

**MANOR INDEPENDENT
SCHOOL DISTRICT**

**Annual Financial Report
for the Fiscal Year Ended
June 30, 2015**



MANOR INDEPENDENT SCHOOL DISTRICT

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MANOR INDEPENDENT SCHOOL DISTRICT

Annual Financial Report

Year Ended June 30, 2015

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CERTIFICATE OF BOARD

Manor Independent School District

Name of School District

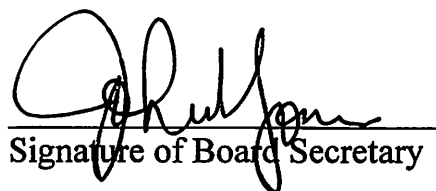
Travis

County

227907

Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended June 30, 2015 at a meeting of the Board of Trustees of such school district on the 15th day of August, 2016.


Signature of Board Secretary


Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are): (Attach list as necessary.)

FINANCIAL SECTION



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INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
Manor Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manor Independent School District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 and Note 17 to the financial statements, for the year ended June 30, 2015, the District adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, resulting in a restatement of the District's net position as of June 30, 2014. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the District's proportionate share of the net pension liability, and the schedule of district contributions on pages 5 through 12, 51, and 52, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining and individual fund statements and schedules, other schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules, other schedules, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2016 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Maxwell Locke + Ritter LLP

Austin, Texas
August 15, 2016

MANOR INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Manor Independent School District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the year ended June 30, 2015. Please read it in conjunction with the District's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position at June 30, 2015 was approximately \$45.2 million.
- The fund balance for the General Fund at June 30, 2015 was approximately \$22.9 million, an increase of approximately \$4.0 million from the prior year. The increase was primarily due to an increase in property tax revenues in the current year.
- For the year ended June 30, 2015, the District adopted Governmental Accounting Standards Board ("GASB") Statement No. 68 *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. The implementation of these standards resulted in a prior period adjustment to net position of \$13,024,231 to recognize the net pension liability at the beginning of the measurement period ending August 31, 2014, and the deferred outflows of resources related to the District's contributions after the beginning of the measurement period through June 30, 2014.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

The government-wide financial statements distinguish functions of the District that are principally supported by taxes, intergovernmental revenues, and user fees and charges (governmental activities). The governmental activities of the District include the education of District students and the programs necessary to support such education.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements.

By doing so readers may better understand the long-term impact of the government's near-term financing decisions. The governmental funds balance sheet provides a reconciliation to facilitate the comparison between total fund balances and net position of governmental activities. There is a reconciliation of statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities on page 17.

The District maintains numerous governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund and Capital Projects Fund as they are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for the General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with this budget. Supplementary budgetary comparison schedules have also been prepared for the Food Service and Debt Service Funds and are included in the Combining and Individual Fund Statements and Schedules section of this report.

Fiduciary Funds - The District is the trustee, or *fiduciary*, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

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

Other Information - The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the basic financial statements. Certain information required by the Texas Education Agency and the federal government regarding tax collection and grant expenditures is also presented along with supplementary information related to the District's contributions to a cost-sharing pension plan with the Teacher Retirement System of Texas.

Government-wide Financial Analysis

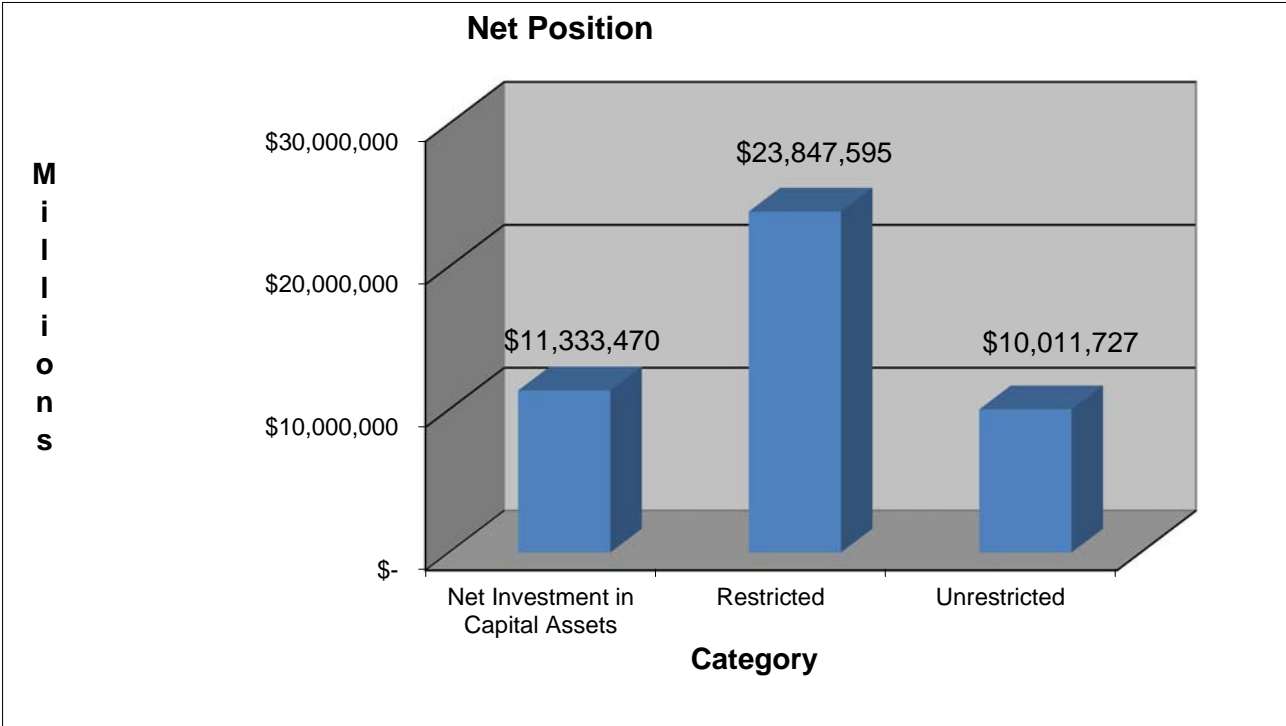
Net position may serve over time as a useful indicator of the District's financial position. At June 30, 2015, net position was \$45,192,792, an increase of \$12,710,062 as compared to net position at June 30, 2014, as restated.

Net position for the year ended June 30, 2015 as compared to the year ended June 30, 2014, can be presented as follows:

Manor Independent School District's Net Position

	Governmental Activities as of	
	June 30, 2014	June 30, 2015
Current assets:		
Cash and temporary investments	\$ 72,979,263	\$ 171,287,256
Property taxes, net	1,309,693	1,299,696
Due from other governments	10,894,443	11,284,949
Other receivables	357	9,002
Prepaid items	30,751	-
Due from fiduciary funds	-	4,435
Total current assets	<u>85,214,507</u>	<u>183,885,338</u>
Non-current assets -		
Capital assets, net of accumulated depreciation	<u>169,761,538</u>	<u>186,706,183</u>
Total assets	<u>\$ 254,976,045</u>	<u>\$ 370,591,521</u>
Deferred outflows of resources:		
Deferred charges on bond refundings	\$ 2,292,111	\$ 7,689,989
Pension contributions after measurement date	-	988,228
Pension actuarial losses	-	911,728
Total deferred outflows of resources	<u>\$ 2,292,111</u>	<u>\$ 9,589,945</u>
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,873,309	\$ 10,618,133
Bonds and capital lease payable	5,920,554	2,191,016
Bond interest payable	3,602,985	1,211,127
Unearned revenue	869,464	1,171,810
Total current liabilities	<u>17,266,312</u>	<u>15,192,086</u>
Long-term liabilities:		
Bonds and capital lease payable	192,916,935	303,708,239
Accretion payable	627,842	647,769
Compensated absences	950,106	643,993
Net pension liability	-	11,330,541
Total long-term liabilities	<u>194,494,883</u>	<u>316,330,542</u>
Total liabilities, as restated	<u>\$ 211,761,195</u>	<u>\$ 331,522,628</u>
Deferred inflows of resources-		
Deferred inflows related to pension liability	<u>\$ -</u>	<u>\$ 3,466,046</u>
Net position:		
Net investment in capital assets	\$ (7,752,225)	\$ 11,333,470
Restricted	34,722,103	23,847,595
Unrestricted	<u>18,537,083</u>	<u>10,011,727</u>
Total net position	<u>\$ 45,506,961</u>	<u>\$ 45,192,792</u>

The District has unrestricted net position of \$10,011,727 at June 30, 2015. For the year ended June 30, 2015, restricted net position decreased by \$10,874,508 and unrestricted net position decreased by \$8,525,356.



Net position may be restricted for a variety of uses by the District. These restrictions are imposed by bond covenants or federal grant requirements. Restricted net position is available for use in the designated areas only. Unrestricted net position may be used by the District to meet ongoing operating obligations as determined by the Board of Trustees (the “Board”).

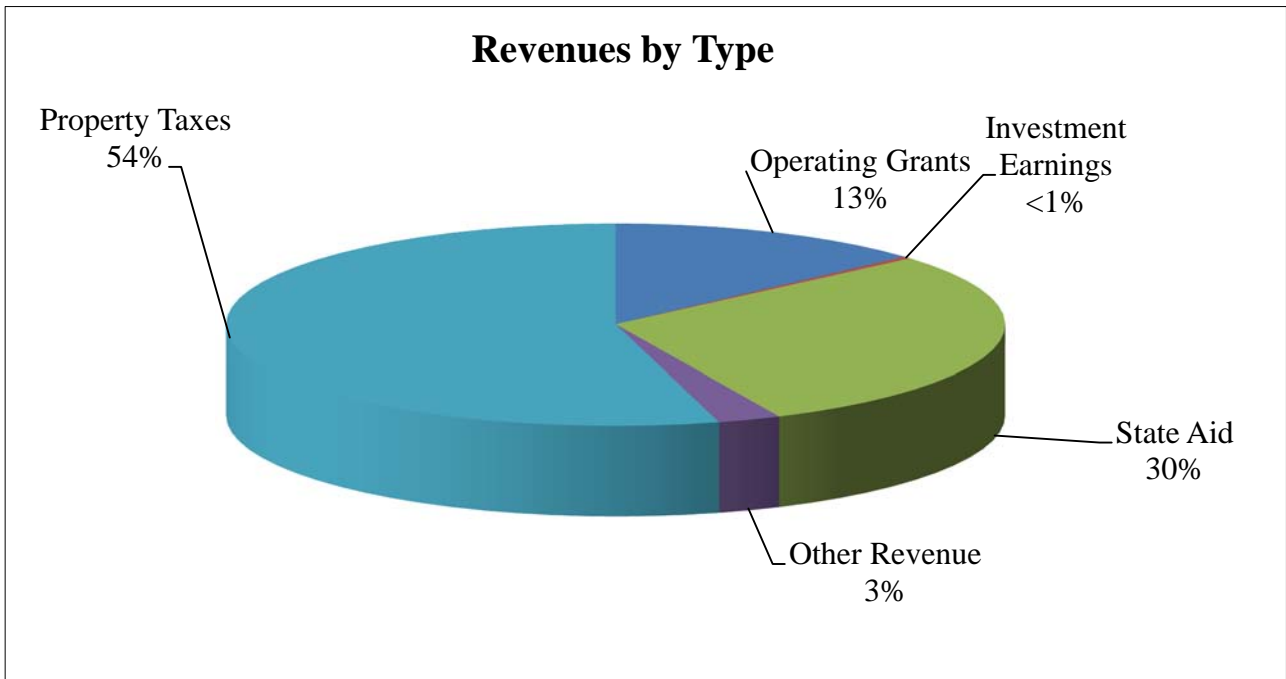
Governmental Activities

Governmental activities increased the District's net position by \$12,710,062 for the year ended June 30, 2015. Key elements of this increase are as follows:

Manor Independent School District's Changes in Net Position

	Governmental Activities as of	
	June 30, 2014	June 30, 2015
Revenues:		
Program Revenues:		
Charges for services	\$ 1,587,365	\$ 1,042,940
Operating grants and contributions	17,172,946	15,589,729
General Revenues:		
Property taxes	47,967,048	63,518,117
State aid - formula grants	33,553,665	34,484,008
Investment earnings	58,708	391,390
Miscellaneous	1,590,196	3,060,341
Total Revenues	<u>101,929,928</u>	<u>118,086,525</u>
Expenses:		
Instruction, curriculum and media services	48,256,493	52,070,109
Instructional and school leadership	7,393,973	8,349,501
Student support services	8,357,597	8,545,378
Food services	5,294,621	5,810,875
Extracurricular activities	2,678,627	2,868,571
General administration	3,296,262	3,652,236
Support services	9,602,648	10,578,760
Community services	872,102	1,069,984
Debt services	10,316,712	11,730,628
Other	237,815	700,421
Total Expenses	<u>96,306,850</u>	<u>105,376,463</u>
Change in Net Position	5,623,078	12,710,062
Net Position Beginning	39,883,883	32,482,730
Prior Period Adjustment	(13,024,231)	-
Net Position Ending	<u>\$ 32,482,730</u>	<u>\$ 45,192,792</u>

Property taxes revenues increased from the prior year primarily due to an increase in property values for the 2014 tax year. Overall property taxes account for 54% of the District's revenue sources while State funding represents 30%. Operating grants account for 13% of revenue sources.



