

TERRELL INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2014

Introductory Section

Terrell Independent School District
Annual Financial Report
For The Year Ended August 31, 2014

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CERTIFICATE OF BOARD

Terrell Independent School District
Name of School District

Kaufman
County

129-906
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2014, at a meeting of the board of trustees of such school district on the 20 day of January, 2015.

Debbie J. Wood
Signature of Board Secretary

Dena B. Bringer
Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section

MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

Independent Auditor's Report

To the Board of Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

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 Terrell Independent School District ("the District") as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, 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 Terrell Independent School District as of August 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Terrell Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

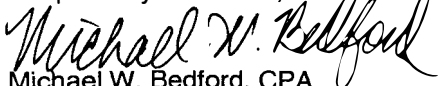
The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. 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 individual nonmajor fund financial statements and other supplementary information 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015 on our consideration of Terrell Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Terrell Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



Michael W. Bedford, CPA

Terrell, Texas

January 16, 2015

TERRELL INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED AUGUST 31, 2014 (UNAUDITED)

This section of Terrell Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2014. Please read this narrative in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of Terrell Independent School District exceeded its liabilities as of August 31, 2014 by \$15,251,872 (net position).
- The District's total government-wide net position decreased by \$652,830.
- At the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$10,123,760.
- The general fund reported a fund balance of \$9,202,345, an increase of \$1,238,630 over the prior fiscal year. \$1,339,467 of this reported fund balance is unexpended Maintenance Tax Note and Time Warrant proceeds which will be spent in the 2014-15 school year for budgeted renovations. The fund balance of the general fund would have decreased by \$100,837 if the unexpended Maintenance Tax Note and Time Warrant funds were not included.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

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

The District implemented Government Accounting Standards Board (GASB) Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and early implementation of GASB Statement 65, Items Previously Reported as Assets and Liabilities, which change the structure of the balance sheet and changed the Statement of Net Assets to the Statement of Net Position. A deferred outflow of resources is reported in a separate section following assets, while a deferred inflow of resources is reported in a separate section following liabilities. Statement 65 reclassifies items previously reported as assets and liabilities into deferred outflows and inflows of resources. It also limits the use of the term "deferred" to only items reported as deferred outflows of resources or deferred inflows of resources.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

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

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District's administration establishes other funds to control and manage money for particular purposes (like campus activities).

The District has the following kinds of funds:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Our analysis presents both current and prior year data and focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net position of the District's governmental activities decreased from \$15,904,702 to \$15,251,872. Unrestricted net position – the part of net position that can be used to finance day-to-day operation without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$9,822,462 as of August 31, 2014.

Table I
Terrell Independent School District
NET POSITION

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Current and other assets	15,965,429	12,682,323
Capital assets	57,472,034	50,919,660
Total assets	73,437,463	63,601,983
Deferred Outflows	461,829	599,787
Long-term liabilities	50,327,666	42,603,750
Other liabilities	8,319,754	5,693,318
Total liabilities	58,647,420	48,297,068
Net Position:		
Invested in capital assets net of related debt	3,494,553	5,110,763
Restricted	1,934,857	766,637
Unrestricted	9,822,462	10,027,302
Total net position	15,251,872	15,904,702

Changes in Net Position

The District's total revenues were \$42,656,269. A significant portion, 41.8% of the District's revenue comes from taxes, while 39.7% comes from state aid-grants and contributions. The total cost of all programs and services was \$43,309,099; 51.2% of these costs are instruction, and instructional resources and media services.

Table II
Terrell Independent School District
CHANGES IN NET POSITION

	Governmental Activities	
	<u>2014</u>	<u>2013</u>
Revenue:		
Program Revenues		
Charges for Services	657,502	592,178
Operating Grants and Contributions	7,143,849	7,469,411
General Revenues		
Property Taxes	17,832,533	17,383,537
State Aid – Grants and Contributions	16,939,525	15,310,134
Miscellaneous	82,860	40,470
Total Revenue	<u>42,656,269</u>	<u>40,795,730</u>
Expenses:		
Instruction	21,725,240	22,251,232
Instructional Resources and Media Services	487,197	490,452
Curriculum and Staff Development	1,179,855	1,165,860
Instructional Leadership	615,210	557,518
School Leadership	2,280,603	2,201,503
Guidance, Counseling and Evaluation Services	1,410,245	1,400,490
Social Work Services	304,904	294,111
Health Services	355,769	382,826
Student Transportation	1,499,380	1,401,001
Food Services	2,588,032	2,310,241
Extracurricular Activities	1,431,591	1,070,548
General Administration	1,417,473	1,503,596
Plant Maintenance And Operation	4,050,628	4,144,705
Security and Monitoring Services	497,271	332,394
Data Processing Services	543,752	480,476
Community Services	175,179	126,887
Interest on Long-term Debt	2,206,840	1,959,457
Bond Issuance Costs and Fees	332,504	285,421
Other Intergovernmental Charges	207,426	217,432
Total Expenses	<u>43,309,099</u>	<u>42,576,150</u>
Change in Net Position	(652,830)	(1,780,420)
Net Position-Beginning	15,904,702	17,836,245
Prior Period Adjustment	0	(151,123)
Net Position-Ending	<u>15,251,872</u>	<u>15,904,702</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$10,123,760, which is \$979,370 higher than last year's total of \$9,144,390. Included in this year's change in fund balance is an increase of \$1,238,630 in the District's General Fund due primarily to unspent loan proceeds of \$1,339,467.

