financial Statements

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
Material weakness(es) identified?	Yes. 2013-1, 2014-2 and 2015-1.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.

B. Federal Awards

N/A.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

2013-1 Internal Control Structure - Bank Accounts Were Not Reconciled to General Ledger (continuation finding)

Criteria Proper internal control standards require that bank accounts be reconciled timely and accurately to the general ledger and that adequate internal controls are in place to safeguard assets.

Statement of Condition During the year under audit, the District's cash balances related to the following accounts were not reconciled to the general ledger at any time during the year under audit. Following are the net variances found at August 31, 2015:

Account	Audited Balance	General Ledger Balance	Audit Difference
Checking - general operating account	\$ 1,256,598	\$ 1,000,110	\$ 256,488
Checking - student activity club account	74,718	78,185	(3,467)
Checking - interest and sinking account	160,791	170,889	(10,098)
Checking - Laureles scholarship account	9,056	(944)	10,000
Investments - TexPool	2,698,249	2,716,982	(18,733)
Total	\$ 4,199,412	\$ 3,965,222	\$ 234,190

Questioned Costs None.

Cause and Effect The District failed to properly reconcile its cash accounts for the entire year under audit. The main issue is lack of training. Irregular accounting transactions not in the normal course of business (i.e loan proceeds) caused most of the differences as well as general journal entries affecting budget which were posted to cash in error.

Recommendations I recommend that the District get the requisite training necessary for business department personnel regarding bank reconciliations and basic accounting for a better understanding of the accounting cycle.

2014-2 Internal Control Structure - Approved Budget Exceeded in Seven Functional Categories - General and Food Service Funds

Criteria State law requires that public school districts and all governmental entities adopt a budget prior to the expenditure of funds and that budget amendments must be made prior to the expenditure of funds where the originally adopted budget is projected to be insufficient to cover projected expenditure needs.

Statement of Condition During the year under audit, there were seven functional categories that exceeded the District’s final amended budget by more than \$2,500 listed as follows from the General and Food Service Funds (see Exhibits G-1 and J-4).

Function 35 - Food Services (general fund)	\$ 10,096.
Function 35 - Food Services (child nutrition program)	\$ 55,408.
Function 51 - Facilities Maintenance and Operations	\$ 59,565.
Function 53 - Data Processing Services	\$ 17,774.
Function 99 - Other Governmental Charges	\$ 4,168.

Questioned Costs None. All expenditures were approved by the District’s board of trustees. However, budget amendments were not made prior to the approval of the expenditure of funds.

Cause and Effect The cause of the budget overage was due to the significant accounting reconciliation issues discovered during the course of the audit.

Recommendations I recommend that the District analyze its expenditures on a monthly basis in comparison to its originally adopted budget and make budget amendments (as necessary) whenever actual expenditures are projected to exceed the budgeted amounts for each respective functional category on a timely basis. Encumbrances for all outstanding invoices should be considered in relation to budgetary amounts. If those outstanding encumbrances exceed the budget, then amendments should be made before authorization of expenditures

2015-1 Internal Control Structure - Numerous Generally Accepted Accounting Principles Coding Errors

Criteria The District is required to record transactions within its governmental funds in accordance with generally accounting principles (“GAAP”).

Statement of Condition During the year under audit, there were a total of 85 adjusting journal entries proposed and accepted for the year under audit. Gross revenues and expenditures were restated as follows:

	Per Audit	Per G/L	Audit Variance
Governmental Funds:			
General Fund and Special Revenue Fund:			
Total Revenues	\$ 8,806,382	\$ 8,079,704	\$ 726,678
Total Expenditures	7,953,450	7,293,320	660,130
Debt Service Fund			
Total Revenues	712,684	688,482	24,202
Total Expenditures	635,068	625,000	10,068

Questioned Costs None.

Cause and Effect The cause of the majority of the differences were due to budgetary amounts being posted to realized account codes in error. Total error for budget amendments posted to realized accounts totaled approximately \$1 million for the year. Revenue accruals were not properly made and some duplication of revenues were posted throughout the year which were related to item 2013-1 above regarding the bank reconciliation issues. The effect is that the financial amounts reported to the board and to external sources were not accurate for most of the year.

Recommendations In conjunction with item 2013-1 above, I recommend that the District get the requisite training necessary for business department personnel regarding bank reconciliations and basic accounting for a better understanding of the accounting cycle.

III. Findings and Questioned Costs for Federal Awards

N/A.

SANTA GERTRUDIS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2015

2013-1 The District will obtain requisite training for its business department personnel regarding basic accounting and bank reconciliation procedures.

Contact representative: Mary Springs, superintendent
P.O. Box 592
Kingsville, Texas 78364
(361) 592-7582

Expected implementation date: Immediately

2014-2 The District will analyze its expenditures on a monthly basis in comparison to its originally adopted budget and make budget amendments (as necessary) whenever actual expenditures are projected to exceed the budgeted amounts for each respective functional category on a timely basis.

Contact representative: Mary Springs, superintendent
P.O. Box 592
Kingsville, Texas 78364
(361) 592-7582

Expected implementation date: Immediately

2015-1 The District will allow for training of business department personnel so that errors in the financial reporting do not continue. We will continue to monitor this area to ensure the fair and accurate presentation of financial data.

Contact representative: Mary Springs, superintendent
P.O. Box 592
Kingsville, Texas 78364
(361) 592-7582

Expected implementation date: Immediately

SCHOOLS FIRST QUESTIONNAIRE

Santa Gertrudis Independent School District

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?	Yes
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.	
SF11	Net Pension Assets (1920) at fiscal year-end.	
SF12	Net Pension Liabilities (2540) at fiscal year-end.	709588
SF13	Pension Expense (6147) at fiscal year-end.	65588