House Bill 1, which passed during the final special legislative session in 2005, changed the way school districts receive revenue from both state and local sources. Property tax rates were “bought down” for two years and replaced with a combination of business franchise taxes and an increase in the tobacco tax. Districts that had reached the \$1.50 M&O tax rate cap, were compressed to \$1.33 in 2006 and \$1.00 in 2007. Local school boards retained the option of adding up to four cents to the local compressed rate without approval, and the District’s Board has exercised that option.

With the compression of local tax rates, the State now funds a much higher percentage of public school revenue than in the previous years. However, the new funding formula now caps the amount of money a district can receive in combined state/local revenue per WADA (Weighted Average Daily Attendance). This “hold harmless” provision was set using a greater of amount between 2005 and 2006 funding under the old law and the set amount per WADA will remain in effect until changed by the legislature at a later session. The only way a school district can now increase its operating revenue is by adding students. Increases in local property values and collections are now negated by the funding formula.

The State has mandated that a district’s property value per WADA is limited to \$319,500. When values exceed this amount a district must share its wealth with the State to equalize access to revenue.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, the District’s governmental funds reported a combined ending fund balance of \$170,795,699. Of this amount \$19,482,295 constitutes unassigned fund balance available for use in the General Fund activities at the District’s discretion, and an additional \$3,400,000 in General Fund fund balance is committed for equipment and supplies for future student growth. The remainder of the fund balance is restricted or assigned to indicate that it is not available for new spending because it has already been designated for other obligations of the District.

The Texas Education Agency recommends that districts keep a fund balance that is between 12% to 20% of annual General Fund operating expenses. As a measure of the General Fund’s liquidity, unassigned fund balance represents 25% of the total General Fund expenditures.

The Debt Service Fund has a total fund balance of \$22,392,984, all of which is restricted for payment of debt service.

The Capital Projects Fund had a total fund balance of \$122,836,553, which represents funds remaining from current and prior year bond sales. These funds are restricted for the construction and renovation of school buildings and purchase of equipment and land. In September 2014, the District issued \$116.1 million from the remaining \$124.9 million of bonds authorized by the voters of the District, leaving \$8.8 million unissued.

Budgetary Highlights

Differences between the original General Fund operating budget and the final amended budget or actual amounts can be briefly summarized as follows:

- Expenditures were lower than final budgeted amounts due to facilities maintenance and operation expenditures being lower than expected.
- Revenues were higher than final budgeted amounts due to higher than expected property tax revenues.

Capital Assets and Debt Administration:

Capital Assets

The District’s investment in capital assets for its governmental activities as of June 30, 2015, amounts to \$186,706,183 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, and furniture and equipment.

**Manor Independent School District
Capital Assets
(Net of accumulated depreciation)**

Land	\$ 17,679,598
Construction in progress	19,794,771
Buildings and improvements	141,802,403
Furniture and equipment	<u>7,429,411</u>
Total	<u>\$ 186,706,183</u>

Additional information on the District’s capital assets can be found in Note 7 of this report.

Long-term Debt

At the end of the current fiscal year, the District had total bonded debt outstanding of \$281,029,999. The bonded debt constitutes a direct obligation of the District from a continuing, direct ad valorem tax levied against all taxable property of the District without legal limit as to rate or amount. The bonds are also guaranteed by the corpus of the Permanent School fund of the State of Texas. Both Standard & Poor’s Rating Services and Moody’s Investors Services have provided bond ratings ranging from AA- to AAA and Aaa, respectively, to the District’s outstanding debt obligations.

Additional information on the District’s long-term debt can be found in Note 9 of this report.

Economic Factors and Next Year's Budgets and Rates

The District is a rapidly growing, diverse district that encompasses approximately 100 square miles and includes addresses in Austin, Manor, and Elgin, Texas. It serves over 8,600 students at two high schools, two middle schools, seven elementary schools, and one alternative academy. The District is made up of a unique blend of rural and urban features with its diverse population. The District is proud to be a hub for the high-tech industry, with Samsung and Applied Materials within its boundaries and Dell and Freescale Semiconductors in close proximity.

The District's chief taxpayer, Samsung, has committed to a major investment in new technologies in their wafer manufacturing facility in the near future. Samsung is projected to invest in excess of three billion dollars at the existing facility, which is within District boundaries. Samsung and the District completed a Texas Property Tax Code, Chapter 313 agreement for the proposed new investment. While a major increase in the District's property values would not directly benefit the District's operating budget under the current state funding formula, the District's ability to fund bonded debt obligations would be greatly improved.

The District invested funds in daily liquidity local government investment pools, bonds and certificates of deposit. The priority of the District in this interest rate environment and volatile market was safety of principal and liquidity.

For budget purposes, the 2015 tax rate was \$1.515 (\$1.04 for maintenance and operations and \$0.475 for debt service) and did not change from 2014. The District is expecting continued student enrollment growth for 2015-2016. The 2015-2016 budget projects increases in both revenues and expenditures and is expected to increase fund balance in the General Fund by approximately \$10.6 million.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

MANOR INDEPENDENT SCHOOL DISTRICT

Statement of Net Position

June 30, 2015

	Governmental Activities
ASSETS:	
Current assets:	
Cash and temporary investments	\$ 171,287,256
Receivables:	
Property taxes - delinquent	2,407,337
Allowance for uncollectible taxes	(1,107,641)
Due from other governments	11,284,949
Other	9,002
Due from fiduciary funds	4,435
Noncurrent assets-	
Capital assets (net of accumulated depreciation):	
Land	17,679,598
Construction in progress	19,794,771
Buildings and improvements	141,802,403
Furniture and equipment	7,429,411
Total assets	<u>370,591,521</u>
DEFERRED OUTFLOWS OF RESOURCES:	
Deferred charges on bond refundings	7,689,989
Pension contributions after measurement date	988,228
Pension actuarial losses	911,728
Total deferred outflows of resources	<u>9,589,945</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	4,473,872
Payroll deductions and withholdings payable	27,623
Accrued wages payable	6,102,465
Bond interest payable	1,211,127
Bonds payable	2,180,000
Capital lease payable	11,016
Due to other governments	14,173
Unearned revenue	1,171,810
Noncurrent liabilities:	
Bonds payable	303,681,651
Accretion payable	647,769
Capital lease payable	26,588
Compensated absences	643,993
Net pension liability	11,330,541
Total liabilities	<u>331,522,628</u>
DEFERRED INFLOWS OF RESOURCES -	
Deferred inflows related to pension liability	<u>3,466,046</u>
NET POSITION:	
Net investment in capital assets	11,333,470
Restricted for:	
Debt service	21,574,685
Food service	2,272,910
Unrestricted	10,011,727
Total net position	<u>\$ 45,192,792</u>

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

MANOR INDEPENDENT SCHOOL DISTRICT
Statement of Activities
Year Ended June 30, 2015

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense)</u>
		<u>Charges for</u>	<u>Operating</u>	<u>Revenue and</u>
		<u>Services</u>	<u>Grants and</u>	<u>Changes in</u>
			<u>Contributions</u>	<u>Net Position</u>
				<u>Governmental</u>
				<u>Activities</u>
Governmental activities:				
Instruction	\$ 48,015,283	4,862	6,970,645	(41,039,776)
Instructional resources and media services	890,599	-	25,793	(864,806)
Curriculum and staff development	3,164,227	1,180	1,178,475	(1,984,572)
Instructional leadership	3,466,913	-	815,211	(2,651,702)
School leadership	4,882,588	2,720	270,308	(4,609,560)
Guidance, counseling, and evaluation services	2,990,061	-	717,709	(2,272,352)
Social work services	811,873	-	240,177	(571,696)
Health services	789,726	-	31,065	(758,661)
Student transportation	3,953,718	-	54,802	(3,898,916)
Food services	5,810,875	851,038	4,775,005	(184,832)
Extracurricular activities	2,868,571	67,057	43,951	(2,757,563)
General administration	3,652,236	116,083	102,176	(3,433,977)
Facilities maintenance and operations	7,120,029	-	140,367	(6,979,662)
Security and monitoring services	709,125	-	8,191	(700,934)
Data processing services	2,749,606	-	50,531	(2,699,075)
Community services	1,069,984	-	165,323	(904,661)
Debt service	11,730,628	-	-	(11,730,628)
Facilities acquisition and construction	367,592	-	-	(367,592)
Payments to juvenile justice alternative education programs	2,322	-	-	(2,322)
Other intergovernmental charges	330,507	-	-	(330,507)
Total governmental activities	\$ 105,376,463	1,042,940	15,589,729	(88,743,794)
General revenues:				
Property taxes levied for general purposes				39,346,121
Property taxes levied for debt service				24,171,996
State aid-formula grants				34,484,008
Investment earnings				391,390
Miscellaneous				3,060,341
Total general revenues				101,453,856
Change in net position				12,710,062
Net position - beginning, as restated				32,482,730
Net position - ending				\$ 45,192,792

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

MANOR INDEPENDENT SCHOOL DISTRICT
Balance Sheet
Governmental Funds
June 30, 2015

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS:					
Cash and temporary investments	\$ 23,927,029	21,294,538	125,824,365	241,324	171,287,256
Receivables:					
Property taxes - delinquent	1,822,348	584,989	-	-	2,407,337
Allowance for uncollectible taxes	(915,480)	(192,161)	-	-	(1,107,641)
Due from other governments	9,647,583	-	-	1,637,366	11,284,949
Due from other funds	1,478,207	1,098,446	541,597	3,112,198	6,230,448
Other	8,645	-	357	-	9,002
Total assets	<u>\$ 35,968,332</u>	<u>22,785,812</u>	<u>126,366,319</u>	<u>4,990,888</u>	<u>190,111,351</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:					
Liabilities:					
Accounts payable	\$ 954,286	-	3,179,684	339,902	4,473,872
Payroll deductions and withholdings payable	5,185	-	-	22,438	27,623
Accrued wages payable	5,659,369	-	-	443,096	6,102,465
Due to other funds	4,388,519	-	350,082	1,487,412	6,226,013
Due to other governments	-	-	-	14,173	14,173
Unearned revenue	1,171,810	-	-	-	1,171,810
Total liabilities	<u>12,179,169</u>	<u>-</u>	<u>3,529,766</u>	<u>2,307,021</u>	<u>18,015,956</u>
Deferred inflows of resources -					
Deferred revenue - property taxes	906,868	392,828	-	-	1,299,696
Fund balances:					
Restricted for:					
Debt service	-	22,392,984	-	-	22,392,984
Authorized construction	-	-	122,836,553	-	122,836,553
Food service	-	-	-	2,272,910	2,272,910
Committed to-					
Equipment and supplies - student growth	3,400,000	-	-	-	3,400,000
Assigned to:					
Campus activities	-	-	-	198,951	198,951
Local grants	-	-	-	212,006	212,006
Unassigned	19,482,295	-	-	-	19,482,295
Total fund balances	<u>22,882,295</u>	<u>22,392,984</u>	<u>122,836,553</u>	<u>2,683,867</u>	<u>170,795,699</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 35,968,332</u>	<u>22,785,812</u>	<u>126,366,319</u>	<u>4,990,888</u>	

Amounts reported for *governmental activities* in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	\$ 186,706,183
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,299,696
The following liabilities and deferred inflows and outflows of resources are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable, including premiums	(306,276,456)
Less: Issuance discounts	414,805
Less: Deferred charges on refundings	7,689,989
Interest payable	(1,211,127)
Capital lease payable	(37,604)
Accretion payable	(647,769)
Compensated absences	(643,993)
Net pension liability	(11,330,541)
Pension contributions after measurement date	988,228
Pension actuarial losses	911,728
Deferred inflows related to pension liability	(3,466,046)
Net position of governmental activities	<u>\$ 45,192,792</u>

