

**MILLER GROVE
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED**

AUGUST 31, 2015

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2015

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CERTIFICATE OF BOARD

Miller Grove Independent School District
Name of School District

Hopkins
County

112-907
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, 2015 at a meeting of the Board of Trustees of such school district on the ____ day of _____, 2015.

Signature of Board Secretary

Signature of Board President

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



ARNOLD, WALKER, ARNOLD, & CO., P.C.

Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A., P.F.S.
Lanny G. Walker, C.P.A., P.F.S.
Kris Arnold, C.P.A., P.F.S.
Andrew T. Arnold, C.P.A.
Melissa J. Godfrey, C.P.A.

MEMBER

American Institute Of
Certified Public Accountants

Texas State Society Of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Miller Grove Independent School District
Cumby, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Miller Grove Independent School District as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2015, and the respective changes in financial position, thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note I to the financial statements, in 2015, the District adopted new accounting guidance prescribed by GASB #68 for its pension plan a multiple-employer, cost-sharing, defined benefit pension plan that has a special funding situation. Because GASB #68 implements new measurement criteria and reporting provisions, significant information has been added to the Government Wide Statements. Exhibit A-1 discloses the District's Net Pension Liability and some deferred resource outflows and deferred resource inflows related to the District's pension plan. Exhibit B-1 discloses the adjustment to the District's Beginning Net Position. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and net pension liability and contributions to TRS on pages 4 through 12 and pages 41 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. The information is in Exhibits identified in the Table of Contents as J-1, J-4, and J-5. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

October 29, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the MILLER GROVE Independent School District we offer readers of the MILLER GROVE Independent School District's financial statements this narrative overview and analysis of the financial activities of the MILLER GROVE Independent School District for the year ended August 31, 2015. The information presented here should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

The District's total combined net position was \$3.04 million at August 31, 2015. During the year, the District's total revenues exceeded expenses by \$149 thousand. Total expenses of the District were \$2.6 million for the year which is almost \$100 thousand more than the previous year. Most of this was payroll. Revenue was almost the same as the prior year.

The District reported fund balance in the general fund of \$1.99 million at August 31, 2015, which is an increase of approximately \$87 thousand. This is about \$6 thousand less than the previous year. Revenues were up about 4% or \$93 thousand. State revenue in the general fund was up \$69 thousand. Expenditures were up about 5% or \$108 thousand. This was mostly instructional payroll.

\$115 thousand of debt was retired during the year.

Approximately 96% of the taxes levied for 2014-15 were collected by fiscal year end.

OVERVIEW OF THE FINANCIAL STATEMENTS

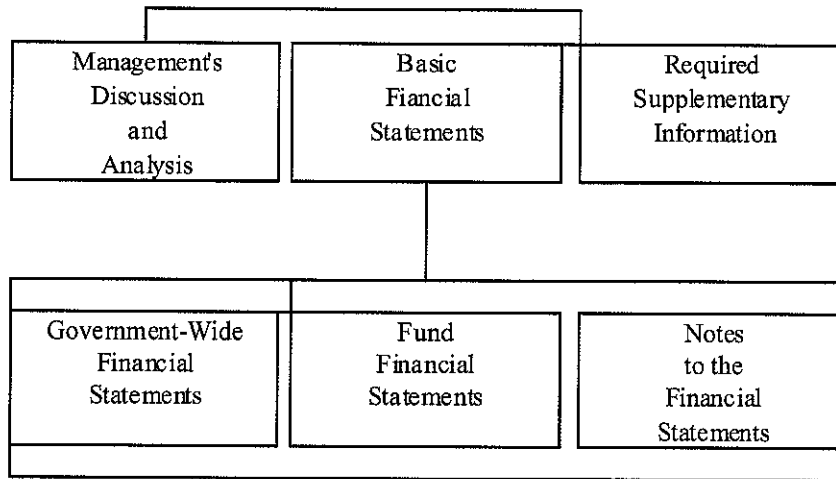
This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- 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 notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government wide statements or the fund financial statements.

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

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



Summary ⇌ Detail

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

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

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

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

(A) The District has no enterprise funds.

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 are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration should be given to additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities. Also included are business-type activities. The District charges a fee to "customers" to help cover the costs of services provided.

Fund Financial Statements

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

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

The District has two 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 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, additional information is provided that explains the relationship (or differences) between them.
- *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net assets. These activities are excluded 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

Net position. The District's combined net position was approximately \$3.04 million at August 31, 2015.