Over the course of the year, the District revised its budget four times. With these adjustments, actual General Fund expenditures were \$2,826,783 below final budget amounts and revenues were \$466,677 above the final budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2014, the District had \$97,316,800 invested in a broad range of capital assets, including land, equipment, and buildings and improvements. This amount represents a net increase of \$7,994,194 above last year.

At year-end the District had \$54,237,666 in debt outstanding as compared to \$46,373,751 from the last fiscal year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Total revenues budgeted included 12% from federal sources, 41% from state sources, and 47% from local sources.
- The 2014 tax rate is \$1.46 per \$100 taxable value (\$1.17 for Maintenance and Operations and \$.29 for Debt Service).
- The 2014 total market value is \$2,101,298,908 compared to \$2,084,807,550 for 2013 which is an increase of \$16,491,358. The 2014 certified taxable value is \$1,375,002,249 compared to \$1,346,364,599 for 2013 which is an increase of \$28,637,650.
- Terrell I.S.D. earned a 2014 Platinum Leadership Circle award from the Texas Comptroller of Public Accounts for meeting the highest standard of financial transparency online.

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, Terrell Independent School District, 700 N. Catherine Street, Terrell, Texas 75160, (972) 563-7504.

Basic Financial Statements

TERRELL INDEPENDENT SCHOOL DISTRICT*STATEMENT OF NET POSITION*

AUGUST 31, 2014

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 2,061,217
1120	<i>Current Investments</i>	11,233,715
1225	<i>Property Taxes Receivable (Net)</i>	975,118
1240	<i>Due from Other Governments</i>	1,486,123
1290	<i>Other Receivables (Net)</i>	8,033
1300	<i>Inventories</i>	6,363
1410	<i>Unrealized Expenses</i>	194,860
Capital Assets:		
1510	<i>Land</i>	3,303,627
1520	<i>Buildings and Improvements, Net</i>	52,435,029
1530	<i>Furniture and Equipment, Net</i>	1,733,378
1000	Total Assets	<u>73,437,463</u>
DEFERRED OUTFLOWS OF RESOURCES:		
	<i>Deferred Outflows of Resources</i>	461,829
1700	Total Deferred Outflows of Resources	<u>461,829</u>
LIABILITIES:		
2110	<i>Accounts Payable</i>	2,764
2140	<i>Interest Payable</i>	201,644
2165	<i>Accrued Liabilities</i>	2,239,177
2180	<i>Due to Other Governments</i>	1,867,524
2300	<i>Unearned Revenue</i>	98,645
Noncurrent Liabilities:		
2501	<i>Due Within One Year</i>	3,910,000
2502	<i>Due in More Than One Year</i>	50,327,666
2000	Total Liabilities	<u>58,647,420</u>
NET POSITION:		
3200	Net Investment in Capital Assets	3,494,553
Restricted For:		
3850	Debt Service	494,393
3860	Capital Projects	720
3870	Campus Activities	55,882
3890	Renovations	1,339,467
	Other Purposes	44,395
3890	Nonexpendable	44,395
3900	Unrestricted	9,822,462
3000	Total Net Position	<u>\$ 15,251,872</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 21,725,240	\$ 42,545	\$ 3,536,808	\$ (18,145,887)
12	Instructional Resources and Media Services	487,197	--	18,858	(468,339)
13	Curriculum and Staff Development	1,179,855	428	270,769	(908,658)
21	Instructional Leadership	615,210	--	92,318	(522,892)
23	School Leadership	2,280,603	9,309	110,190	(2,161,104)
31	Guidance, Counseling, & Evaluation Services	1,410,245	--	577,189	(833,056)
32	Social Work Services	304,904	--	91,231	(213,673)
33	Health Services	355,769	--	91,071	(264,698)
34	Student Transportation	1,499,380	--	24,360	(1,475,020)
35	Food Service	2,588,032	440,605	2,004,447	(142,980)
36	Cocurricular/Extracurricular Activities	1,431,591	115,261	30,751	(1,285,579)
41	General Administration	1,417,473	--	89,567	(1,327,906)
51	Facilities Maintenance and Operations	4,050,628	49,354	105,758	(3,895,516)
52	Security and Monitoring Services	497,271	--	21,697	(475,574)
53	Data Processing Services	543,752	--	16,343	(527,409)
61	Community Services	175,179	--	22,400	(152,779)
72	Interest on Long-term Debt	2,206,840	--	40,092	(2,166,748)
73	Bond Issuance Costs and Fees	332,504	--	--	(332,504)
99	Other Intergovernmental Charges	207,426	--	--	(207,426)
TG	Total Governmental Activities	43,309,099	657,502	7,143,849	(35,507,748)
TP	Total Primary Government	\$ 43,309,099	\$ 657,502	\$ 7,143,849	(35,507,748)
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				15,917,847
DT	Property Taxes, Levied for Debt Service				1,914,686
IE	Investment Earnings				14,204
GC	Grants and Contributions Not Restricted to Specific Programs				16,939,525
MI	Miscellaneous				68,656
TR	Total General Revenues				34,854,918
CN	Change in Net Position				(652,830)
NB	Net Position - Beginning				15,904,702
NE	Net Position - Ending				\$ 15,251,872