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

MANOR INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2015

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES:					
Local and intermediate sources	\$ 42,685,099	24,217,057	238,524	1,106,056	68,246,736
State program revenues	37,883,580	-	-	855,229	38,738,809
Federal program revenues	1,091,044	-	-	10,469,493	11,560,537
Total revenues	81,659,723	24,217,057	238,524	12,430,778	118,546,082
EXPENDITURES:					
Current:					
Instruction	43,126,277	-	-	3,827,956	46,954,233
Instructional resources and media services	726,986	-	-	-	726,986
Curriculum and staff development	1,986,379	-	-	1,101,011	3,087,390
Instructional leadership	2,816,197	-	102,355	723,878	3,642,430
School leadership	4,839,794	-	-	76,720	4,916,514
Guidance, counseling, and evaluation services	2,353,020	-	-	637,090	2,990,110
Social work services	587,950	-	-	222,863	810,813
Health services	780,630	-	-	-	780,630
Student transportation	3,490,700	-	1,868,559	8,649	5,367,908
Food services	2,821	-	-	5,780,284	5,783,105
Extracurricular activities	1,838,202	-	-	5,257	1,843,459
General administration	3,489,596	-	19,332	-	3,508,928
Facilities maintenance and operations	7,380,937	-	201,903	942	7,583,782
Security and monitoring services	719,694	-	-	-	719,694
Data processing services	2,033,899	-	687,557	-	2,721,456
Community services	950,811	-	-	129,143	1,079,954
Debt service	12,418	29,315,660	1,030,515	-	30,358,593
Facilities acquisition and construction	-	-	18,468,419	-	18,468,419
Payments to juvenile justice alternative education programs	2,322	-	-	-	2,322
Other intergovernmental charges	330,507	-	-	-	330,507
Total expenditures	77,469,140	29,315,660	22,378,640	12,513,793	141,677,233
Excess (Deficiency) of revenues over (under) expenditures	4,190,583	(5,098,603)	(22,140,116)	(83,015)	(23,131,151)
OTHER FINANCING SOURCES (USES):					
Issuance of bonds	-	4,725	116,090,275	-	116,095,000
Issuance of refunding bonds	-	43,585,000	-	-	43,585,000
Premium on sale of bonds	-	6,766,523	9,854,779	-	16,621,302
Payments to refunded bond escrow agent	-	(58,381,380)	-	-	(58,381,380)
Other uses	(155,113)	-	-	-	(155,113)
Total other financing sources (uses)	(155,113)	(8,025,132)	125,945,054	-	117,764,809
Net change in fund balances	4,035,470	(13,123,735)	103,804,938	(83,015)	94,633,658
Fund balances - beginning	18,846,825	35,516,719	19,031,615	2,766,882	76,162,041
Fund balances - ending	\$ 22,882,295	22,392,984	122,836,553	2,683,867	170,795,699

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

MANOR INDEPENDENT SCHOOL DISTRICT
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2015

Net change in fund balances-total governmental funds	\$ 94,633,658
Amounts reported for <i>governmental activities</i> in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures.	
However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.	
Capital outlay	23,547,784
Depreciation expense	(6,603,139)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred tax revenue	(9,997)
Bond and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.	
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.	
Bond proceeds, including premiums	(176,301,302)
Repayment of bond principal	14,870,000
Repayment of capital lease principal	10,554
Payment to refunded bond escrow agent	58,381,380
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Change in bond interest payable	2,391,858
Amortization of bond premiums	1,781,723
Amortization of bond issuance discounts	(17,741)
Amortization of deferred charges on refundings	(388,502)
Change in accretion payable	(19,927)
Change in compensated absences	306,113
Pension contributions made before the measurement date	186,680
Pension contributions made after the measurement date	988,228
Adjustment for ending deferred inflows and outflows related to net pension liability	(1,047,308)
Change in net position of governmental activities	<u>\$ 12,710,062</u>

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

MANOR INDEPENDENT SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local and intermediate sources	\$ 27,661,721	41,207,742	42,685,099	1,477,357
State program revenues	38,688,833	37,260,332	37,883,580	623,248
Federal program revenues	970,068	970,068	1,091,044	120,976
Total revenues	<u>67,320,622</u>	<u>79,438,142</u>	<u>81,659,723</u>	<u>2,221,581</u>
EXPENDITURES:				
Current:				
Instruction	36,324,704	41,996,065	43,126,277	(1,130,212)
Instructional resources and media services	755,573	716,805	726,986	(10,181)
Curriculum and staff development	1,708,620	1,962,032	1,986,379	(24,347)
Instructional leadership	2,244,878	3,048,517	2,816,197	232,320
School leadership	4,008,061	4,778,221	4,839,794	(61,573)
Guidance, counseling, and evaluation services	1,767,198	2,214,431	2,353,020	(138,589)
Social work services	379,757	575,467	587,950	(12,483)
Health services	737,414	735,950	780,630	(44,680)
Student transportation	3,079,002	3,544,516	3,490,700	53,816
Food services	-	3,766	2,821	945
Extracurricular activities	1,826,115	1,943,901	1,838,202	105,699
General administration	2,932,052	3,910,507	3,489,596	420,911
Facilities maintenance and operations	7,371,008	9,165,583	7,380,937	1,784,646
Security and monitoring services	610,347	718,666	719,694	(1,028)
Data processing services	1,895,507	2,161,883	2,033,899	127,984
Community services	573,748	1,032,728	950,811	81,917
Debt service	-	-	12,418	(12,418)
Payments to juvenile justice alternative education programs	17,845	-	2,322	(2,322)
Other intergovernmental charges	200,081	245,000	330,507	(85,507)
Total expenditures	<u>66,431,910</u>	<u>78,754,038</u>	<u>77,469,140</u>	<u>1,284,898</u>
Excess of revenues over expenditures	888,712	684,104	4,190,583	3,506,479
OTHER FINANCING SOURCES USES-				
Other uses	-	-	(155,113)	(155,113)
Net change in fund balance	888,712	684,104	4,035,470	3,351,366
Fund balance - beginning	18,846,825	18,846,825	18,846,825	-
Fund balance - ending	<u>\$ 19,735,537</u>	<u>19,530,929</u>	<u>22,882,295</u>	<u>3,351,366</u>

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

MANOR INDEPENDENT SCHOOL DISTRICT
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2015

ASSETS-

Cash and temporary investments	\$ 14,131
Total assets	<u>\$ 14,131</u>

LIABILITIES:

Due to student groups	\$ 9,696
Due to other funds	<u>4,435</u>
Total liabilities	<u>\$ 14,131</u>

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

MANOR INDEPENDENT SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Reporting Entity

This report includes those activities, organizations and functions which are related to the Manor Independent School District (the "District") and which are controlled by or dependent upon the District's governing body, the Board of Trustees (the "Board"). The Board, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state and federal government sources, it must comply with the requirements of the entities providing those funds. However, the District is not included in any other governmental "reporting entity" as defined by Statement No. 14 of the Governmental Accounting Standards Board ("GASB"), since Board members are elected by the public and have decision making authority. There are no component units included within the reporting entity.

The accounting policies of the District comply with the rules prescribed by the Texas Education Agency's ("TEA") Financial Accountability System Resource Guide. These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e. the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The District has no business-type activities.

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

Major revenue sources considered susceptible to accrual include state and federal program revenues and interest income. No accrual for property taxes collected within sixty days of year end has been made as such amounts are deemed immaterial; delinquent property taxes at year end that are not collected within sixty days of year end are reported as deferred inflows of resources.

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

The District reports the following major governmental funds:

The General Fund includes financial resources used for general operations. It is a budgeted fund, and any unassigned fund balances are considered resources available for current operations.

The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due. It is a budgeted fund.

The Capital Projects Fund includes the proceeds from the sale of bonds and other revenues to be used for authorized construction and other capital asset acquisitions.

Additionally, the District reports the following fund types:

Special Revenue Funds are governmental funds which include resources restricted, committed, or assigned for specific purposes by a grantor or the Board. Federally financed programs where unused balances are returned to the grantor at the close of specified project periods are accounted for in these funds. The District uses project accounting to maintain integrity for the various sources of funds.

Fiduciary Funds are unbudgeted funds and are used to account for activities of student groups and other types of activities requiring clearing accounts. These funds have no equity, assets are equal to liabilities, and they do not include revenues and expenditures for general operations of the District.

Budgetary Information

Budgets are prepared annually for the General Fund, Debt Service Fund, and Food Service Fund (special revenue fund) on the modified accrual basis, which is consistent with generally accepted accounting principles. A formal budget is prepared by June 26 and is adopted by the Board at a public meeting after ten days public notice of the meeting has been given. The legal level of control for budgeted expenditures is the function level within the budgeted funds. Amendments to the budget are required prior to expending amounts greater than the budgeted amounts at the function level. Budgets are controlled at the departmental or campus level, the same level at which responsibility for operations is assigned. The budget was amended by the Board as needed throughout the year.

The following expenditure functions in the General Fund exceeded budgeted amounts for the year ended June 30, 2015:

Instruction	\$ 1,130,212
Instructional resources and media services	10,181
Curriculum and staff development	24,347
School leadership	61,573
Guidance, counseling, and evaluation services	138,589
Social work services	12,483
Health services	44,680
Security and monitoring services	1,028
Debt service	12,418
Payments to juvenile justice alternative education programs	2,322
Other intergovernmental charges	85,507

The debt service function in the Debt Service Fund exceeded the budgeted amount by \$14,849,897 for the year ended June 30, 2015.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or provided for in the subsequent year's budget. There were no material outstanding encumbrances at June 30, 2015 that were provided for in the subsequent year's budget.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position or Equity

Investments - Temporary investments throughout the year consisted of investments in an external investment pool, municipal bonds, a flexible repurchase agreement, and certificates of deposit. The District is entitled to invest any and all of its funds in certificates of deposit, direct debt securities of the United States of America or the State of Texas, certain Federal agency securities and other types of municipal bonds, fully collateralized repurchase agreements, commercial paper and local government investment pools. The District's investment policies and types of investments are governed by Section 2256 of the Texas Government Code ("Public Funds Investment Act"). The District's management believes that it complied with the requirements of the Public Funds Investment Act and the District's investment policy. The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Capital Assets - Capital assets, which include land, buildings and improvements, construction in progress, and furniture and equipment, are reported in the governmental activities column in the government-wide financial statements. The District has no infrastructure assets. Capital assets are defined by the District as assets with an initial, individual cost of \$5,000. Such assets are recorded at historical cost if purchased or estimated fair value at the date of donation, if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized. Capital assets (other than land and construction in progress) are depreciated using the straight line method over the following estimated useful lives: buildings and improvements - 10 to 40 years, furniture and equipment - 4 to 15 years.

Ad Valorem Property Taxes - Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Compensated Absences - The State of Texas (the "State") has created a minimum leave program consisting of five days of personal leave per year with no limit on accumulation and transferability among districts for every person regularly employed in Texas public schools. Each district's local board is required to establish a leave plan. Local school districts may provide additional leave beyond the State minimum. Upon retirement or death of certain employees, the District pays any accrued leave in a lump cash payment in accordance with District policy. Accordingly, a liability for accrued compensated absences has been established by the District and is reflected in the government-wide financial statements.

Fund Equity - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 10 for additional information on those fund balance classifications.

Pensions - The District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*. 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. See Note 17 for the prior period adjustment related to the adoption of GASB Statements No. 68 and No. 71.

Deferred Outflows and Inflows of Resources - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District’s net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District’s acquisition of net position applicable to a future reporting period.

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 8 and Note 12 for additional information on deferred inflows and outflows of resources.

Recently Issued Accounting Pronouncements

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The objective of GASB Statement No. 75 is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions. GASB Statement No. 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources and deferred inflows of resources, and expense/expenditures. GASB Statement No. 75 also identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. In addition, GASB Statement No. 75 addresses the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit other postemployment benefits plan and for employers whose employees are provided with defined contribution other postemployment benefits. Management is evaluating the effects that the full implementation of GASB Statement No. 75 will have on its financial statements for the year ended June 30, 2018.

2. DEPOSITS, SECURITIES AND INVESTMENTS

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy, which is approved annually by the Board. The primary objectives of the District's investment strategy, in order of priority, are preservation and safety of principal, liquidity and yield.

The District is authorized to invest in the following investment instruments provided that they meet the guidelines established in the investment policy:

- Obligations of, or guaranteed by, governmental entities
- Certificates of deposit and share certificates
- Fully collateralized repurchase agreements
- Securities lending programs
- Banker's acceptance
- Commercial paper
- Money market funds and no-load mutual funds
- Guaranteed investment contracts
- Public funds investment pools
- Corporate bonds

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. Therefore, the District is not exposed to custodial credit risk.

Under the depository contract, the District, at its own discretion, may invest funds in time deposits and certificates of deposit provided by the depository bank at interest rates approximating United States Treasury Bill rates.

At June 30, 2015, the carrying amount of the District's deposits (cash and interest-bearing savings accounts included in temporary investments) was \$39,876,922 and the bank balance was \$43,116,314.

The District's deposits with financial institutions at June 30, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The deposits were collateralized in accordance with Texas law and the TEA maintains copies of all safekeeping receipts in the name of the District. During the year ended June 30, 2015, there were instances in which the District's deposits were not fully collateralized by FDIC insurance or by pledged collateral. These instances were due to the timing of certain payments received by the District in which the bank did not increase the pledged collateral until the next day. There were additional instances in which the District's deposits were not collateralized in compliance with District policy. Deposits were exposed to custodial credit risk at various times throughout the year.