Table A-1
The District's Net Position
(in thousands of dollars)

	Governmental Activities	
	2015	2014
Current and other assets	2,294	2,100
Capital and non-current assets	2,915	2,995
TOTAL ASSETS	5,209	5,095
Deferred resource outflow related to TRS	38	-
TOTAL DEFERRED OUTFLOWS OF RESOURCES	38	-
Long-term liabilities	2,010	1,985
Other liabilities	145	51
TOTAL LIABILITIES	2,155	2,036
Unavailable revenue-property taxes	4	6
Deferred resource inflow related to TRS	43	-
TOTAL DEFERRED INFLOWS OF RESOURCES	47	6
Net position		
Invested in capital assets		
net of related debt	1,045	1,010
Restricted	144	129
Unrestricted	1,856	1,915
TOTAL NET POSITION	3,045	3,054

Net position invested in capital assets net of related debt reflects the book value of the District's capital assets in excess of the debt which financed those assets. The \$1.9 million of unrestricted net position represents resources available to fund the programs of the District for the next fiscal year.

The \$144 thousand is restricted as follows:

Restricted for food service	4
Restricted for debt service	140
	<u>144</u>

Net position of the District's governmental activities decreased from \$3.05 million to \$3.04 million, or \$9 thousand. The decrease was the result of four main factors. First, the District's revenues exceeded expenditures by \$102 thousand. Second, the District paid \$115 thousand principal on long-term debt and purchased fixed assets of \$24 thousand. Third, the District recorded depreciation of \$104 thousand. Fourthly, the District recorded a prior period adjustment related to net pension liability of \$158 thousand.

Changes in net position.

The District's total revenues were \$2.77 million. 24% of this comes from taxes, 61% was from state aid formula grants and 11% came from operating grants and contributions.

The total cost of all programs was \$2.6 million. Approximately 65% of this was for instructional and student services.

Net position increased by \$149 thousand from the excess of revenues over expenses.

Table A-2
The District's Changes in Net Position
(in thousands of dollars)

	Governmental Activities	
	2015	2014
Revenues		
<u>Program Revenues</u>		
Charges for Services	48	41
Operating Grants and Contributions	294	296
<u>General Revenues</u>		
Property Taxes	658	629
State aid - formula	1,692	1,705
Investment earnings	22	20
Other	59	81
Total Revenues	<u>2,773</u>	<u>2,772</u>
Expenses		
Instruction and instructional related	1,410	1,354
Instructional leadership/school administration	205	216
Guidance, social work, health, transportation	74	68
Food services	159	168
Extracurricular activities	78	67
General Administration	164	153
Plant maintenance and security	301	291
Data processing services	41	40
Debt service	68	70
Pmts to fiscal agent/member districts - shared service	124	100
Total Expenses	<u>2,624</u>	<u>2,527</u>
Increase (Decrease) in Net Position	149	245
Beginning Net Position	3,054	2,809
Prior Period Adjustment	(158)	-
Ending Net Position	<u>3,045</u>	<u>3,054</u>

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

- The cost of all *governmental* activities this year was \$2.6 million.
- However, the amount that taxpayers paid for these activities through property taxes was only \$658 thousand.
- Some of the cost was paid by those who directly benefited from the programs (\$48 thousand), or by grants and contributions (\$294 thousand).

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

	Services		Services	
	2015	2014	2015	2014
Instruction	1,410	1,355	1,234	1,174
School administration	205	216	190	199
Plant Maintenance & Operations	301	291	290	284
Debt Service-Interest & Fiscal Charges	68	70	68	70

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District reported fund balance in its governmental funds of approximately \$2.13 million reflecting a net increase of \$102 thousand.

Expenditures were up \$108 thousand in the general fund. Revenues were up about \$93 thousand. The increase to the general fund balance was \$87 thousand which is about \$7 thousand less than the prior year. The debt service fund balance increased \$13 thousand.

General Fund Budgetary Highlights

Several budget amendments were made during the year. In total, actual expenditures were less than budgeted by \$181 thousand. All functions were properly budgeted. Revenue exceeded budgeted amounts by \$17 thousand. A decrease to fund balance of \$112 thousand was budgeted. Fund balance actually increased \$87 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

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

	Governmental Activities	
	2015	2014
Land	82	82
Buildings and improvements	4,116	4,116
Furniture and equipment	606	582
Totals at historical cost	4,804	4,780
Total accumulated depreciation	(1,889)	(1,785)
Net capital assets	2,915	2,995

Long-Term Debt

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

	Governmental	
	2015	2014
Bonds payable	1,870	1,985

The District paid the required principal as it came due.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Miller Grove Independent School District's Board of Trustees and administrative Staff considered many factors when setting the fiscal year 2016 budget and tax rates. One of these factors is the economy. The district's population growth has been slow over the past few years and we have experienced a slight increase in ADA of approximately twenty students this year. For all planning purposes, the old enrollment from 2014-2015 will continue to be used until an established pattern of growth is established.