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:					
1110	Cash and Cash Equivalents	\$ 1,844,249	\$ 20,914	\$ (263,179)	\$ 1,601,984
1120	Current Investments	10,336,594	393,648	45,115	10,775,357
1225	Taxes Receivable, Net	840,176	134,942	--	975,118
1240	Due from Other Governments	504,805	570	980,748	1,486,123
1260	Due from Other Funds	1,045	779	--	1,824
1290	Other Receivables	6,400	--	341	6,741
1300	Inventories	6,363	--	--	6,363
1410	Unrealized Expenditures	194,860	--	--	194,860
1000	Total Assets	<u>13,734,492</u>	<u>550,853</u>	<u>763,025</u>	<u>15,048,370</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ 2,764	\$ --	\$ --	\$ 2,764
2140	Interest Payable	15,665	--	--	15,665
2150	Payroll Deductions & Withholdings	4,117	--	--	4,117
2160	Accrued Wages Payable	920,778	--	27,730	948,508
2170	Due to Other Funds	9,769	--	1,045	10,814
2180	Due to Other Governments	1,811,064	56,460	--	1,867,524
2200	Accrued Expenditures	913,666	--	87,789	1,001,455
2300	Unearned Revenue	14,148	--	84,497	98,645
2000	Total Liabilities	<u>3,691,971</u>	<u>56,460</u>	<u>201,061</u>	<u>3,949,492</u>
DEFERRED INFLOWS OF RESOURCES:					
	Deferred Revenue	840,176	134,942	--	975,118
2600	Total Deferred Inflows of Resources	<u>840,176</u>	<u>134,942</u>	<u>--</u>	<u>975,118</u>
FUND BALANCES:					
Nonspendable Fund Balances:					
3410	Inventories	6,363	--	--	6,363
3425	Endowment Principal	--	--	44,395	44,395
3430	Prepaid Items	194,860	--	--	194,860
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	460,967	460,967
3480	Retirement of Long-Term Debt	--	359,451	--	359,451
3490	Other Restrictions of Fund Balance	--	--	4,419	4,419
Committed Fund Balances:					
3510	Construction	1,339,467	--	--	1,339,467
3525	Retirement of Loans/Notes Payable	938,425	--	--	938,425
3545	Other Committed Fund Balance	--	--	52,183	52,183
3600	Unassigned	6,723,230	--	--	6,723,230
3000	Total Fund Balances	<u>9,202,345</u>	<u>359,451</u>	<u>561,964</u>	<u>10,123,760</u>
4000	Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 13,734,492</u>	<u>\$ 550,853</u>	<u>\$ 763,025</u>	<u>\$ 15,048,370</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 AUGUST 31, 2014*

Total fund balances - governmental funds balance sheet	\$ 10,123,760
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	57,441,178
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	975,118
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	673,633
Payables for bond principal which are not due in the current period are not reported in the funds.	(26,017,026)
Payables for bond interest which are not due in the current period are not reported in the funds.	(17,781,865)
Payables for notes which are not due in the current period are not reported in the funds.	(10,460,000)
Payables for note interest which are not due in the current period are not reported in the funds.	(164,753)
Deferred outflows of resources are not reported in the funds.	461,829
Rounding difference	(2)
	<hr/>
Net position of governmental activities - Statement of Net Position	\$ <u>15,251,872</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 16,155,023	\$ 1,922,968	\$ 693,691	\$ 18,771,682
5800 <i>State Program Revenues</i>	18,037,944	40,092	107,520	18,185,556
5900 <i>Federal Program Revenues</i>	537,393	--	5,181,294	5,718,687
5020 Total Revenues	<u>34,730,360</u>	<u>1,963,060</u>	<u>5,982,505</u>	<u>42,675,925</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	17,333,383	--	2,874,238	20,207,621
0012 <i>Instructional Resources and Media Services</i>	439,510	--	--	439,510
0013 <i>Curriculum and Staff Development</i>	931,731	--	240,151	1,171,882
0021 <i>Instructional Leadership</i>	544,021	--	70,265	614,286
0023 <i>School Leadership</i>	2,221,847	--	35,542	2,257,389
0031 <i>Guidance, Counseling, & Evaluation Services</i>	1,361,203	--	34,083	1,395,286
0032 <i>Social Work Services</i>	221,275	--	82,842	304,117
0033 <i>Health Services</i>	258,368	--	79,932	338,300
0034 <i>Student Transportation</i>	1,468,782	--	24,360	1,493,142
0035 <i>Food Service</i>	2,340	--	2,540,917	2,543,257
0036 <i>Cocurricular/Extracurricular Activities</i>	1,189,333	--	54,371	1,243,704
0041 <i>General Administration</i>	1,359,843	--	500	1,360,343
0051 <i>Facilities Maintenance and Operations</i>	3,991,120	--	26,402	4,017,522
0052 <i>Security and Monitoring Services</i>	466,357	--	777	467,134
0053 <i>Data Processing Services</i>	536,170	--	--	536,170
0061 <i>Community Services</i>	134,758	--	17,995	152,753
0071 <i>Principal on Long-term Debt</i>	435,000	3,335,000	--	3,770,000
0072 <i>Interest on Long-term Debt</i>	33,475	385,700	--	419,175
0073 <i>Bond Issuance Costs and Fees</i>	192,797	1,750	--	194,547
0081 <i>Capital Outlay</i>	8,563,059	--	--	8,563,059
0099 <i>Other Intergovernmental Charges</i>	207,426	--	--	207,426
6030 Total Expenditures	<u>41,891,798</u>	<u>3,722,450</u>	<u>6,082,375</u>	<u>51,696,623</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(7,161,438)</u>	<u>(1,759,390)</u>	<u>(99,870)</u>	<u>(9,020,698)</u>
Other Financing Sources and (Uses):				
7912 <i>Sale of Real or Personal Property</i>	2,770	--	--	2,770
7914 <i>Issuance of Non-Current Debt</i>	9,560,000	--	--	9,560,000
7915 <i>Transfers In</i>	153,397	1,600,000	--	1,753,397
7916 <i>Premium or Discount on Issuance of Bonds</i>	437,298	--	--	437,298
8911 <i>Transfers Out</i>	(1,753,397)	--	--	(1,753,397)
7080 Total Other Financing Sources and (Uses)	<u>8,400,068</u>	<u>1,600,000</u>	<u>--</u>	<u>10,000,068</u>
1200 Net Change in Fund Balances	<u>1,238,630</u>	<u>(159,390)</u>	<u>(99,870)</u>	<u>979,370</u>
0100 Fund Balances - Beginning	<u>7,963,715</u>	<u>518,841</u>	<u>661,834</u>	<u>9,144,390</u>
3000 Fund Balances - Ending	<u>\$ 9,202,345</u>	<u>\$ 359,451</u>	<u>\$ 561,964</u>	<u>\$ 10,123,760</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014*