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

- a) Name of depository bank: Wells Fargo
- b) Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$196,032,208.
- c) Largest cash, savings and time deposit combined account balance amounted to \$183,884,521 and occurred during the month of February 2015.
- d) Total amount of FDIC coverage at the time of highest combined balance was \$500,000.

Investments held at June 30, 2015 consisted of the following:

Type	Fair Value	Weighted Average Maturity (Days)	Standard & Poor's Rating
Local governmental investment pools- TexPool	\$ 5,340,562	1	AAAm
Flexible repurchase agreement	116,084,201	838	BBB+
Municipal bonds	7,499,642	414	A+ to AAA
Certificates of deposit	2,500,060	753	N/A
Total	<u>\$ 131,424,465</u>		

The District had investments in one external local government investment pool at June 30, 2015: Texas Local Governmental Investment Pool (“TexPool”). Although TexPool is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. These investments are stated at fair value which is the same as the value of the pool shares.

TexPool is overseen by the Texas State Comptroller of Public Accounts, who is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company which is authorized to operate TexPool. TexPool also has an advisory board to advise on TexPool’s investment policy, which is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors manages daily operations of TexPool under a contract with the Comptroller and is the investment manager for the pool. TexPool’s investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

A fully-collateralized flexible repurchase agreement was entered into by the District through proceeds received from the issuance of bonds. The agreement is with Deutsche Bank Securities, Inc., who serves as the repurchase provider, and The Bank of New York Mellon, who serves as the custodian. The agreement matures on October 15, 2017, and the District earns a fixed annual interest rate of 0.5%. Fair values of funds held in the agreement are based on the original principal amount adjusted for the net impact of principal draws by the District and interest earned.

The investments are reported by the District at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

Credit Risk - At June 30, 2015, investments were included in a local government investment pool, a fully-collateralized flexible repurchase agreement, municipal bonds, and certificates of deposit in compliance with the District's investment policy. Credit risk for the fully-collateralized flexible repurchase agreement is minimized through the use of highly-rated dealer counter-parties.

Custodial Credit Risk - Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty's trust department or agent not in the District's name. At June 30, 2015, the District was not exposed to custodial credit risk.

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. Information regarding investments in any one issuer that represents five percent or more of the District's total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. Government. At June 30, 2015, the District had approximately 88% of its investments in a fully-collateralized flexible repurchase agreement.

Interest Rate Risk - As a means of minimizing risk of loss due to interest rate fluctuations, the investment policy requires the District to monitor interest rate risk using weighted average maturity and specific identification. Maturities of any individual investment owned by the District should not exceed one year from the time of purchase unless the Board specifically authorizes a longer maturity for a given investment, within legal limits. The District considers the holdings in a local government investment pool to have a one day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholders, unless there has been a significant change in value. At June 30, 2015, the District was not exposed to significant interest rate risk.

3. APPRAISAL DISTRICT

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The Travis Central Appraisal District (the "Appraisal District") is responsible for the recording and appraisal of all property in the District. Under the Code, the District's Board sets the tax rates on property and the Appraisal District's tax department provides tax collection services. The Appraisal District is required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every four years. Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Review Board through various appeals and, if necessary, legal action.

Property taxes are levied as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, and penalties and interest that are ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period, including those property taxes expected to be collected during a 60 day period after the end of the District's fiscal year. The District has an economic exemption under Texas Property Tax Code Section 313.027 which reduces the assessed value that can be taxed for local maintenance (general governmental services). The assessed value at January 1, 2014, upon which the October 2014 levy was based, for local maintenance and debt service was \$3,706,869,950 and \$5,018,339,046, respectively. The District levied taxes based on a tax rate of \$1.04 and \$0.475 per \$100 of assessed valuation for local maintenance and debt service, respectively.

In May 1993, the Texas Legislature passed Senate Bill 7. Senate Bill 7 significantly changed certain aspects of the school finance system relative to accountability, teacher appraisal, career ladder, funding allotments, district local share, distribution of Foundation School Funds, tax limitations and rollback tax provisions. Funding equalization for school districts is a major component of the bill. Districts with wealth per student in excess of \$319,500 are required to take action to bring their wealth down to the equalized State level. Each year, the TEA notifies school districts in which property wealth per Weighted Average Daily Attendance ("WADA") meets or exceeds \$319,500. However, the final determination of whether a school district will be required to make recapture payments is based on the district's tax effort and the extent to which the district's wealth per WADA exceeds the first equalized wealth level of \$504,000. The District was not above the equalized wealth level for the 2014-2015 fiscal year.

4. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully fund certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. These amounts are reported in the basic financial statements as Due from Other Governments and are summarized below at June 30, 2015.

	General Fund	Nonmajor Governmental Funds	Total
State entitlements	\$ 9,647,583	-	9,647,583
Federal and state grants	-	1,637,366	1,637,366
Total	<u>\$ 9,647,583</u>	<u>1,637,366</u>	<u>11,284,949</u>

5. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds.” The composition of interfund balances at June 30, 2015 is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor Governmental Funds	\$ 1,123,690
	Capital Projects Fund	350,082
	Fiduciary Fund	4,435
Debt Service Fund	General Fund	1,098,446
Capital Projects Fund	General Fund	177,875
	Nonmajor Governmental Funds	363,722
Nonmajor Governmental Funds	General Fund	<u>3,112,198</u>
Total		<u>\$ 6,230,448</u>

6. UNEARNED REVENUE

At June 30, 2015, the General Fund had unearned revenue of \$1,171,810 from state entitlements.

7. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 17,679,598	-	-	17,679,598
Construction in progress	<u>2,028,251</u>	<u>17,766,520</u>	-	<u>19,794,771</u>
Total capital assets, not being depreciated	<u>19,707,849</u>	<u>17,766,520</u>	-	<u>37,474,369</u>
Capital assets, being depreciated:				
Buildings and improvements	195,566,350	273,090	-	195,839,440
Furniture and equipment	<u>13,238,479</u>	<u>5,508,174</u>	-	<u>18,746,653</u>
Total capital assets being depreciated	<u>208,804,829</u>	<u>5,781,264</u>	-	<u>214,586,093</u>
Less accumulated depreciation for:				
Buildings and improvements	(49,187,632)	(4,849,405)	-	(54,037,037)
Furniture and equipment	<u>(9,563,508)</u>	<u>(1,753,734)</u>	-	<u>(11,317,242)</u>
Total accumulated depreciation	<u>(58,751,140)</u>	<u>(6,603,139)</u>	-	<u>(65,354,279)</u>
Total capital assets, being depreciated, net	<u>150,053,689</u>	<u>(821,875)</u>	-	<u>149,231,814</u>
Governmental activities capital assets, net	<u>\$ 169,761,538</u>	<u>16,944,645</u>	-	<u>186,706,183</u>

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

Governmental activities:

Instruction	\$ 3,673,943
Instructional resources and media services	169,816
Curriculum and staff development	108,828
Instructional leadership	5,000
School leadership	88,871
Guidance, counseling, and evaluation services	30,774
Social work services	12,600
Health services	18,625
Student transportation	421,705
Food services	411,067
Extracurricular activities	1,034,910
General administration	228,995
Facilities maintenance and operations	115,247
Security and monitoring services	2,315
Data processing services	278,791
Community services	1,652
Total depreciation expense - governmental activities	<u>\$ 6,603,139</u>

8. DEFERRED CHARGES ON BOND REFUNDINGS

The following is a summary of changes in deferred charges on bond refundings for the year ended June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Deferred charges on refundings	\$ 2,292,111	5,786,380	(388,502)	7,689,989

9. LONG-TERM LIABILITIES

The following is a summary of changes in long-term liabilities for the year ended June 30, 2015:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
General obligation bonds	\$ 188,814,999	159,680,000	(67,465,000)	281,029,999
Premiums on bonds	10,406,878	16,621,302	(1,781,723)	25,246,457
Issuance discounts on bonds	(432,546)	-	17,741	(414,805)
Accretion on capital appreciation bonds	627,842	19,927	-	647,769
Capital leases	48,158	-	(10,554)	37,604
Compensated absences	950,106	-	(306,113)	643,993
Total	<u>\$ 200,415,437</u>	<u>176,321,229</u>	<u>(69,545,649)</u>	<u>307,191,017</u>

Bonded debt consists of the following at June 30, 2015:

General obligation bonds:

Series	Date of Issue	Amounts of Original Issue	Matures Through	Interest Rate	Outstanding at 6-30-15	Due Within One Year
2005	3-22-05	\$ 14,560,000	2018	3.00 - 5.00%	\$ 7,685,000	\$ 1,235,000
2006	3-30-06	18,550,000	2034	0.875 - 4.85%	11,140,000	-
2006A	9-11-06	35,555,000	2016	4.00 - 5.00%	100,000	100,000
2007	9-14-07	68,125,000	2038	4.00 - 5.25%	20,105,000	285,000
2008	9-9-08	24,999,992	2039	3.00 - 5.00%	22,505,000	560,000
2011	11-10-11	17,465,000	2022	1.75 - 5.00%	11,175,000	-
2012	5-2-12	8,779,999	2030	2.00 - 3.50%	8,479,999	-
2013	3-19-13	48,240,000	2037	1.50 - 5.00%	47,110,000	-
2014R	7-9-14	43,585,000	2035	2.00 - 5.00%	41,910,000	-
2014	9-9-14	<u>116,095,000</u>	2045	2.00 - 5.00%	<u>110,820,000</u>	-
Total		<u>\$ 395,954,991</u>			<u>\$ 281,029,999</u>	<u>\$ 2,180,000</u>

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District without limitation as to rate. The Texas Education Code generally prohibits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness exceeds \$0.50 per \$100 of assessed valuation of taxable property within the District. The District's debt service rate for tax year 2014 was \$0.475.

On July 9, 2014 the District issued \$43,585,000 of Refunding Bonds and contributed \$8,550,000 to advance refund \$52,595,000 of previously issued District bonds in order to lower its overall debt service requirements. The net proceeds of \$58,394,097 (after payment of \$507,426 in underwriting fees, insurance, and other issuance costs) were used for the following: \$58,381,380 was deposited with an escrow agent to provide the debt service payment on the portion of bonds advance refunded and \$12,717 was deposited in the Debt Service Fund for future interest and principal payments. As a result, \$52,595,000 of bond principal is considered defeased and the liability for these bonds was removed from the basic financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$5,786,380. This amount is recorded as a deferred outflow of resources and amortized over the remaining life of the new debt issued as this has the same remaining life of the bonds refunded. The advance refunding resulted in an economic gain of \$4,483,623.

On September 9, 2014, the District issued \$116,095,000 in Unlimited Tax School Building Bonds, Series 2014, to pay for high school additions and improvements, a new middle and elementary school, future school sites, new school buses, and improvements to existing campus and facilities. The net proceeds of \$124,914,225 (after payment of \$1,035,555 in underwriting fees, insurance, and other issuance costs) were used for the following: \$124,909,500 was invested by the District to fund future capital expenditures and \$4,725 was deposited in the Debt Service Fund for future interest and principal payments.

The annual principal installments for each of the outstanding issues vary each year. As of June 30, 2015, the debt service requirements of bonded indebtedness to maturity are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	\$ 2,180,000	7,703,961	9,883,961
2017	8,000,000	12,324,005	20,324,005
2018	8,355,000	11,966,018	20,321,018
2019	8,715,000	11,581,474	20,296,474
2020	9,125,000	11,218,468	20,343,468
2021 - 2025	46,110,000	50,017,061	96,127,061
2026 - 2030	50,879,999	39,933,546	90,813,545
2031 - 2035	62,135,000	26,480,918	88,615,918
2036 - 2040	54,380,000	11,463,644	65,843,644
2041 - 2045	31,150,000	3,213,000	34,363,000
Total	<u>\$ 281,029,999</u>	<u>185,902,095</u>	<u>466,932,094</u>

The outstanding Series 2012 Bonds include both Serial and Capital Appreciation Bonds. The interest shown above, with respect to the Capital Appreciation Bonds, includes the interest to be paid on bonds maturing in the respective years and does not include accrued interest on bonds not maturing in those years.

In the current year and prior years, the District defeased outstanding general obligation bonds through the Series 2012, Series 2013, and Series 2014 Refunding Bonds by placing the proceeds of the new bonds in an irrevocable trust to provide for the future debt service payments on the old bonds. Accordingly, the trust account assets and defeased bonds are not included in the District's financial statements. At June 30, 2015 outstanding bonds of \$81,630,000 are considered defeased.

As of June 30, 2015, general obligation bonds of \$8,805,000 were authorized by voters of the District, but unissued.