In the past year, appraised property values have raised approximately 3%, yet broke about even on income due to the loss of taxable dollars from the increased homestead exemptions. The State has never said how this loss will be made up. There have been very few places come up for sale and those that do seem to sell quickly. It appears that the economy is improving and if there were more houses available they too would sell quickly. Even though enrollment is up from last year, a growth trend cannot be determined at this time as there is no history established. Growth is expected to continue in the future as more housing becomes available and the elementary addition gets built.

Miller Grove ISD is primarily an agricultural area. While unemployment remains low, there has been slow change in the occupation of district residents. The number of residents who work in jobs outside district boundaries continues to rise, but is affected by the cost of fuel.

The Board knew that some difficult personnel decisions had to be made and agreed to cut four positions before the 2007-2008 school year. In addition, two more positions were not filled before the 2008-2009 school to provide additional cost savings. We were able to replace one of those teaching positions this year. We have also reduced the Ag Dept. from two teachers to one. An office position opened at the end of the summer and their duties were absorbed by other personnel with the use of stipends.

The above factors were taken into consideration when adopting the General Fund Budget for 2016. The Board has decided to build an elementary addition to replace the two portable buildings which are in poor shape. It is possible that the cost of the addition can be absorbed using fund balance. We continue to budget for a used bus in case one has to be purchased during the year. Finally, plant maintenance issues, for example failing A/C units, must plan on being replaced as they fail.

It was the Board's wish to help increase the fund balance and provide additional monies to pay for an elementary expansion and to cover unexpected costs if they arose. The Board voted to maintain the \$1.17 M&O rate allowed by the election. A balanced budget was adopted for the 15-16 school year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Miller Grove Independent School District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the District's Central Business Office.

BASIC FINANCIAL STATEMENTS

GOVERNMENT WIDE STATEMENTS

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2015

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 2,203,519
1220 Property Taxes Receivable (Delinquent)	55,468
1230 Allowance for Uncollectible Taxes	(38,854)
1240 Due from Other Governments	65,111
1290 Other Receivables, net	9,054
Capital Assets:	
1510 Land	82,276
1520 Buildings, Net	2,703,699
1530 Furniture and Equipment, Net	129,070
1000 Total Assets	5,209,343
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	37,735
1700 Total Deferred Outflows of Resources	37,735
LIABILITIES	
2160 Accrued Wages Payable	50,953
2180 Due to Other Governments	93,222
2200 Accrued Expenses	1,246
2300 Unearned Revenue	54
Noncurrent Liabilities	
2501 Due Within One Year	110,000
2502 Due in More Than One Year	1,760,000
2540 Net Pension Liability (District's Share)	139,567
2000 Total Liabilities	2,155,042
DEFERRED INFLOWS OF RESOURCES	
2601 Unavailable Revenue - Property Taxes	4,135
2605 Deferred Inflow Related to TRS	42,694
2600 Total Deferred Inflows of Resources	46,829
NET POSITION	
3200 Net Investment in Capital Assets	1,045,045
3820 Restricted for Federal and State Programs	3,832
3850 Restricted for Debt Service	140,111
3900 Unrestricted	1,856,219
3000 Total Net Position	\$ 3,045,207

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2015

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6 Primary Gov. Governmental Activities
		3 Charges for Services	4 Operating Grants and Contributions	
	Expenses			Net (Expense) Revenue and Changes in Net Position
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 1,365,055	\$ -	\$ 175,097	\$ (1,189,958)
12 Instructional Resources and Media Services	31,963	-	1,124	(30,839)
13 Curriculum and Staff Development	13,531	-	100	(13,431)
21 Instructional Leadership	3,250	-	-	(3,250)
23 School Leadership	202,850	-	16,181	(186,669)
33 Health Services	491	-	-	(491)
34 Student (Pupil) Transportation	73,733	-	1,311	(72,422)
35 Food Services	158,702	37,649	89,629	(31,424)
36 Extracurricular Activities	77,520	4,770	1,805	(70,945)
41 General Administration	163,612	-	4,716	(158,896)
51 Facilities Maintenance and Operations	300,728	6,000	4,307	(290,421)
53 Data Processing Services	40,997	-	-	(40,997)
72 Debt Service - Interest on Long Term Debt	66,950	-	-	(66,950)
73 Debt Service - Bond Issuance Cost and Fees	650	-	-	(650)
93 Payments related to Shared Services Arrangements	124,064	-	-	(124,064)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 2,624,096	\$ 48,419	\$ 294,270	(2,281,407)