Net change in fund balances - total governmental funds	\$ 979,370
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	8,875,915
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,314,373)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(19,656)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	224,257
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,335,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	435,000
The accretion of interest on capital appreciation bonds is not reported in the funds.	(1,860,875)
(Increase) decrease in accrued interest from beginning of period to end of period.	(151,046)
The net revenue (expense) of internal service funds is reported with governmental activities.	(21,165)
Deferred charges on refunding of bonds in SOA are not reported in the funds.	(137,957)
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	(9,560,000)
Maintenance Tax Notes premiums are reported in the funds but not in the SOA.	(437,297)
Rounding difference	(3)
	<u> </u>
Change in net position of governmental activities - Statement of Activities	\$ <u><u>(652,830)</u></u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT*STATEMENT OF NET POSITION**INTERNAL SERVICE FUNDS**AUGUST 31, 2014*

Data Control Codes		Internal Service Funds
	ASSETS:	
	Current Assets:	
1110	<i>Cash and Cash Equivalents</i>	\$ 459,233
1120	<i>Investments</i>	458,358
	Receivables:	
1260	<i>Due from Other Funds</i>	8,990
1290	<i>Other Receivables (net)</i>	1,292
	Total Current Assets	<u>927,873</u>
	Noncurrent Assets:	
	Capital Assets:	
1530	<i>Furniture and Equipment</i>	120,695
1570	<i>Accumulated Depreciation</i>	<u>(89,838)</u>
	Total Noncurrent Assets	30,857
1000	Total Assets	<u>958,730</u>
	LIABILITIES:	
	Current Liabilities:	
2200	<i>Accrued Expenses</i>	\$ 285,097
	Total Current Liabilities	<u>285,097</u>
2000	Total Liabilities	<u>285,097</u>
	NET POSITION:	
3900	<i>Unrestricted</i>	673,633
3000	Total Net Position	<u>\$ 673,633</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Internal Service Funds
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 396,472
5020	Total Revenues	<u>396,472</u>
	OPERATING EXPENSES:	
6100	<i>Payroll Costs</i>	82,415
6200	<i>Professional and Contracted Services</i>	153,350
6300	<i>Supplies and Materials</i>	47,998
6400	<i>Other Operating Costs</i>	134,553
6030	Total Expenses	<u>418,316</u>
	Operating Income (Loss)	<u>(21,844)</u>
	NON-OPERATING REVENUES (EXPENSES):	
7955	<i>Earnings from Temp. Deposits and Investments</i>	680
8030	Total Non-operating Revenues (Expenses)	<u>680</u>
1300	Change in Net Position	(21,164)
0100	Total Net Position - Beginning	694,797
3300	Total Net Position - Ending	<u>\$ 673,633</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2014

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 58,535
<i>Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds</i>	341,559
<i>Cash Payments to Employees for Services</i>	(82,415)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(288,946)
Net Cash Provided (Used) by Operating Activities	<u>28,733</u>
Cash Flows from Non-capital Financing Activities:	
<i>Transfers From (To) Other Funds</i>	(292)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(292)</u>
Cash Flows from Capital and Related Financing Activities:	
<i>Proceeds from Sale of Capital Assets</i>	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>--</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	680
Net Cash Provided (Used) for Investing Activities	<u>680</u>
Net Increase (Decrease) in Cash and Cash Equivalents	29,121
Cash and Cash Equivalents at Beginning of Year	888,470
Cash and Cash Equivalents at End of Year	<u>\$ 917,591</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (21,164)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	9,165
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	3,623
<i>Increase (Decrease) in Interfund Payables</i>	(292)
<i>Increase (Decrease) in Accrued Expenses</i>	37,789
Total Adjustments	<u>50,285</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 29,121</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2014

Data Control Codes		Agency Fund
		Student Activity
	ASSETS:	
1110	<i>Cash and Cash Equivalents</i>	\$ 131,914
1000	Total Assets	<u>131,914</u>
	LIABILITIES:	
	Current Liabilities:	
2110	<i>Accounts Payable</i>	\$ 2,286
2190	<i>Due to Student Groups</i>	<u>129,628</u>
2000	Total Liabilities	<u>131,914</u>
	NET POSITION:	
3000	Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

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

Debt Service Fund: This fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

In addition, the District reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

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

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

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

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	7-20
Equipment	3-20

e. Deferred Outflows and Inflows of Resources

GASB No. 63 and GASB No. 65 provide guidance on financial reporting related to deferred outflows of resources and deferred inflows of resources. The objective of these statements is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

f. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net positions.