The District financed the purchase of maintenance equipment through two capital lease agreements (the “Agreements”) with a finance company. The purchase price of the maintenance equipment was \$55,981 which equates to the capital lease principal amount. Under the terms of the Agreement, principal and interest payments of \$1,035 are due monthly beginning in November 2013 through October 2018. At the end of the lease term, the District has a bargain purchase option allowing the District to purchase all the maintenance equipment for one dollar per agreement. The effective interest rate on the leases is 4.30%. Lease payment requirements are as follows:

Year Ended June 30,	Principal	Interest	Total
2016	\$ 11,016	1,402	12,418
2017	11,500	918	12,418
2018	12,004	414	12,418
2019	3,084	20	3,104
Total	\$ 37,604	2,754	40,358

10. FUND BALANCES

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.

Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board.

Assigned - For the General Fund, amounts that are appropriated by the Board or Board designee that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed.

Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District’s General Fund.

The detail of the fund balances are included in the Governmental Funds Balance Sheet on page 15.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District’s highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board may also assign fund balance for a specific purpose.

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, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

11. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

For the year ended June 30, 2015, revenues from local and intermediate sources in governmental funds consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 39,140,764	24,110,520	-	-	63,251,284
Food service	-	-	-	851,038	851,038
Investment income	116,475	35,064	238,524	1,327	391,390
Penalties, interest, and other tax related income	205,358	71,473	-	-	276,831
Co-curricular student activities	66,402	-	-	9,417	75,819
Other	3,156,100	-	-	244,274	3,400,374
Total	\$ 42,685,099	24,217,057	238,524	1,106,056	68,246,736

12. DEFINED BENEFIT PENSION PLANS

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

Benefits Provided

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

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance ("OASDI") on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act ("GAA") established the employer contribution rates for fiscal years 2014 and 2015.

	<u>2014</u>	<u>2015</u>
Contribution Rates:		
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2015 District Contributions		\$ 1,169,687
2015 Member Contributions		\$ 3,451,575
2015 NECE On-behalf Contributions		\$ 2,247,768

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the 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 TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial Assumptions

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

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

* Includes Inflation of 3%

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

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:

	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	0%	0.0%	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.

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 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	\$ 20,246,990	\$11,330,541	\$ 4,662,698

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

At June 30, 2015, the District reported a liability of \$11,330,541 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	\$ 11,330,541
State's proportionate share that is associated with the District	<u>23,732,728</u>
Total	<u>\$ 35,063,269</u>

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

At August 31, 2014 the employer's proportion of the collective net pension liability was 0.0424% which was a decrease of 0.00003% from its proportion measured as of August 31, 2013. 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 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 June 30, 2015, the District recognized pension expense of \$3,236,134 and revenue of \$2,194,047 for support provided by the State.

At June 30, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 175,230	\$ -
Changes in actuarial assumptions	736,498	-
Difference between projected and actual investment earnings	-	3,463,076
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	2,970
Contributions paid to TRS subsequent to the measurement date	<u>988,228</u>	<u>-</u>
Total	<u>\$ 1,899,956</u>	<u>\$ 3,466,046</u>

The \$988,228 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

	<u>Pension Expense Amount</u>
Year ended June 30:	
2016	\$ (712,795)
2017	(712,795)
2018	(712,795)
2019	(712,795)
2020	152,974
Thereafter	143,888

13. ON-BEHALF PAYMENTS

The District recognizes as revenues and expenditures retiree drug subsidy reimbursements under the provisions of Medicare Part D made by the federal government to TRS on behalf of the District. For the year ended June 30, 2015, reimbursements of \$159,467 were received by TRS and allocated to the District.

14. 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 TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.02 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of TRS at 1000 Red River Street, Austin, Texas 78701.

Funding Policy - Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2013-2015.

Contribution Rates:

Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2015	.65%	\$ 336,877	1.0%	\$ 518,272	.55%	\$ 285,050
2014	.65%	310,857	1.0%	478,242	.55%	263,033
2013	.65%	246,999	0.5%	190,000	.55%	208,999

15. RISK MANAGEMENT

The District’s risk management program includes coverages through third party insurance providers for property, automobile liability, school professional liability, crime, workers compensation and other miscellaneous bonds. During the year ended June 30, 2015, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents, and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

16. COMMITMENTS AND CONTINGENCIES

The District participates in a number of federal financial assistance programs. Although the District’s grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2015, these programs are subject to financial and compliance audits. The amounts, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

At June 30, 2015, the District is also committed under construction contracts with a remaining balance of \$2,789,518.

17. PRIOR PERIOD ADJUSTMENT

In accordance with the adoption of GASB Statements No. 68 and No. 71 in the current fiscal year, the District must record its proportionate share of the net pension liability related its contributions to the TRS cost-sharing pension plan at the beginning of the measurement period ending August 31, 2014. In addition, the District must record a deferred outflow of resources for its contributions to TRS from the beginning of the measurement period through June 30, 2014. The effect of this change in accounting principle is as follows:

Net position - June 30, 2014	\$ 45,506,961
Net pension liability - August 31, 2013	(13,912,976)
District contributions - September 1, 2013 - June 30, 2014	<u>888,745</u>
Net position - June 30, 2014, as restated	<u>\$ 32,482,730</u>

18. SUBSEQUENT EVENT

In August 2015, the District issued \$25,995,000 Unlimited Tax Refunding Bonds, Series 2015 to advance refund \$26,560,000 of previously issued District bonds in order to lower its overall debt service requirements.

**COMBINING AND INDIVIDUAL
FUND STATEMENTS AND SCHEDULES**

MANOR INDEPENDENT SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds
June 30, 2015

	206	211	224	225	240/242	244	255	263	267	274
	ESEA Title X, Part C Education for Homeless Children	ESEA Title I, Part A Improving Basic Programs	IDEA Part B, Formula	IDEA Part B, Preschool	National School Breakfast and Lunch Program	Vocational Education Basic Grant	ESEA Title II, Part A Teacher and Principal Training and Recruiting	Title III, Part A English Language Acquisition and Language Enhancement	Summer School LEP	Gear Up
Assets:										
Cash and temporary investments	\$ -	-	-	-	150	-	-	-	-	-
Receivables:										
Due from other governments	37,349	306,472	243,632	9,890	45,947	27,411	28,168	31,333	-	101,665
Due from other funds	-	-	-	-	2,899,958	-	-	-	-	-
Total assets	<u>\$ 37,349</u>	<u>306,472</u>	<u>243,632</u>	<u>9,890</u>	<u>2,946,055</u>	<u>27,411</u>	<u>28,168</u>	<u>31,333</u>	<u>-</u>	<u>101,665</u>
Liabilities and fund balances:										
Liabilities:										
Accounts payable	\$ 5,130	115,845	77,978	-	13,771	-	184	13,133	-	15,843
Payroll deductions and withholdings payable	-	-	-	-	22,438	-	-	-	-	-
Accrued wages payable	3,978	49,030	92,103	-	192,071	-	-	-	-	-
Due to other funds	28,241	141,597	73,551	9,890	444,865	27,411	27,984	18,200	-	85,822
Due to other governments	-	-	-	-	-	-	-	-	-	-
Total liabilities	<u>37,349</u>	<u>306,472</u>	<u>243,632</u>	<u>9,890</u>	<u>673,145</u>	<u>27,411</u>	<u>28,168</u>	<u>31,333</u>	<u>-</u>	<u>101,665</u>
Fund balances:										
Restricted	-	-	-	-	2,272,910	-	-	-	-	-
Assigned	-	-	-	-	-	-	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,272,910</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 37,349</u>	<u>306,472</u>	<u>243,632</u>	<u>9,890</u>	<u>2,946,055</u>	<u>27,411</u>	<u>28,168</u>	<u>31,333</u>	<u>-</u>	<u>101,665</u>

(continued)

MANOR INDEPENDENT SCHOOL DISTRICT
Combining Balance Sheet
Nonmajor Special Revenue Funds (continued)
June 30, 2015

	289	385	410	461	498	499	Total Special Revenue Funds
	Texas Literacy Initiative	Visually Impaired	State Instructional Materials	Campus Activity	Travis County Afterschool Grant	Local Grants	
Assets:							
Cash and temporary investments	\$ -	-	-	241,174	-	-	241,324
Receivables:							
Due from other governments	757,661	3,632	-	-	44,206	-	1,637,366
Due from other funds	-	-	-	-	-	212,240	3,112,198
Total assets	<u>\$ 757,661</u>	<u>3,632</u>	<u>-</u>	<u>241,174</u>	<u>44,206</u>	<u>212,240</u>	<u>4,990,888</u>
Liabilities and fund balances:							
Liabilities:							
Accounts payable	\$ 97,784	-	-	-	-	234	339,902
Payroll deductions and withholdings payable	-	-	-	-	-	-	22,438
Accrued wages payable	105,914	-	-	-	-	-	443,096
Due to other funds	553,963	3,632	-	28,050	44,206	-	1,487,412
Due to other governments	-	-	-	14,173	-	-	14,173
Total liabilities	<u>757,661</u>	<u>3,632</u>	<u>-</u>	<u>42,223</u>	<u>44,206</u>	<u>234</u>	<u>2,307,021</u>
Fund balances:							
Restricted	-	-	-	-	-	-	2,272,910
Assigned	-	-	-	198,951	-	212,006	410,957
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>198,951</u>	<u>-</u>	<u>212,006</u>	<u>2,683,867</u>
Total liabilities and fund balances	<u>\$ 757,661</u>	<u>3,632</u>	<u>-</u>	<u>241,174</u>	<u>44,206</u>	<u>212,240</u>	<u>4,990,888</u>

MANOR INDEPENDENT SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds
Year Ended June 30, 2015

	206	211	224	225	240/242	244	255	263	267	274
	ESEA Title X, Part C Education for Homeless Children	ESEA Title I, Part A Improving Basic Programs	IDEA Part B, Formula	IDEA Part B, Preschool	National School Breakfast and Lunch Program	Vocational Education Basic Grant	Title III, ESEA Title II, Part A Teacher and Principal Training and Recruiting	Part A English Language Acquisition and Language Enhancement	Summer School LEP	Gear Up
Revenues:										
Local and intermediate sources	\$ -	-	-	-	872,689	-	-	-	-	-
State program revenues	-	-	-	-	29,715	-	-	-	-	-
Federal program revenues	68,635	1,419,948	1,475,632	9,890	4,745,084	95,455	68,395	198,346	12,172	372,638
Total revenues	68,635	1,419,948	1,475,632	9,890	5,647,488	95,455	68,395	198,346	12,172	372,638
Expenditures:										
Instruction	3,250	896,359	559,290	9,890	-	87,851	735	33,471	12,172	195,069
Instruction resources and media	-	-	-	-	-	-	-	-	-	-
Curriculum and staff development	-	130,090	200,444	-	-	7,604	19,241	36,866	-	81,668
Instructional leadership	2,625	208,984	78,808	-	-	-	48,055	127,834	-	92,855
School leadership	-	9,739	-	-	-	-	364	175	-	-
Guidance, counseling and evaluation services	-	-	637,090	-	-	-	-	-	-	-
Social work services	62,760	160,103	-	-	-	-	-	-	-	-
Student transportation	-	-	-	-	-	-	-	-	-	-
Food services	-	-	-	-	5,780,122	-	-	-	-	-
Extracurricular activities	-	-	-	-	-	-	-	-	-	-
Facilities maintenance and operations	-	-	-	-	-	-	-	-	-	-
Community services	-	14,673	-	-	-	-	-	-	-	3,046
Total expenditures	68,635	1,419,948	1,475,632	9,890	5,780,122	95,455	68,395	198,346	12,172	372,638
Excess (Deficiency) of revenues over (under) expenditures	-	-	-	-	(132,634)	-	-	-	-	-
Fund balances - beginning	-	-	-	-	2,405,544	-	-	-	-	-
Fund balances - ending	\$ -	-	-	-	2,272,910	-	-	-	-	-

(continued)

MANOR INDEPENDENT SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Special Revenue Funds (continued)
Year Ended June 30, 2015

	289	385	410	461	498	499	Total Special Revenue Funds
	Texas Literacy Initiative	Visually Impaired	State Instructional Materials	Campus Activity	Travis County Afterschool Grant	Local Grants	
Revenues:							
Local and intermediate sources	\$ -	-	-	9,706	44,206	179,455	1,106,056
State program revenues	-	5,225	820,289	-	-	-	855,229
Federal program revenues	2,003,298	-	-	-	-	-	10,469,493
Total revenues	2,003,298	5,225	820,289	9,706	44,206	179,455	12,430,778
Expenditures:							
Instruction	1,084,226	3,446	820,289	39,033	38,206	44,669	3,827,956
Instruction resources and media	-	-	-	-	-	-	-
Curriculum and staff development	610,111	-	-	9,476	-	5,511	1,101,011
Instructional leadership	163,834	-	-	-	-	883	723,878
School leadership	38,607	-	-	21,835	6,000	-	76,720
Guidance, counseling and evaluation services	-	-	-	-	-	-	637,090
Social work services	-	-	-	-	-	-	222,863
Student transportation	-	-	-	-	-	8,649	8,649
Food services	-	-	-	-	-	162	5,780,284
Extracurricular activities	-	-	-	5,257	-	-	5,257
Facilities maintenance and operations	-	-	-	-	-	942	942
Community services	106,520	1,779	-	-	-	3,125	129,143
Total expenditures	2,003,298	5,225	820,289	75,601	44,206	63,941	12,513,793
Excess (Deficiency) of revenues over (under) expenditures	-	-	-	(65,895)	-	115,514	(83,015)
Fund balances - beginning	-	-	-	264,846	-	96,492	2,766,882
Fund balances - ending	\$ -	-	-	198,951	-	212,006	2,683,867