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	585,451
DT	Property Taxes, Levied for Debt Service	72,408
SF	State Aid - Formula Grants	1,691,698
IE	Investment Earnings	22,271
MI	Miscellaneous Local and Intermediate Revenue	59,196
TR	Total General Revenues	2,431,024
CN	Change in Net Position	149,617
NB	Net Position - Beginning	3,053,721
PA	Prior Period Adjustment	(158,131)
NE	Net Position--Ending	\$ 3,045,207

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

**GOVERNMENTAL FUND FINANCIAL
STATEMENTS**

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2015

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 2,066,194	\$ 137,325	\$ 2,203,519
1220 Property Taxes - Delinquent	49,366	6,102	55,468
1230 Allowance for Uncollectible Taxes (Credit)	(37,025)	(1,829)	(38,854)
1240 Receivables from Other Governments	55,942	9,169	65,111
1290 Other Receivables	7,520	1,534	9,054
1000 Total Assets	<u>\$ 2,141,997</u>	<u>\$ 152,301</u>	<u>\$ 2,294,298</u>
LIABILITIES			
2160 Accrued Wages Payable	\$ 47,276	\$ 3,677	\$ 50,953
2180 Due to Other Governments	93,222	-	93,222
2200 Accrued Expenditures	890	356	1,246
2300 Unearned Revenues	-	54	54
2000 Total Liabilities	<u>141,388</u>	<u>4,087</u>	<u>145,475</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	12,341	4,271	16,612
2600 Total Deferred Inflows of Resources	<u>12,341</u>	<u>4,271</u>	<u>16,612</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	3,832	3,832
3480 Retirement of Long-Term Debt	-	140,111	140,111
Assigned Fund Balance:			
3550 Construction	500,000	-	500,000
3570 Capital Expenditures for Equipment	100,000	-	100,000
3600 Unassigned Fund Balance	1,388,268	-	1,388,268
3000 Total Fund Balances	<u>1,988,268</u>	<u>143,943</u>	<u>2,132,211</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,141,997</u>	<u>\$ 152,301</u>	<u>\$ 2,294,298</u>

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

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 2,132,211
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,780,137 and the accumulated depreciation was \$1,784,730. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	1,010,407
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2015 capital outlays and debt principal payments is to increase (decrease) net position.	139,129
3 The 2015 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(104,491)
4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	12,477
5 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$139,567 a Deferred Resource Inflow related to TRS in the amount of \$42,694, and a Deferred Resource Outflow related to TRS in the amount of \$37,735. This amounted to a decrease in Net Position in the amount of \$144,526.	(144,526)
19 Net Position of Governmental Activities	\$ 3,045,207

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

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 688,697	\$ 120,150	\$ 808,847
5800 State Program Revenues	1,654,789	117,382	1,772,171
5900 Federal Program Revenues	-	193,800	193,800
5020 Total Revenues	<u>2,343,486</u>	<u>431,332</u>	<u>2,774,818</u>
EXPENDITURES:			
Current:			
0011 Instruction	1,201,729	107,087	1,308,816
0012 Instructional Resources and Media Services	31,963	-	31,963
0013 Curriculum and Instructional Staff Development	13,431	100	13,531
0021 Instructional Leadership	3,250	-	3,250
0023 School Leadership	197,470	5,380	202,850
0033 Health Services	491	-	491
0034 Student (Pupil) Transportation	57,732	-	57,732
0035 Food Services	22,494	128,676	151,170
0036 Extracurricular Activities	71,532	-	71,532
0041 General Administration	160,597	-	160,597
0051 Facilities Maintenance and Operations	322,746	-	322,746
0053 Data Processing Services	40,997	-	40,997
Debt Service:			
0071 Principal on Long Term Debt	-	115,000	115,000
0072 Interest on Long Term Debt	-	66,950	66,950
0073 Bond Issuance Cost and Fees	-	650	650
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	124,064	-	124,064
6030 Total Expenditures	<u>2,248,496</u>	<u>423,843</u>	<u>2,672,339</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>94,990</u>	<u>7,489</u>	<u>102,479</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	7,712	7,712
8911 Transfers Out (Use)	(7,712)	-	(7,712)
7080 Total Other Financing Sources (Uses)	<u>(7,712)</u>	<u>7,712</u>	<u>-</u>
1200 Net Change in Fund Balances	87,278	15,201	102,479
0100 Fund Balance - September 1 (Beginning)	<u>1,900,990</u>	<u>128,742</u>	<u>2,029,732</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,988,268</u>	<u>\$ 143,943</u>	<u>\$ 2,132,211</u>