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Data Control Codes

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

j. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

k. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are *considered* to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

I. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,188,517 and the bank balance was \$5,679,435. The District's cash deposits at August 31, 2014 and during the year ended August 31, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2014 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 3,575,100	53
First Public/Lone Star Investment Pool:		
Government Overnight	7,658,615	49
Total Investments	<u>\$ 11,233,715</u>	

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk. At year end, the District was not significantly exposed to credit risk as balances in Texpool and Lone Star Investment Pool were rated AAAm and AAAm by Standard & Poor's, respectively.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end,

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

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

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

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

D. Capital Assets

Capital asset activity for the year ended August 31, 2014, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,303,627	\$ --	\$ --	\$ 3,303,627
Total capital assets not being depreciated	<u>3,303,627</u>	<u>--</u>	<u>--</u>	<u>3,303,627</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	81,739,861	8,513,143	299,296	89,953,708
Equipment	4,279,118	362,770	582,423	4,059,465
Total capital assets being depreciated	<u>86,018,979</u>	<u>8,875,913</u>	<u>881,719</u>	<u>94,013,173</u>
Less accumulated depreciation for:				
Buildings and improvements	(35,783,452)	(2,034,523)	(299,296)	(37,518,679)
Equipment	(2,619,494)	(289,016)	(582,423)	(2,326,087)
Total accumulated depreciation	<u>(38,402,946)</u>	<u>(2,323,539)</u>	<u>(881,719)</u>	<u>(39,844,766)</u>
Total capital assets being depreciated, net	<u>47,616,033</u>	<u>6,552,374</u>	<u>--</u>	<u>54,168,407</u>
Governmental activities capital assets, net	<u>\$ 50,919,660</u>	<u>\$ 6,552,374</u>	<u>\$ --</u>	<u>\$ 57,472,034</u>

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

Depreciation was charged to functions as follows:

Instruction	\$ 1,650,175
Instructional Resources and Media Services	47,687
Curriculum and Staff Development	7,973
Instructional Leadership	924
School Leadership	23,214
Guidance, Counseling, & Evaluation Services	14,959
Social Work Services	787
Health Services	17,470
Student Transportation	6,238
Food Services	114,109
Extracurricular Activities	187,887
General Administration	57,130
Plant Maintenance and Operations	125,676
Security and Monitoring Services	30,137
Data Processing Services	7,582
Community Services	22,426
	<u>\$ 2,314,374</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2014, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Food Service Fund	\$ 1,045	Short-term amount
Debt Service Fund	General Fund	779	Capital projects expenditures
	Total	<u>\$ 1,824</u>	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2014, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General fund	Debt service fund	\$ 1,600,000	Provide resources for excess expenditures over revenue
General fund	General Fund - Athletic Fund	153,397	Provide resources for excess expenditures over revenue
	Total	<u>\$ 1,753,397</u>	

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

F. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 28,268,448	\$ --	\$ 3,335,000	\$ 24,933,448	\$ 3,265,000
Accreted interest payable	15,899,765	1,860,875	--	17,760,640	200,000
Sub-Total Bonds	44,168,213	1,860,875	3,335,000	42,694,088	3,465,000
Maintenance Tax Notes	1,335,000	8,560,000	435,000	9,460,000	445,000
Time warrants	--	1,000,000	--	1,000,000	--
Issuance premiums/discounts	870,538	437,297	224,257	1,083,578	--
Total governmental activities	\$ 46,373,751	\$ 11,858,172	\$ 3,994,257	\$ 54,237,666	\$ 3,910,000

Bonded debt will be paid by the Debt Service Fund, and the Maintenance Tax Notes and Time Warrants will be paid by the General Fund. After adoption of GASB 65, the deferred amounts on refunding are now reported as deferred outflows of resources.

Maintenance Tax Notes and Time Warrants

On February 20, 2014, the District issued \$8,560,000 in Terrell Independent School District Maintenance Tax Notes, Series 2014 with interest rates of 2% to 4% to fund payment for renovations to existing District facilities and the costs of issuance on the Notes.

On February 20, 2014, the District issued \$1,000,000 in Terrell Independent School District Time Warrant, Series 2014 with an interest rate of 0.99% to fund payment for renovations to existing District facilities and the costs of issuance of the Time Warrant.

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2014, are as follows:

Bonds Payable

Debt service requirements on bonded debt at August 31, 2014, are as follows:

Year Ending August 31.	Bonded Long-Term Debt		
	Principal	Interest	Total
2015	\$ 3,265,000	\$ 454,700	\$ 3,719,700
2016	1,827,350	2,085,350	3,912,700
2017	1,746,520	2,170,980	3,917,500
2018	1,662,168	2,254,832	3,917,000
2019	1,585,155	2,328,445	3,913,600
2020-2024	6,999,463	12,581,488	19,580,951
2025-2029	5,779,400	13,790,200	19,569,600
2030-2032	2,068,392	5,760,657	7,829,049
Totals	\$ 24,933,448	\$ 41,426,652	\$ 66,360,100

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

Description	Interest Rates	Original Amount	Outstanding Balance
Unlimited Tax School Building and Refunding Bonds, Series 2001	4.625% - 5.76%	\$ 39,078,681	\$ 16,508,448
Unlimited Tax Refunding Bonds, Series 2010	4%	12,135,000	3,050,000
Unlimited Tax Refunding Bonds, Series 2012	2% - 3%	5,815,000	5,375,000
Totals			\$ <u>24,933,448</u>