MANOR INDEPENDENT SCHOOL DISTRICT
Major Governmental Fund - Debt Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES-				
Local and intermediate sources	\$ 22,437,112	22,437,112	24,217,057	1,779,945
Total revenues	22,437,112	22,437,112	24,217,057	1,779,945
EXPENDITURES-				
Debt service	14,462,613	14,465,763	29,315,660	(14,849,897)
Total expenditures	14,462,613	14,465,763	29,315,660	(14,849,897)
Excess (Deficiency) of revenues over (under) expenditures	7,974,499	7,971,349	(5,098,603)	(13,069,952)
OTHER FINANCING SOURCES (USES):				
Issuance of bonds	-	-	4,725	4,725
Issuance of refunding bonds	-	-	43,585,000	43,585,000
Premium on sale of bonds	-	-	6,766,523	6,766,523
Payments to refunded bond escrow agent	-	-	(58,381,380)	(58,381,380)
Total other financing uses, net	-	-	(8,025,132)	(8,025,132)
Net change in fund balance	7,974,499	7,971,349	(13,123,735)	(21,095,084)
Fund balance - beginning	35,516,719	35,516,719	35,516,719	-
Fund balance - ending	\$ 43,491,218	43,488,068	22,392,984	(21,095,084)

MANOR INDEPENDENT SCHOOL DISTRICT
Nonmajor Special Revenue Fund - Food Service Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
Year Ended June 30, 2015

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
Local and intermediate sources	\$ 767,000	767,000	872,689	105,689
State program revenues	28,000	28,000	29,715	1,715
Federal program revenues	4,805,000	4,805,000	4,745,084	(59,916)
Total revenues	<u>5,600,000</u>	<u>5,600,000</u>	<u>5,647,488</u>	<u>47,488</u>
EXPENDITURES:				
Food services	5,067,395	5,799,201	5,780,122	19,079
Facilities maintenance and operations	250,000	-	-	-
Total expenditures	<u>5,317,395</u>	<u>5,799,201</u>	<u>5,780,122</u>	<u>19,079</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>282,605</u>	<u>(199,201)</u>	<u>(132,634)</u>	<u>66,567</u>
Fund balance - beginning	<u>2,405,544</u>	<u>2,405,544</u>	<u>2,405,544</u>	<u>-</u>
Fund balance - ending	<u>\$ 2,688,149</u>	<u>2,206,343</u>	<u>2,272,910</u>	<u>66,567</u>

OTHER SCHEDULES

MANOR INDEPENDENT SCHOOL DISTRICT
Schedule of Delinquent Taxes Receivable
Year Ended June 30, 2015

Years Ended	Tax Rates		Assessed/ Appraised Value for School Tax Purposes	Beginning Balance 6/30/2014	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustment	Ending Balance 6/30/2015
	Maintenance	Debt Service							
2006 and prior	Various	Various	\$ -	\$ 935,934	-	6,809	1,040	(3,712)	924,373
2007	1.3430	0.4250	2,068,109,162	58,580	-	3,144	995	(1,142)	53,299
2008	1.0200	0.4950	2,393,916,190	61,530	-	2,987	1,450	(904)	56,189
2009	1.0400	0.4950	3,148,096,352	90,842	-	(5,201)	(2,475)	(16,054)	82,464
2010	1.0400	0.4750	3,532,856,720	100,741	-	22,102	10,094	24,026	92,571
2011	1.0400	0.4750	3,143,297,300	107,259	-	18,445	8,425	7,145	87,534
2012	1.0400	0.4750	3,200,551,815	193,347	-	43,028	19,652	24,032	154,699
2013	1.0400	0.4750	3,250,287,925	289,528	-	75,685	34,568	10,171	189,446
2014	1.0400	0.4750	3,151,131,023	575,316	-	228,181	104,218	(42,637)	200,280
2015	1.0400	0.4750	4,186,459,208 *	-	63,424,857	38,745,584	23,932,553	(180,238)	566,482
Totals				\$ 2,413,077	63,424,857	39,140,764	24,110,520	(179,313)	2,407,337

* The District is affected by an economic exemption which applies only to the Maintenance and Operations rate per Texas Property Tax Code Section 313.027:

Maintenance and Operations Net Taxable	3,706,869,950
Debt Service Net Taxable	5,018,339,046

MANOR INDEPENDENT SCHOOL DISTRICT
Exhibit L-1 - Required Responses to Selected
School First Indicators
As of June 30, 2015

Date Control Codes	Description	Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report 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?	Yes
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ 647,769
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 11,330,541
SF13	Pension Expense (6147) at fiscal year-end.	\$ 3,236,134

**OTHER REQUIRED
SUPPLEMENTARY INFORMATION**

MANOR INDEPENDENT SCHOOL DISTRICT
Schedule of the District's Proportionate Share of the Net Pension Liability
Teacher Retirement System of Texas
June 30, 2015

	2014	2013
District's proportion of the net pension liability	\$ 0.0424%	0.0424%
District's proportionate share of the net pension liability	11,330,541	13,912,976
State's proportionate share of the net pension liability associated with the District	23,732,728	29,132,920
Total	\$ 35,063,269	43,045,896
District's covered-employee payroll (for Measurement Year)	\$ 48,547,788	43,999,099
District's proportionate share of the net pension liability as a percentage of its covered-employee payroll	23.34%	31.62%
Plan fiduciary net position as a percentage of the total pension liability	83.25%	78.17%
Plan's net pension liability as a percentage of covered employee payroll	72.90%	93.10%

MANOR INDEPENDENT SCHOOL DISTRICT
Schedule of District Contributions
Teacher Retirement System of Texas
Last 10 Fiscal Years*

	2015
Contractually required contributions	\$ 1,719,011
Contributions in relation to the contractual required contributions	1,719,011
Contribution deficiency (excess)	\$ -
District's covered employee payroll	\$ 51,812,156
Contributions as a percentage of covered payroll	3.32%

* Contribution information was not available prior to the fiscal year ended June 30, 2015

FEDERAL AWARDS SECTION



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

The Board of Trustees of
Manor Independent School District:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Manor Independent School District (the "District"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated August 15, 2016.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies that we consider to be material weaknesses and significant deficiencies.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses (2015-001, 2015-002, 2015-005, and 2015-006).

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies (2015-003 and 2015-004).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 2015-003, 2015-004, 2015-005, and 2015-006.

The District's Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Maxwell Socher + Ritter LLP

Austin, Texas
August 15, 2016



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

The Board of Trustees of
Manor Independent School District:

Report on Compliance for Each Major Federal Program

We have audited Manor Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2015. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

"A Registered Investment Advisor"

This firm is not a CPA firm

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2015-007, 2015-008, 2015-009, 2015-010, 2015-011, and 2015-012. Our opinion on each major federal program is not modified with respect to these matters.

The District's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control Over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2015-012 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2015-007, 2015-008, 2015-009, 2015-010, and 2015-011 to be significant deficiencies.

The District's responses to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Maxwell Soche + Ritter LLP

Austin, Texas
August 15, 2016

MANOR INDEPENDENT SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Project Number	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<u>Passed Through Texas Education Agency:</u>			
15610101227907	Title I Grants to Local Educational Agencies	84.010A	\$ 1,419,948
156600012279076000	Special Education_Grants to States	84.027A	1,475,632
156610012279076000	Special Education_Preschool Grants	84.173A	9,890
15420006227907	Career and Technical Education - Basic Grants to States	84.048A	96,905
15694501227907	Improving Teacher Quality State Grants	84.367A	68,395
15671001227907	English Language Acquisition State Grants	84.365A	198,346
69551402	Grants for State Assessments and Related Activities	84.369A	12,172
155110017110003	Gaining Early Awareness and Readiness for Undergraduate Programs	84.334S	372,638
156460037110017	Striving Readers	84.371C	2,003,298
<u>Passed Through Education Service Center Region 10-</u>			
11-018	Education for Homeless Children and Youth	84.196A	<u>68,635</u>
TOTAL DEPARTMENT OF EDUCATION			<u>5,725,859</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<u>Passed Through Texas Education Agency:</u>			
71301501	National School Lunch Program	10.555	3,349,698
71401501	School Breakfast Program	10.553	1,113,516
<u>Passed Through the Texas Department of</u>			
<u>Human Services-</u>			
	Non-cash assistance - Food Distribution Program	10.555	<u>281,870</u>
TOTAL DEPARTMENT OF AGRICULTURE			<u>4,745,084</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<u>Passed Through Texas Health and Human Services Commission-</u>			
	Medical Assistance Program	93.778	<u>35,999</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 10,506,942</u></u>

The accompanying notes are an integral part of this schedule.

MANOR INDEPENDENT SCHOOL DISTRICT

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - The accompanying schedule of expenditures of federal awards presents all federal expenditures of the Manor Independent School District (the "District").

Basis of Accounting - The expenditures on the accompanying schedule of expenditures of federal awards are presented using the modified accrual basis of accounting, with the exception of the National School Lunch Program, the School Breakfast Program, and the Food Distribution Program. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become available and measurable, and expenditures in the accounting period in which the fund liability is incurred, if measurable. Expenditures in the National School Lunch Program, the School Breakfast Program, and the Food Distribution Program are not specifically attributable to this revenue source and are shown on the accompanying schedule of expenditures of federal awards in an amount equal to revenue for balancing purposes only.

Relationship to Basic Financial Statements - Expenditures of federal awards are reported in the District's basic financial statements in the General Fund and special revenue funds.

Relationship to Federal Financial Reports - Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports in all significant respects.

Valuation of Non-cash Programs - The District values revenues and expenditures for the Food Distribution Program based on the value of commodities received.

MANOR INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiencies identified that are not considered to be material weaknesses? yes none reported

Type of auditors' report issued on compliance for major federal programs:

Child Nutrition Cluster unmodified

Special Education Cluster unmodified

Gaining Early Awareness and Readiness for Undergraduate Programs unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes no

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Food Distribution Program
	Special Education Cluster:
84.027A	Special Education Grants to States
84.173A	Special Education Preschool Grants
84.334S	Gaining Early Awareness and Readiness for Undergraduate Programs

Dollar threshold used to distinguish between type A and type B programs:

\$315,208

Auditee qualified as low-risk auditee?

yes no

MANOR INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED JUNE 30, 2015

SECTION II - FINANCIAL STATEMENT FINDINGS

There were six findings required to be reported in accordance with *Government Auditing Standards* for the year ended June 30, 2015. There were four findings required to be reported in accordance with *Government Auditing Standards* for the year ended June 30, 2014.

Findings Relating to Internal Control over Financial Reporting and Compliance in Accordance with *Government Auditing Standards*:

2015-001

Criteria:	The District is required to record transactions within its governmental funds in accordance with generally accepted accounting principles (“GAAP”).
Condition/Context:	During the course of the audit, numerous audit adjustments were identified and recorded in the District’s governmental fund and government-wide financial statements. This was a repeat finding from the prior year.
Effect:	The audit adjustments identified and recorded increased fund balance in the General Fund and the Nonmajor Governmental Funds by \$1,284,982 and \$1,990,354, respectively, and decreased fund balance in the Debt Service Fund and Capital Projects Fund by \$431,393 and \$1,815,057, respectively.
Cause:	The District’s internal controls over financial reporting were not operating effectively as account reconciliations and reviews were not performed timely.
Recommendations:	District management should review its internal controls over financial reporting to ensure that all transactions are recorded in accordance with GAAP.
Views of Responsible Officials and Planned Corrective Actions:	The District’s Business Office has experienced changes in leadership. With this change, additional internal controls will be implemented over financial reporting. Jennifer Land, Chief Financial Officer, will monitor financial reporting processes and develop processes to increase the timeliness and accuracy of financial reporting. The evaluation and development of procedures began in August 2015 and is ongoing. Contact: Jennifer Land, Chief Financial Officer.

2015-002

Criteria:	The District should perform timely reconciliations of its federal and state grants which are included in the District’s Nonmajor Governmental Funds to ensure appropriate accounting in accordance with GAAP.
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Condition/Context: The District did not record revenue during the current year or receivables at year-end for grant expenditures incurred or claims submitted during the current year that had not been reimbursed at June 30, 2015. This was a repeat finding from the prior year.

Effect: The audit adjustments identified and recorded increased state and federal revenue and receivables in the Nonmajor Governmental Funds by \$1,821,753 and \$2,195,232, respectively.