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2015

Total Net Change in Fund Balances - Governmental Funds	\$ 102,479
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2015 capital outlays and debt principal payments is to increase (decrease) net position.	139,129
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(104,491)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(1,105)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 12/31/2014 caused the change in the ending net position to increase in the amount of \$126,505. The District recorded their proportionate share of pension expense during the measurement period as part of the net pension liability. The amounts expensed for FY 2015 were \$21,680 for pension expense columns 6-12 from TRS data and the amounts de-expended for the net deferred resource inflow recognized by TRS in the measurement period were \$8,780. This caused a net decrease in the change in net position of \$12,900. The impact of all of these is to increase the change in net position by \$13,605.	13,605
Change in Net Position of Governmental Activities	\$ 149,617

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 679,269	\$ 671,697	\$ 688,697	\$ 17,000
5800	State Program Revenues	1,832,668	1,654,270	1,654,789	519
5020	Total Revenues	2,511,937	2,325,967	2,343,486	17,519
EXPENDITURES:					
Current:					
0011	Instruction	1,242,690	1,241,061	1,201,729	39,332
0012	Instructional Resources and Media Services	32,653	32,653	31,963	690
0013	Curriculum and Instructional Staff Development	13,200	13,431	13,431	-
0021	Instructional Leadership	3,250	3,250	3,250	-
0023	School Leadership	226,240	226,240	197,470	28,770
0033	Health Services	300	491	491	-
0034	Student (Pupil) Transportation	116,172	116,172	57,732	58,440
0035	Food Services	25,613	25,613	22,494	3,119
0036	Extracurricular Activities	83,413	83,413	71,532	11,881
0041	General Administration	163,767	163,767	160,597	3,170
0051	Facilities Maintenance and Operations	355,249	355,249	322,746	32,503
0053	Data Processing Services	43,475	43,475	40,997	2,478
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	125,064	125,064	124,064	1,000
6030	Total Expenditures	2,431,086	2,429,879	2,248,496	181,383
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	80,851	(103,912)	94,990	198,902
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(37,246)	(7,712)	(7,712)	-
1200	Net Change in Fund Balances	43,605	(111,623)	87,278	198,901
0100	Fund Balance - September 1 (Beginning)	1,900,990	1,900,990	1,900,990	-
3000	Fund Balance - August 31 (Ending)	\$ 1,944,595	\$ 1,789,367	\$ 1,988,268	\$ 198,901

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

FIDUCIARY FUND FINANCIAL STATEMENTS

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2015

EXHIBIT D-1

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 40,552
Total Assets	<u>\$ 40,552</u>
LIABILITIES	
Due to Student Groups	\$ 40,552
Total Liabilities	<u>\$ 40,552</u>

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the MILLER GROVE INDEPENDENT SCHOOL DISTRICT activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. The District has no business type activities.

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

Inter-fund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and

Changes in Fund Balance. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

D. FUND ACCOUNTING

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each funds assets, liabilities, equity, revenues and expenditures.

The District reports the following major governmental funds:

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

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

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

1. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are student activity funds.

E. OTHER ACCOUNTING POLICIES

1. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.
2. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20-50
Vehicles	10
Office Equipment	10
Computer Equipment	5

3. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Commitments of fund balance represent tentative management plans that are subject to change.
4. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
5. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a State-wide data base for policy development and funding plans.
6. School Districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.
7. Investments are carried at fair value.

8. Fund balance measures the net financial resources available to finance expenditures of future periods.

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

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

When it is appropriate for fund balance to be assigned, the Board delegates authority to the Superintendent and Chief Financial Officer.