Maintenance Tax Notes Payable

As of August 31, 2014, the District's loan payable balance totaled \$9,460,000. The following represents the annual payments due:

Year Ending August 31,	Principal	Interest	Total	Interest Rates
2015	445,000	469,975	914,975	2.50%
2016	475,000	310,450	785,450	2% - 3%
2017	245,000	296,400	541,400	2.00%
2018	245,000	291,500	536,500	2.00%
2019	255,000	286,600	541,600	2.00%
2020-2024	2,435,000	1,281,350	3,716,350	3.00%
2025-2029	3,155,000	820,225	3,975,225	3.50% - 4.00%
2030-2032	2,205,000	178,800	2,383,800	4.00%
Totals	\$ <u>9,460,000</u>	\$ <u>3,935,300</u>	\$ <u>13,395,300</u>	

The Maintenance Tax Notes will be paid by the General Fund.

Time Warrant Payable

As of August 31, 2014, the District's time warrant payable balance totaled \$1,000,000. The following represents the annual payments due:

Year Ending August 31,	Principal	Interest	Total	Interest Rates
2015	--	14,328	14,328	0.99%
2016	--	9,900	9,900	0.99%
2017	245,000	9,900	254,900	0.99%
2018	250,000	7,475	257,475	0.99%
2019	250,000	5,000	255,000	0.99%
2020	255,000	2,525	257,525	0.99%
Totals	\$ <u>1,000,000</u>	\$ <u>49,128</u>	\$ <u>1,049,128</u>	

The Time Warrant will be paid by the General Fund.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

G. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2014, as follows:

<u>Year Ending August 31,</u>	
2015	\$ 92,075
2016	87,133
2017	41,193
2018	7,870
Total Minimum Rentals	\$ <u>228,271</u>
Rental Expenditures in 2014	\$ <u>101,479</u>

H. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2014, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

I. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by downloading the report from the TRS internet website, 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 TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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. State law provides for a member contribution rate of 6.4% for fiscal years 2014, 2013 and 2012, and a state contribution rate of 6.8% for fiscal year 2014, 6.4 % for fiscal year 2013, and 6% for fiscal year 2012. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2014, 2013 and 2012 were \$1,098,419, \$1,111,491 and \$1,092,723, respectively. The District paid additional state contributions for the years ending August 31, 2014, 2013 and 2012 in the amount of \$327,085, \$297,842 and \$236,879, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

J. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS web site at www.trstate.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas and active public school employee contribution rates were 0.5% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2014, 2013 and 2012. For the years ended August 31, 2014, 2013, and 2012, the State's contributions to TRS-Care were \$124,531, \$121,851, and \$237,272, respectively, the active member contributions were \$161,892, \$158,407, and \$154,226, respectively, and the District's contributions were \$136,986, \$134,036, and \$130,502, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$64,423, \$63,554, and \$62,437, respectively.

K. Employee Health Care Coverage

During the year ended August 31, 2014, employees of the District were covered by the state sponsored health insurance plan (the Plan). The District paid premiums of \$248 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

L. Commitments and Contingencies

1. Contingencies

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

2. Litigation

Attorneys for the District indicate there is no pending litigation at this time.

M. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for three federal programs with the Region 10 ESC and with Mesquite ISD for deaf education services.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

TERRELL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 15,708,675	\$ 15,955,658	\$ 16,155,023	\$ 199,365
5800	State Program Revenues	17,788,419	17,806,276	18,037,944	231,668
5900	Federal Program Revenues	391,706	501,749	537,393	35,644
5020	Total Revenues	<u>33,888,800</u>	<u>34,263,683</u>	<u>34,730,360</u>	<u>466,677</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	17,827,800	17,934,618	17,333,383	601,235
0012	Instructional Resources and Media Services	451,200	451,200	439,510	11,690
0013	Curriculum and Staff Development	932,500	950,000	931,731	18,269
	Total Instruction & Instr. Related Services	<u>19,211,500</u>	<u>19,335,818</u>	<u>18,704,624</u>	<u>631,194</u>
Instructional and School Leadership:					
0021	Instructional Leadership	583,000	583,000	544,021	38,979
0023	School Leadership	2,270,200	2,260,200	2,221,847	38,353
	Total Instructional & School Leadership	<u>2,853,200</u>	<u>2,843,200</u>	<u>2,765,868</u>	<u>77,332</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,382,900	1,428,900	1,361,203	67,697
0032	Social Work Services	220,600	230,000	221,275	8,725
0033	Health Services	273,900	284,450	258,368	26,082
0034	Student (Pupil) Transportation	1,546,500	1,546,500	1,468,782	77,718
0035	Food Services	2,700	2,700	2,340	360
0036	Cocurricular/Extracurricular Activities	913,700	1,225,850	1,189,333	36,517
	Total Support Services - Student (Pupil)	<u>4,340,300</u>	<u>4,718,400</u>	<u>4,501,301</u>	<u>217,099</u>
Administrative Support Services:					
0041	General Administration	1,406,100	1,431,400	1,359,843	71,557
	Total Administrative Support Services	<u>1,406,100</u>	<u>1,431,400</u>	<u>1,359,843</u>	<u>71,557</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,976,900	4,196,907	3,991,120	205,787
0052	Security and Monitoring Services	475,100	475,100	466,357	8,743
0053	Data Processing Services	478,700	813,533	536,170	277,363
	Total Support Services - Nonstudent Based	<u>4,930,700</u>	<u>5,485,540</u>	<u>4,993,647</u>	<u>491,893</u>
Ancillary Services:					
0061	Community Services	148,500	148,500	134,758	13,742
	Total Ancillary Services	<u>148,500</u>	<u>148,500</u>	<u>134,758</u>	<u>13,742</u>
Debt Service:					
0071	Principal on Long-Term Debt	435,000	435,000	435,000	--
0072	Interest on Long-Term Debt	33,475	33,475	33,475	--
0073	Bond Issuance Costs and Fees	525	192,822	192,797	25
	Total Debt Service	<u>469,000</u>	<u>661,297</u>	<u>661,272</u>	<u>25</u>
Capital Outlay:					
0081	Capital Outlay	--	9,887,000	8,563,059	1,323,941
	Total Capital Outlay	<u>--</u>	<u>9,887,000</u>	<u>8,563,059</u>	<u>1,323,941</u>
0099	Other Intergovernmental Charges	204,500	207,426	207,426	--