Cause: The District was recording revenue for its federal and state grants when it received the payment from the granting agency.

Recommendations: The District should perform monthly grant reconciliations that are reviewed by management to ensure grant revenue and receivables are recorded properly. In addition, management should review journal entries related to payments received from granting agencies to ensure payments are applied to recorded receivable balances.

Views of Responsible Officials and Planned Corrective Actions: District management realizes the importance of revenue recognition and recording. Therefore, processes have been put into place to ensure grant revenue is promptly and accurately recorded. Jennifer Land, Chief Financial Officer, will work with Dr. Chris Harvey, Director of Federal Programs, to evaluate the grant revenue procedures for effectiveness. The implementation period began in October 2015 and the evaluation is ongoing. Contact: Jennifer Land, Chief Financial Officer.

2015-003

Criteria: The District must amend the official budget before exceeding a functional expenditure category in the total District budget.

Condition/Context: The District's actual expenditures for the year ended June 30, 2015 exceeded the District's amended budget for several expenditure functions in the General Fund and Debt Service Fund as disclosed in Note 1 to the Notes to the Basic Financial Statements. This was a repeat finding from the prior year.

Effect: Noncompliance with legal requirements for school district budgets formulated by the State of Texas and the Texas Education Agency.

Cause: The District did not amend its budget in the General Fund and Debt Service Fund prior to the end of the year based on actual expenditures incurred.

Recommendations: The District should monitor actual expenditures by function incurred during the year and amend budgeted expenditures by function as necessary by the end of the fiscal year.

Views of Responsible Officials and Planned Corrective Actions: District financial management will implement procedures to ensure that General Fund accounts are properly budgeted prior to the end of each fiscal year. Jennifer Land, Chief Financial Officer, developed and implemented these procedures in August 2015. Contact: Jennifer Land, Chief Financial Officer.

2015-004

Criteria: The District's deposits with financial institutions are required to be entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. District policy also requires that the amount of collateral held should equal at least 110% of the District's deposits, less FDIC insurance.

Condition /Context: There were instances during the fiscal year ended June 30, 2015 in which the District's deposits were not fully collateralized by FDIC insurance or pledged collateral. There were additional instances in which the FDIC insurance and pledged collateral amounts were greater than the District's deposits, but were less than the required 110% collateral amount based on District policy. This was a repeat finding from the prior year.

Effect: Noncompliance with the requirements of the Texas Education Code Section 45.208 and District policy. The District's deposits were exposed to custodial credit risk at various times throughout the year.

Cause: The District and its depository bank were not monitoring and adjusting pledged collateral on the District's deposit balances on a timely basis.

Recommendations: The District should monitor deposit and related collateral balances on a daily basis and notify the District's depository bank if any of the District's deposits are not fully collateralized or are not in compliance with District policy.

Views of Responsible Officials and Planned Corrective Actions: District financial management will work to improve communication with its depository bank in order to ensure that District deposits are fully collateralized and that the timing of certain large deposits does not put District balances above a collateralized level. Jennifer Land, Chief Financial Officer, will continue to work with business and financial office staff and staff from Wells Fargo Bank to improve communication between the District and the bank. These conversations began in February 2016. Contact: Jennifer Land, Chief Financial Officer.

2015-005

Criteria: Employee wages for time worked, including compensatory time, extra duty time, vacation time, leave time, and retro-active pay, are supported by detailed records and are approved by the appropriate supervisor prior to payment.

Condition /Context: There were multiple instances of payments made to employees for time worked in which there was either no support for the payments made or there was no evidence of proper approval prior to payment. There were multiple instances of payments made to employees for vacation or leave time that did not have support to confirm the calculated amount prior to payment. There were two employees who were paid for extra duty time and compensatory time that did not have proper support or approval prior to payment: 1) one employee was paid for extra duty time but did not have the supporting timesheets properly approved by a supervisor prior to payment as the timesheets were signed by the employee; 2) one employee was paid for extra duty time and the timesheets were signed by an immediate supervisor, but the timesheets were not properly reviewed by this employee's immediate supervisor as this employee was an exempt employee and the employee's timesheets did not show extra duty hours worked on a daily basis; and 3) both of these employees did not have proper support or approval for compensatory time paid. There were multiple instances of hourly employees that were paid based on a 40-hour work week rather than the actual hours reflected in the District's timekeeping system. Hourly employees were also able to adjust their own starting and ending times and did not properly clock-in and out during lunch breaks. There was an instance of an employee who had left the District and received a one-time payment for retro-active pay that was for an incorrect amount.

Effect: Based on payroll selections tested, there were: 1) payments of \$37,174 made to employees in which there was no support for the payments made or there was no evidence of proper approval prior to payment; and 2) payments of \$45,806 made to employees for vacation or leave time that did not have support to confirm the calculated amount. Two employees were paid for 1,268 extra-duty hours and 744 compensatory time hours during the year but these payments did have evidence of proper support or approval prior to payment. Hourly employees were paid for more hours than they worked during the year. One former employee received an over-payment of \$70,005 for retro-active pay that was spent by that employee before being detected by the District during the year.

Cause: The District's payroll supervisor processed timesheets that did not contain proper support or approvals and also submitted timesheets that were inaccurate for approval by the Executive Director of Business Services. The Executive Director of Business Services did not properly review the timesheets provided by the District's payroll supervisor for accuracy prior to approving them. There was no reconciliation performed between the hours reported in the District's timekeeping system and the hours paid for hourly employees. There were no processes in place to require approvals for adjustments made to hours reported for hourly employees and no oversight requiring hourly employees to clock-out when they were away for lunch. The Executive Director of Business Services did not formally review summary payroll information on a timely basis.

Recommendations: The District should maintain proper support for all payments made to employees, which should also include proper approval by supervisors, prior to processing by the District's payroll department. All timesheets should be reviewed and signed by an employee's immediate supervisor. Payments made for vacation and leave time should be supported by detailed calculations which are properly approved by an employee's immediate supervisor. Extra-duty and compensatory hours should be reviewed for accuracy by an employee's immediate supervisor. The District should review its current policy for compensatory time, overtime, and extra duty pay to ensure the policy is applied correctly throughout the District. The District should perform a reconciliation between hours reported within the District's timekeeping system for hourly employees and the hours to be paid per the payroll system and have the reconciliations approved by the Chief Financial Officer prior to processing payroll. The District should implement processes to require an approval by an immediate supervisor of any adjustments made to hours worked and ensure approvals are documented. The District should also review its current policy related to clocking in and out of the District's timekeeping system and update the processes as needed, including how to report instances of non-compliance by employees. The District should prepare a summary payroll report each pay period that is reviewed and approved by the Chief Financial Officer prior to processing payroll.

Views of Responsible Officials and Planned Corrective Actions: District financial management realized the lack of payroll controls and requested a forensic audit to identify areas of weakness. As a result, staff changes have been made and processes will be implemented to enhance control over payroll processing and recording. In October 2015, Jennifer Land, Chief Financial Officer, began evaluating controls over payroll and full implementation of more effective procedures was done by June 2016. Contact: Jennifer Land, Chief Financial Officer.

2015-006

Criteria: Employees of the District are hired through the District's Human Resources policies.

Condition /Context: The Executive Director of Business Services did not follow the District's Human Resources policies when hiring color guard coaches. The Executive Director was able to add these individuals to the District's payroll system.

Effect: Based on payroll selections tested, there were payments of \$4,300 made to employees that were added to the District's payroll system directly by the Executive Director of Business Services.

Cause: System access within the District's payroll system allows employees outside of Human Resources to add or terminate employees.

Recommendations: The District should review its access controls of the District's payroll system to require all employee changes to be performed by Human Resources.

Views of Responsible Officials and Planned Corrective Actions: District financial management has developed system access controls to Skyward Finance to ensure duties are properly segregated according to job responsibilities. In November 2015, Jennifer Land, Chief Financial Officer, began evaluating system access with the technology department and system access was properly authorized in March 2016. Contact: Jennifer Land, Chief Financial Officer.

2014-001

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

Condition/Context: During the course of the audit, numerous audit adjustments were identified and recorded in the District’s governmental fund and government-wide financial statements.

Effect: The audit adjustments identified and recorded increased fund balance in the General Fund, Nonmajor Governmental Funds, and Debt Service Fund by \$1,605,589, \$2,445,473, and \$209,277, respectively, and decreased fund balance in the Capital Projects Fund by \$86,788. In addition, prior period adjustments of \$1,640,751 were made to the beginning net position balance at June 30, 2013.

Cause: The District’s internal controls over financial reporting were not operating effectively as account reconciliations and reviews were not performed timely.

Recommendations: District management should review its internal controls over financial reporting to ensure that all transactions are recorded in accordance with GAAP.

Current Status: There is a repeat finding for the current year ending June 30, 2015. See Finding 2015-001.

2014-002

Criteria: The District should perform timely reconciliations of its federal and state grants which are included in the District’s Nonmajor Governmental Funds to ensure appropriate accounting in accordance with GAAP.

Condition/Context: The District did not record revenue during the current year or receivables at year-end for grant expenditures incurred or claims submitted during the current year that had not been reimbursed at June 30, 2014.

Effect: Audit adjustments in the current year identified and recorded to increase state and federal revenue and receivables in the Nonmajor Governmental Funds totaled by \$2,027,463 and \$3,381,597, respectively. In addition, prior period adjustments of \$643,526 were made to the beginning fund balance at June 30, 2013.

Cause: The District was recording revenue for its federal and state grants when it received the payment from the granting agency.

Recommendations: The District should perform monthly grant reconciliations that are reviewed by management to ensure grant revenue and receivables are recorded properly. In addition, management should review journal entries related to payments received from granting agencies to ensure payments are applied to recorded receivable balances.

Current Status: There is a repeat finding for the current year ending June 30, 2015. See Finding 2015-002.

2014-003

Criteria: The District must amend the official budget before exceeding a functional expenditure category in the total District budget.

Condition/Context: The District's actual expenditures for the year ended June 30, 2014 exceeded the District's amended budget for several expenditure functions in the General Fund.

Effect: Noncompliance with legal requirements for school district budgets formulated by the State of Texas and the Texas Education Agency.

Cause: The District did not amend its budget in the General Fund prior to the end of the year based on actual expenditures incurred.

Recommendations: The District should monitor actual expenditures by function incurred during the year and amend budgeted expenditures by function as necessary by the end of the fiscal year.

Current Status: There is a repeat finding for the current year ending June 30, 2015. See Finding 2015-003.

2014-004

Criteria: The District's deposits with financial institutions are entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Condition /Context: There were instances during the year ended June 30, 2014 in which the District's deposits were not fully collateralized by FDIC insurance or pledged collateral.

Effect: Noncompliance with the requirements of the Texas Education Code Section 45.208 and the District's deposits were exposed to custodial credit risk at various times throughout the year.

Cause: The District and its depository bank were not monitoring and adjusting pledged collateral on the District's deposit balances on a timely basis.

Recommendations: The District should monitor deposit and related collateral balances on a daily basis and notify the District's depository bank if any of the District's deposits are not fully collateralized.

Current Status: There is a repeat finding for the current year ending June 30, 2015. See Finding 2015-004.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were six findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 for the year ended June 30, 2015. There were four findings required to be reported in accordance with Section 510(a) of OMB Circular A-133 for the year ended June 30, 2014.

Findings Relating to Federal Awards Reported in Accordance with section 510(a) of OMB Circular A-133:

2015-007

Federal Program: Child Nutrition Cluster - CFDA #10.553 and #10.555; Federal Award Numbers - 71301501 and 71401501; Passed through the Texas Education Agency

Criteria: OMB Circular A-87 requires that employees who work solely on a single cost objective must furnish a semi-annual certification that they have been engaged solely in activities supported by the applicable source or complete a personnel activity report at least monthly which reflects the actual time spent on a cost objective and is signed by the employee or a supervisor with knowledge of how an employee's time has been spent.

Condition/Context: The District's employees who worked solely on the Child Nutrition Program did not complete semi-annual certifications during the current year, but personnel activity reports were completed and properly reviewed in accordance with OMB Circular A-87 except for two employees. This was a repeat finding from the prior year.

Questioned Costs: None

Effect: Noncompliance with time and effort documentation requirements of OMB Circular A-87 and OMB Circular A-133 Compliance Supplement if semi-annual certifications or personnel activity reports are not completed. The District recorded payroll expenditures of \$147,968 to the Child Nutrition Program related to these two employees.

Cause: The District's Director of Food Service and Dietitian worked solely on the Child Nutrition Program during the current year, but did not complete a semi-annual certification or personnel activity report.

Recommendations: District management should ensure that policies and procedures are in place and functioning so that employees either complete semi-annual certifications or personnel activity reports.