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

9. Deferred Outflows/Inflows of Resources—The District implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities for the year ended August 31, 2013. The District implemented GASB Statement No. 68 Accounting and Financial Reporting for Pensions for the year ended August 31, 2015. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two types of items that qualify for reporting in this category, deferred charge for refunding bonded indebtedness and deferred outflows related to TRS as per GASB 68 related to pension accounting. These will be recognized as an outflow of resources in the subsequent years as they are amortized.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category, property taxes and deferred inflows related to TRS. These amounts will be recognized as an inflow of resources in the subsequent years as collected.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Position</u>
Land	82,276	-	82,276	
Buildings	4,116,330	(1,334,154)	2,782,176	
Furniture & Equipment	581,531	(450,576)	130,955	
Construction in progress	-	-	-	
Change in Net Position	<u>4,780,137</u>	<u>(1,784,730)</u>		<u>2,995,407</u>
<u>Long-term Liabilities</u> <u>at the Beginning of the year</u>			<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Bonds payable			1,985,000	
Loans payable			-	
Change in Net Position				<u>(1,985,000)</u>
Net Adjustment to Net Position				<u><u>1,010,407</u></u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current year Capital Outlay</u>			
Land	-	-	-
Furniture & Equipment	24,129	24,129	24,129
Total Capital Outlay	<u>24,129</u>	<u>24,129</u>	<u>24,129</u>
<u>Debt Principal Payments</u>			
Bond Principal	115,000	115,000	115,000
Total Principal Payments	<u>115,000</u>	<u>115,000</u>	<u>115,000</u>
Total Adjustment to Net Position		<u>139,129</u>	<u>139,129</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	35,178	(35,178)	-
Uncollected taxes (assumed collectible) from Current Year Levy	12,477	12,477	12,477
Effect of prior year tax entries	21,596	21,596	-
Total		<u>(1,105)</u>	<u>12,477</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds if they are considered major funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are in Exhibit J-4 and J-5.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

	August 31, 2015 <u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	3,832
Nonappropriated Budget Funds	<u>-</u>
All Special Revenue Funds	<u><u>3,832</u></u>

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

Additional contractual provisions governing deposits and investments for the District are as follows:

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does address the following risks:

1. **Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is that the funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping in an amount sufficient to protect the District's 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.

Deposits of the District are insured or collateralized with securities held by the pledging financial institution's trust department or agent in the name of the District.

At August 31, 2015, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,244,069 and the bank balance was \$2,262,243. The District's cash deposits at August 31, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name at all times.

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

- a. Depository: Alliance Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$3,979,525.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$2,627,346 and occurred during the month of November, 2014.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

2. Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Positions in external investment pools are not subject to custodial credit risk. The District has no investments exposed to custodial credit risk at the end of the period.
3. Interest- rate Risk – Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for these securities if interest rates rise. The District does not purchase investments where the face value is not guaranteed.
4. Concentration Risk – Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments in external investment pools are not subject to concentration risk. The District is not exposed to any amounts of concentration risk.
5. Other Credit Risk Exposure – The District has no investments in external investment pools.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at August 31, 2015. Interfund transfers for the year ended August 31, 2015 consisted of the following individual amounts:

Transfer to Nonmajor Governmental Funds	
From General Fund	<u>\$7,712</u>

\$7,712 was transferred from the general fund to the National School Lunch and Breakfast Fund to cover a deficit for the year.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2015, were as follows:

	Property Taxes	Other Governments	Due From Other	Other	Total Receivables
Governmental Activities:					
General Fund	49,366	55,942	-	7,520	112,828
Nonmajor Governmental Funds	-	9,169	-	-	9,169
Other Major Governmental Funds	6,102	-	-	1,534	7,636
Total-Governmental Activities	55,468	65,111	-	9,054	129,633
Amount not scheduled for collection during the subsequent year	38,854	-	-	-	38,854

Payables at August 31, 2015, were as follows:

	Accounts	Loans, Leases, and Bonds Payable- Current Year	Salaries & Benefits	Due to Other Funds	Due to Other Governments	Other	Total Payables
Governmental Activities:							
General Fund	-	-	48,166	-	93,222	-	141,388
Nonmajor Governmental Funds	-	-	4,033	-	-	-	4,033
Total-Governmental Activities	-	-	52,199	-	93,222	-	145,421
Amount not scheduled for collection during the subsequent year	-	-	-	-	-	-	-

F. CAPITAL ASSET ACTIVITY

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

	Primary Government			
	Beginning			Ending
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u>
District:				
Land	82,276	-	-	82,276
Buildings and Improvements	4,116,330	-	-	4,116,330
Furniture and Equipment	581,531	24,129	-	605,660
Totals at Historic Cost	<u>4,780,137</u>	<u>24,129</u>	<u>-</u>	<u>4,804,266</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(1,334,154)	(78,477)	-	(1,412,631)
Furniture and Equipment	<u>(450,576)</u>	<u>(26,014)</u>	<u>-</u>	<u>(476,590)</u>
Total Accumulated Depreciation	<u>(1,784,730)</u>	<u>(104,491)</u>	<u>-</u>	<u>(1,889,221)</u>
Governmental Activities Capital Assets, Net	<u>2,995,407</u>	<u>(80,362)</u>	<u>-</u>	<u>2,915,045</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	69,844
Student (Pupil) Transportation	16,001
Food Services	7,532
Curricular/ Extracurricular Activities	5,988
General Administration	3,015
Plant Maintenance and Operations	2,111
Total Depreciation Expense	104,491

G. BONDS PAYABLE

During the 2010-2011 fiscal year as authorized in Chapter 1207 Texas Government Code as amended, the District issued the Unlimited Tax Refunding Bonds Series 2011. This was used to refund the Series 2000 debt and all but \$70 thousand of the Series 2002 debt. Interest is payable from 2%-4%. The advance refunding of the 2000 and 2002 debt was undertaken to reduce total debt payments by approximately \$206 thousand and to obtain an economic gain of approximately \$153 thousand. The balance of the refunded debt at August 31, 2015 is \$1,870,000.