TERRELL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Total Intergovernmental Charges	<u>204,500</u>	<u>207,426</u>	<u>207,426</u>	--
6030	Total Expenditures	<u>33,563,800</u>	<u>44,718,581</u>	<u>41,891,798</u>	<u>2,826,783</u>
1 100	Excess (Deficiency) of Revenues Over (Under)				
1 100	Expenditures	<u>325,000</u>	<u>(10,454,898)</u>	<u>(7,161,438)</u>	<u>3,293,460</u>
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	--	--	2,770	2,770
7914	Issuance of Non-Current Debt	--	9,560,000	9,560,000	--
7915	Transfers In	138,200	153,397	153,397	--
7916	Premium or Discount on Issuance of Bonds	--	437,297	437,298	1
8911	Transfers Out	<u>(1,738,200)</u>	<u>(1,753,397)</u>	<u>(1,753,397)</u>	--
7080	Total Other Financing Sources and (Uses)	<u>(1,600,000)</u>	<u>8,397,297</u>	<u>8,400,068</u>	<u>2,771</u>
1200	Net Change in Fund Balance	<u>(1,275,000)</u>	<u>(2,057,601)</u>	<u>1,238,630</u>	<u>3,296,231</u>
0100	Fund Balance - Beginning	<u>7,963,715</u>	<u>7,963,715</u>	<u>7,963,715</u>	--
3000	Fund Balance - Ending	<u>\$ 6,688,715</u>	<u>\$ 5,906,114</u>	<u>\$ 9,202,345</u>	<u>\$ 3,296,231</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

TERRELL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2014

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
	\$	Various	\$	Various	\$	Various
2005 and Prior Years						
2006		1.50		.27		1,169,247,214
2007		1.37		.27		1,252,861,768
2008		1.04		.27		1,328,206,183
2009		1.04		.27		1,447,901,221
2010		1.04		.27		1,406,918,626
2011		1.17		.14		1,323,383,511
2012		1.17		.14		1,311,002,595
2013		1.17		.14		1,303,573,664
2014 (School Year Under Audit)		1.17		.14		1,339,354,351

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/13	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/14
\$ 202,295	\$ --	\$ 6,451	\$ 944	\$ (1,101)	\$ 193,799
123,259	--	7,040	1,267	(70)	114,882
162,795	--	8,507	1,676	(1,321)	151,291
149,601	--	8,671	2,251	(3,044)	135,635
180,307	--	29,153	7,569	(3,045)	140,540
204,747	--	40,055	10,399	4,397	158,690
215,309	--	59,248	7,089	3,366	152,338
294,215	--	88,864	10,633	1,761	196,479
457,018	--	173,051	20,707	(11,973)	251,287
--	17,545,542	15,234,140	1,822,889	(33,217)	455,296
<u>\$ 1,989,546</u>	<u>\$ 17,545,542</u>	<u>\$ 15,655,180</u>	<u>\$ 1,885,424</u>	<u>\$ (44,247)</u>	<u>\$ 1,950,237</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

TERRELL INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT J-2

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 409,500	\$ 436,433	\$ 26,933
5800 <i>State Program Revenues</i>	12,500	12,880	380
5900 <i>Federal Program Revenues</i>	1,945,225	1,967,787	22,562
5020 Total Revenues	<u>2,367,225</u>	<u>2,417,100</u>	<u>49,875</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	2,677,300	2,470,302	206,998
Total Support Services - Student (Pupil)	<u>2,677,300</u>	<u>2,470,302</u>	<u>206,998</u>
6030 Total Expenditures	<u>2,677,300</u>	<u>2,470,302</u>	<u>206,998</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(310,075)	(53,202)	256,873
1200 Net Change in Fund Balance	<u>(310,075)</u>	<u>(53,202)</u>	<u>256,873</u>
0100 Fund Balance - Beginning	511,014	511,014	--
3000 Fund Balance - Ending	<u>\$ 200,939</u>	<u>\$ 457,812</u>	<u>\$ 256,873</u>