Views of Responsible Officials and Planned Corrective Actions: State and federal programs management will continue to work to ensure semi-annual certifications are completed in a timely manner for all relevant staff. Jennifer Land, Chief Financial Officer, worked with Dr. Chris Harvey, Director of Federal Programs, and George Townsend, Director of Food Service, to implement processes for semi-annual certification in January 2016. Contact: Jennifer Land, Chief Financial Officer, and George Townsend, Director of Food Service.

2015-008

Federal Program: Child Nutrition Cluster - CFDA #10.553 and #10.555; Federal Award Numbers - 71301501 and 71401501; Passed through the Texas Education Agency

Criteria: The District's Child Nutrition Program is operated on a non-profit basis and should not have a fund balance at year-end in excess of three months of normal operating costs.

Condition/Context: The District's fund balance in the Food Service Fund at June 30, 2015 exceeded three months of operating costs by \$538,875. This was a repeat finding from the prior year.

Questioned Costs: None

Effect: Noncompliance with requirements of the National School Lunch Program Act if the District has excess fund balance at year-end and has not received approval from the Texas Department of Agriculture on the District's plan to reduce excess fund balance.

Cause: The District's fund balance was in excess of three months of operating costs at June 30, 2015 and a plan to reduce excess fund balance had not been submitted to the Texas Department of Agriculture.

Recommendations: District management should ensure that policies and procedures are in place and functioning so that the District can monitor fund balance for its Child Nutrition Program and when necessary submit a plan to reduce excess fund balance to the Texas Department of Agriculture on a timely basis.

Views of Responsible Officials and Planned Corrective Actions: District financial management will work with Child Nutrition Program management to implement procedures that ensure the District's Child Nutrition Program is in compliance with the grant provisions and requirements. The District has filed a plan to reduce surplus fund balance in the Child Nutrition Program with the Texas Department of Agriculture. Jennifer Land, Chief Financial Officer, will work with George Townsend, Director of Food Service, to monitor fund balance and file any necessary plans. Contact: Jennifer Land, Chief Financial Officer, and George Townsend, Director of Food Service.

2015-009

Federal Program: Child Nutrition Cluster - CFDA #10.553 and #10.555; Federal Award Numbers - 71301501 and 71401501; Passed through the Texas Education Agency

Criteria: OMB Circular A-133 requires that the District has policies and procedures for equipment management for equipment purchased using federal funds. A physical inventory of equipment should be performed at least once every two years and reconciled to equipment records.

Condition/Context: The District does not have any formal policies and procedures regarding equipment management for items purchased using federal funds. No physical inventory of equipment purchased using federal funds was performed.

Questioned Costs: None

Effect: Noncompliance with requirements of OMB Circular A-133 Compliance Supplement if formal equipment management policies and procedures are not documented and if physical inventory counts are not performed.

Cause: The District had expenditures of \$376,640 for the year ended June 30, 2015 for equipment.

Recommendations: District management should document formal policies and procedures regarding equipment management for items purchased using federal funds and ensure physical inventory counts are performed at least once every two years.

Views of Responsible Officials and Planned Corrective Actions: District financial management will work with Child Nutrition Program management to implement procedures to ensure equipment purchased with federal funds is accurately accounted for with physical inventory counts at least once every other year. Jennifer Land, Chief Financial Officer, will work with George Townsend, Director of Food Service, and Stephen Ross, Director of Inventory Control, to develop these procedures. Contact: Jennifer Land, Chief Financial Officer, and George Townsend, Director of Food Service.

2015-010

Federal Program: Child Nutrition Cluster - CFDA #10.553 and #10.555; Federal Award Numbers - 71301501 and 71401501; Passed through the Texas Education Agency

Criteria: The District's Child Nutrition Program is required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced price meals. The District's weighted average price for paid lunches must not be less than the difference between the Federal reimbursement rate for paid lunches and free lunches.

Condition/Context: The District's weighted average price charged for paid lunches is less than the difference between the Federal reimbursement rate for paid lunches and that for free lunches. The District did not meet the requirement for prices charged for paid lunches and did not receive contributions from other non-Federal sources.

Questioned Costs: None

Effect: Noncompliance with requirements of OMB Circular A-133 Compliance Supplement if the calculation to determine the required price for paid lunches is not performed and if the price for paid lunches is not increased by the District if required based on the results of the calculation.

Cause: The District did not perform the required calculations to determine if the paid lunch price required adjustment or request a waiver of the requirement from the Texas Department of Agriculture for the year ended June 30, 2015.

Recommendations: District management should ensure that the calculation to determine the required price for paid lunches is performed annually and any necessary action to increase paid lunch prices is taken accordingly.

Views of Responsible Officials and Planned Corrective Actions: District administration will work with the Child Nutrition department to create procedures to effectively monitor paid lunch equity. George Townsend, Director of Food Service, implemented these procedures in November 2015 and ensure that, if necessary, any applicable waiver is obtained from the Texas Department of Agriculture. Contact: Jennifer Land, Chief Financial Officer, and George Townsend, Director of Food Service.

2015-011

Federal Program: Special Education Cluster - CFDA #84.027A and #84.173A; Federal Award Numbers - 156600012279076000 and 156610012279076000; Passed through the Texas Education Agency

Criteria: OMB Circular A-87 requires that employees who work solely on a single cost objective must furnish a semi-annual certification that they have been engaged solely in activities supported by the applicable source.

Condition/Context: Five District employees who worked solely on Special Education activities and were paid out of Special Education program funds either left the District or transferred departments during the current year. Semi-annual certifications were not completed for these employees during the current year. Semi-annual certifications were completed for other employees paid out of Special Education program funds.

Questioned Costs: None

Effect: Noncompliance with time and effort documentation requirements of OMB Circular A-87 and OMB Circular A-133 Compliance Supplement if semi-annual certifications are not completed. The District recorded payroll expenditures of \$68,909 to the Special Education Cluster related to these employees.

Cause: Payroll expenditures for employees who worked solely on the Special Education Cluster during the current year and either left the District or transferred departments during the current year were not supported by a semi-annual certification.

Recommendations: District management should ensure that policies and procedures are in place and functioning so that semi-annual certifications are completed timely for employees who either leave the District or transfer to another department during the year but had worked solely on a single cost objective and were funded by a federal program.

Views of Responsible Officials and Planned Corrective Actions: State and federal programs management will continue to work to ensure semi-annual certifications are completed in a timely manner for all relevant staff. Jennifer Land, Chief Financial Officer, worked with Dr. Chris Harvey, Director of Federal Programs, to implement processes for semi-annual certification in January 2016. Contact: Jennifer Land, Chief Financial Officer.

2015-012

Federal Program: Gaining Early Awareness and Readiness for Undergraduate Programs - CFDA #84.334S; Federal Award Number - 155110017110003; Passed through the Texas Education Agency

Criteria: Expenditures incurred for a federal grant are required to be allowable per the grant agreement.

Condition/Context: There were expenditures incurred using grant funds for unallowable costs related to food, Sam's Card purchases, substitutes, and supplemental extra-duty pay to the program coordinator.

Questioned Costs: Expenditures incurred for these unallowable costs were \$49,268 for the year ended June 30, 2015.

Effect: Noncompliance with requirements of OMB Circular A-133 Compliance Supplement if expenditures incurred using federal grant funds are unallowable.

Cause: The District's Fine Arts Director had oversight responsibilities for this federal program and did not properly review expenditures prior to approval.

Recommendations: District management should ensure that all federal programs are administered through the District's Federal and State Programs department and that policies and procedures are implemented to ensure all costs are properly reviewed prior to approval and payment using federal grant funds.

Views of Responsible Officials and Planned Corrective Actions: The District has restructured responsibility for the GEAR UP program and the administration of the program, beginning in January 2016, now rests with the federal program department. Dr. Chris Harvey, Director of Federal Programs, will continue to monitor expenditures to ensure the propriety of costs. Contact: Jennifer Land, Chief Financial Officer, and Dr. Chris Harvey, Director of Federal Programs.

2014-005

Federal Program: Child Nutrition Cluster - CFDA #10.553 and #10.555; Federal Award Numbers - 71301401 and 71401401; Passed through the Texas Education Agency

Criteria: The District's Child Nutrition Program submits claims reports for reimbursements related to meals served by the District each month to the Texas Department of Agriculture and the District records the claim report submission transaction in its Food Service Fund.

Condition/Context: The District's claims revenue and receivable balances related to the Child Nutrition Program was understated in the current and prior year.

Questioned Costs: None

Effect: The District understated fund balance at June 30, 2013 for its Food Service Fund by \$613,289 and a prior period adjustment was recorded. An audit adjustment was recorded in the current year to recognize an additional \$28,557 in claims revenue and a receivable of \$641,846 for the May 2014 and June 2014 claim reports that were submitted but payment had not been received at June 30, 2014.

Cause: The District was recording claims revenue related to the Child Nutrition Program when payments were received and not when monthly claim reports were submitted.

Recommendations: District management should ensure that policies and procedures are in place and functioning so that claims revenue and the related receivable balance are recorded monthly when the claim reports are submitted and the receivable is properly reduced once payment is received by the District.

Current Status: Claim submissions were performed timely during the year ended June 30, 2015 and claims revenue and receivable balances were reconciled to claim reports at year-end.

2014-006

Federal Program: Child Nutrition Cluster - CFDA #10.553 and #10.555; Federal Award Numbers - 71301401 and 71401401; Passed through the Texas Education Agency

Criteria: OMB Circular A-87 requires that employees who work solely on a single cost objective must furnish a semi-annual certification that they have been engaged solely in activities supported by the applicable source or complete a personnel activity report at least monthly which reflects the actual time spent on a cost objective and is signed by the employee or a supervisor with knowledge of how an employee's time has been spent.

Condition/Context: The District's employees who worked solely on the Child Nutrition Program did not complete semi-annual certifications during the current year, but personnel activity reports were completed and properly reviewed in accordance with OMB Circular A-87 except for two employees.

Questioned Costs: None

Effect: Noncompliance with requirements of OMB Circular A-87 and OMB Circular A-133 Compliance Supplement if semi-annual certifications or personnel activity reports are not completed. The District recorded payroll expenditures of \$148,055 to the Child Nutrition Program related to these two employees.

Cause: The District's Director of Food Service and Dietitian worked solely on the Child Nutrition Program during the current year, but did not complete a semi-annual certification or personnel activity report.

Recommendations: District management should ensure that policies and procedures are in place and functioning so that employees either complete semi-annual certifications or personnel activity reports.

Current Status: There is a repeat finding for the current year ending June 30, 2015. See Finding 2015-007.

2014-007

Federal Program: Child Nutrition Cluster - CFDA #10.553 and #10.555; Federal Award Numbers - 71301401 and 71401401; Passed through the Texas Education Agency

Criteria: OMB Circular A-87 requires that employees who work on multiple cost objectives complete a personnel activity report at least monthly which reflects the actual time spent on each cost objective and is signed by the employee or a supervisor with knowledge of how an employee's time has been spent.

Condition/Context: The District had two employees with payroll expenditures recorded to the Child Nutrition Program that worked on multiple cost objectives and did not complete personnel activity reports to support the allocation of the payroll expenditures to the Child Nutrition Program.

Questioned Costs: The District recorded payroll expenditures of \$68,600 to the Child Nutrition Program related to these two employees.

Effect: Noncompliance with requirements of OMB Circular A-87 and OMB Circular A-133 Compliance Supplement if personnel activity reports are not completed to support the allocation of payroll expenditures to a federal program.

Cause: The District recorded payroll expenditures to the Child Nutrition Program based on budgeted time allocation.

Recommendations: District management should ensure that policies and procedures are in place and functioning so that employees who work on multiple cost objectives complete personnel activity reports that support the allocation of payroll expenditures to federal programs.

Current Status: There were no employees paid from Child Nutrition program funds during the year ended June 30, 2015 that worked on multiple cost objectives.

2014-008

Federal Program: Child Nutrition Cluster - CFDA #10.553 and #10.555; Federal Award Numbers - 71301401 and 71401401; Passed through the Texas Education Agency

Criteria: The District's Child Nutrition Program is operated on a non-profit basis and should not have a fund balance at year-end in excess of three months of normal operating costs.

Condition/Context: The District's fund balance in the Food Service Fund at June 30, 2014 exceeded three months of operating costs by \$883,867.

Questioned Costs: None

Effect: Noncompliance with requirements of the National School Lunch Program Act if the District has excess fund balance at year-end and has not received approval from the Texas Department of Agriculture on the District's plan to reduce excess fund balance.

Cause: The District's fund balance was in excess of three months of operating costs at June 30, 2014 and a plan to reduce excess fund balance had not been submitted to the Texas Department of Agriculture.

Recommendations: District management should ensure that policies and procedures are in place and functioning so that the District can monitor fund balance for its Child Nutrition Program and when necessary submit a plan to reduce excess fund balance to the Texas Department of Agriculture on a timely basis.

Current Status: There is a repeat finding for the current year ending June 30, 2015. See Finding 2015-008.