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

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 9/1/2014	Issued	Retired	Outstanding 8/31/2015
Unlimiting Tax Refunding Bonds-Series 2011	2.00%-4.00%	2,130,000	66,950	1,985,000	-	(115,000)	1,870,000
			<u>66,950</u>	<u>1,985,000</u>	<u>-</u>	<u>(115,000)</u>	<u>1,870,000</u>

Bond debt service requirements are as follows:

Year Ended August 31	General Obligations		
	Principal	Interest	Total Requirements
2016	110,000	64,700	174,700
2017	120,000	62,100	182,100
2018	120,000	59,100	179,100
2019	130,000	55,975	185,975
2020	125,000	52,475	177,475
2021-2025	730,000	182,200	912,200
2026-2030	370,000	71,600	441,600
2031-2032	165,000	6,700	171,700
Total	<u>1,870,000</u>	<u>554,850</u>	<u>2,424,850</u>

H. CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	1,985,000	-	(115,000)	1,870,000	110,000
Total Governmental Activities	<u>1,985,000</u>	<u>-</u>	<u>(115,000)</u>	<u>1,870,000</u>	<u>110,000</u>

I. DEFINED BENEFIT PENSION PLAN

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statement and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

<u>Net Position Liability</u>	<u>Total</u>
Total Pension Liability	159,496,075,886
Less: Plan Fiduciary Net Position	(132,779,243,085)
Net Pension Liability	<u>\$ 26,716,832,801</u>
Net Position as percentage of Total Pension Liability	83.25%

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

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

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

Contribution Rates

	<u>2014</u>	<u>2015</u>
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Mount Pleasant ISD 2014 Employers Contributions	\$	13,247
Mount Pleasant ISD 2014 Member Contributions	\$	94,604
Mount Pleasant ISD 2014 NECE On-Behalf Contributions	\$	76,015

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

As the non-employer contributing entity for public education, that State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System them employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

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

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry
Age Normal	
Amortization Method of Payroll, Open	Level Percentage
Remaining Amortization Period	30 years
Asset Valuation Method	5 year market
Value	
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%
*Includes Inflation of 3%	

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

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

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

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 15 or less than and 1% greater than the discount rate that was used (8%) in measuring the 2014 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	249,397	139,567	57,434

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2014, Miller Grove Independent School District reported a liability of \$5,639,681 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Miller Grove Independent School District. The amount recognized by State support, and the total portion of the net pension liability that was associated with Miller Grove Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 139,567
State's proportionate share that is associated with the District	\$ 802,588
Total	<u>\$ 942,155</u>

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

At August 31, 2014 the employer's proportion of the collective net pension liability was 0.00000525%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2013. The Notes to the Financial Statements for August 31, 2014 for TRS stated that the change in proportion was immaterial and therefore disregarded this year.

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective 09/01/2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2014 Miller Grove Independent School District recognized pension expense of \$74,198 and revenue of \$76,015 support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,158	\$ -
Changes in actuarial assumptions	\$ 9,072	\$ -
Difference between projected and actual investment earnings	\$ -	\$ 42,657
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	\$ -	\$ 37
Contributions paid to TRS subsequent to the measurement date	\$ -	\$ -
Total	\$ 11,230	\$ 42,694

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

Year ended August 31:	Pension Expense Amount
2016	\$ (8,766)
2017	\$ (8,766)
2018	\$ (8,766)
2019	\$ 1,888
2020	\$ 1,752
Thereafter	\$ -

At August 31, 2015, the District reported Deferred Resource Outflows and Deferred Resource Inflows for the TRS pension plan as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Total net amounts as of August 31, 2014 Measurement Date	\$ 11,230	\$ 42,694
Contributions made subsequent to the Measurement Date	\$ 26,505	\$ -
Reported by District as of August 31, 2015	\$ 37,735	\$ 42,694

J. HEALTHCARE COVERAGE

During the year ended August 31, 2015 employees of Miller Grove Independent School District were covered by a health insurance plan with TRS Active-Care. The District paid premiums of \$150 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. The terms of coverage and premium costs are included in the contractual provisions.