TERRELL INDEPENDENT SCHOOL DISTRICT

DEBT SERVICE

*BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014*

EXHIBIT J-3

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 1,873,000	\$ 1,922,968	\$ 49,968
5800 <i>State Program Revenues</i>	50,000	40,092	(9,908)
5020 <i>Total Revenues</i>	<u>1,923,000</u>	<u>1,963,060</u>	<u>40,060</u>
EXPENDITURES:			
<i>Debt Service:</i>			
0071 <i>Principal on Long-Term Debt</i>	3,335,000	3,335,000	--
0072 <i>Interest on Long-Term Debt</i>	385,700	385,700	--
0073 <i>Bond Issuance Costs and Fees</i>	2,300	1,750	550
<i>Total Debt Service</i>	<u>3,723,000</u>	<u>3,722,450</u>	<u>550</u>
6030 <i>Total Expenditures</i>	<u>3,723,000</u>	<u>3,722,450</u>	<u>550</u>
1 100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1 100 <i>Expenditures</i>	<u>(1,800,000)</u>	<u>(1,759,390)</u>	<u>40,610</u>
<i>Other Financing Sources (Uses):</i>			
7915 <i>Transfers In</i>	1,600,000	1,600,000	--
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>1,600,000</u>	<u>1,600,000</u>	<u>--</u>
1200 <i>Net Change in Fund Balance</i>	<u>(200,000)</u>	<u>(159,390)</u>	<u>40,610</u>
0100 <i>Fund Balance - Beginning</i>	518,841	518,841	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 318,841</u>	<u>\$ 359,451</u>	<u>\$ 40,610</u>

MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

Independent Auditor's Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

Board of Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Terrell Independent School District's basic financial statements, and have issued our report thereon dated January 16, 2015.

Internal Control Over Financial Reporting

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

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

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

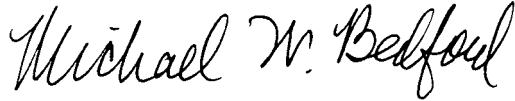
Compliance and Other Matters

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

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.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael W. Bedford". The signature is written in a cursive style with a large, prominent initial "M".

Michael W. Bedford, CPA

Terrell, Texas
January 16, 2015

MICHAEL W. BEDFORD
CERTIFIED PUBLIC ACCOUNTANT
205 WEST HIGH STREET
TERRELL, TEXAS 75160

Independent Auditor's Report on Compliance for Each Major Program and
on Internal Control Over Compliance Required by OMB Circular A-133

Board of Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Terrell Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Terrell Independent School District's major federal programs for the year ended August 31, 2014. Terrell Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Terrell Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2014.

Report on Internal Control Over Compliance

Management of Terrell Independent School District is responsible for establishing and maintaining effective

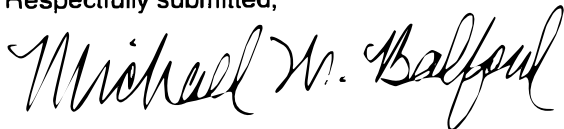
internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Terrell Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect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

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

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

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

Respectfully submitted,

A handwritten signature in cursive script that reads "Michael W. Bedford".

Michael W. Bedford, CPA

Terrell, Texas
January 16, 2015

TERRELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2014

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unmodified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	ESEA Title 1 Part A Improving Basic Programs
84.027A	IDEA-B Formula
84.173A	IDEA-B Preschool

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

TERRELL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2014

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
Not applicable		

TERRELL INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2014

Not Applicable

TERRELL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT K-1

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
<i>Head Start</i>	93.600	129-906	\$ 686,905
<i>Head Start</i>	93.600	129-906	263,915
Total Direct Programs			<u>950,820</u>
Total U. S. Department of Health and Human Services			<u>950,820</u>
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	14610101129906	1,065,199
<i>IDEA-B Formula *</i>	84.027A	146600011299066600	865,033
<i>Career and Technical - Basic Grant</i>	84.048A	14420006129906	48,216
<i>Career and Technical - Basic Grant</i>	84.048A	15420006129906	11,697
Total CFDA Number 84.048A			<u>59,913</u>
<i>IDEA-B Preschool *</i>	84.173A	146610011299066610	34,076
<i>Summer School LEP</i>	84.369A	69551302	4,961
Total Passed Through State Department of Education			<u>2,029,182</u>
Passed Through Region 10 Education Service Center:			
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	14671001057950	74,036
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	14694501057950	178,494
Total Passed Through Region 10 Education Service Center			<u>252,530</u>
Total U. S. Department of Education			<u>2,281,712</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through Texas Department of Agriculture:			
Child and Adult Care Food Program	10.558	129-906	5,163
Passed Through State Department of Education:			
School Breakfast Program *	10.553	129-906	462,197
National School Lunch Program *	10.555	129-906	1,353,202
National School Lunch Program (Non-cash) *	10.555	129-906	147,225
Total CFDA Number 10.555			<u>1,500,427</u>
Summer Food Service Program *	10.559	129-906	27,828
Total Passed Through State Department of Education			<u>1,990,452</u>
Total U. S. Department of Agriculture			<u>1,995,615</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 5,228,147</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

TERRELL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

Basis of Presentation

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

Head Start Program

The following is a detail of expenditures for the Head Start Grant No. 06CH5583/48 for the project period ended March 31, 2014, according to Head Start budget classifications.

	<u>Budget</u>	<u>Actual</u>
Personnel	\$ 709,074	\$ 702,468
Fringe benefits	117,310	119,853
Travel	10,000	741
Supplies	19,428	21,525
Contractual	2,936	12,502
Other	<u>56,202</u>	<u>55,831</u>
Totals	\$ <u>914,950</u>	\$ <u>912,920</u>

School Health and Related Services Revenue

The District received \$490,627 of School Health and Related Services (SHARS) payments. These payments are not considered Federal awards for the purposes of the Schedule of Expenditures of Federal Awards and were recorded as Federal Revenues in the General Fund.

TERRELL INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2014**

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 17,760,640