Total Annual Premiums for Health Care 2014-2015	44,560
Less non-medical expenditures	-
Maintenance of effort for 2014-2015	<u>44,560</u>

K. UNEARNED REVENUE

Unearned revenue at year end consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total
Textbook & Kindergarten Materials	-	54	54
TOTAL	-	<u>54</u>	<u>54</u>

L. DUE FROM OTHER GOVERNMENTS

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

<u>FUND</u>	<u>STATE ENTITLEMENTS</u>	<u>FEDERAL GRANTS</u>	<u>OTHER</u>	<u>TOTAL</u>
General	55,942	-	-	55,942
Special Revenue	-	9,169	-	9,169
Debt Service	-	-	-	-
Total	<u>55,942</u>	<u>9,169</u>	<u>-</u>	<u>65,111</u>

M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Other Major Governmental Funds</u>	<u>Total</u>
Property Taxes	584,114	-	74,850	658,964
Penalties, Interest and Other Tax-related Income	40,292	-	5,091	45,383
Investment Income	20,510	-	1,760	22,270
Food Sales	-	37,649	-	37,649
Other	<u>43,781</u>	<u>800</u>	<u>-</u>	<u>44,581</u>
Total	<u>688,697</u>	<u>38,449</u>	<u>81,701</u>	<u>808,847</u>

N. DEFERRED INFLOWS OF RESOURCES

In the government wide statements and the governmental fund financial statements the amount of property taxes receivable expected to be collected in the future is reflected as a deferred inflow of resources and will be recognized as such each year as it is collected.

O. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2015, 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.

P. COMMITMENTS AND CONTINGENCIES

The District has no significant commitments or contingencies at August 31, 2015.

Q. LITIGATION

The District has no pending litigation at August 31, 2015.

R. SUBSEQUENT EVENT

Administration has evaluated subsequent events through October 29, 2015, the financial statement issuance date.

S. PRIOR PERIOD ADJUSTMENT

During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the District must assume their proportionate share of the Net Pension Liability of the Teachers Retirement System of Texas. Adoption of GASB 68 require a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment is \$158,131. The restated beginning net position is \$2,895,590.

REQUIRED SUPPLEMENTAL INFORMATION

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

EXHIBIT G-2

	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.000005225%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 139,567
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	802,588
Total	<u>\$ 942,155</u>
District's Covered-Employee Payroll	\$ 1,411,999
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its covered-Employee Payroll	14.81%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	83.25%

Note: GASB 68, 81,2,a requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of August 31, 2014 - the period from September 1, 2013 - August 31, 2014.

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

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2015

EXHIBIT G-3

	<u>2015</u>
Contractually Required Contribution	\$ 94,604
Contribution in Relation to the Contractually Required Contribution	(94,604)
Contribution Deficiency (Excess)	<u>\$ -0-</u>
District's Covered-Employee Payroll	\$ 1,411,999
Contributions as a Percentage of Covered-Employee Payroll	6.80%

Note: GASB 68, Paragraph 81,2,b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 - August 31, 2014.

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

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

Changes of benefit terms

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

Changes of assumptions

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

COMBINING SCHEDULES

NON-MAJOR GOVERNMENTAL FUNDS

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2015

Data Control Codes		211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ (2,380)	\$ -	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	1,725	4,598	90	2,756
1290	Other Receivables	-	-	-	1,076
1000	Total Assets	<u>\$ 1,725</u>	<u>\$ 2,218</u>	<u>\$ 90</u>	<u>\$ 3,832</u>
LIABILITIES					
2160	Accrued Wages Payable	\$ 1,572	\$ 2,023	\$ 82	\$ -
2200	Accrued Expenditures	153	195	8	-
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>1,725</u>	<u>2,218</u>	<u>90</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	3,832
3480	Retirement of Long-Term Debt	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,832</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,725</u>	<u>\$ 2,218</u>	<u>\$ 90</u>	<u>\$ 3,832</u>

255 ESEA II, A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 54	\$ (2,326)	\$ 139,651	\$ 137,325
-	-	-	-	6,102	6,102
-	-	-	-	(1,829)	(1,829)
-	-	-	9,169	-	9,169
-	-	-	1,076	458	1,534
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 7,919</u>	<u>\$ 144,382</u>	<u>\$ 152,301</u>
\$ -	\$ -	\$ -	\$ 3,677	\$ -	\$ 3,677
-	-	-	356	-	356
-	-	54	54	-	54
<u>-</u>	<u>-</u>	<u>54</u>	<u>4,087</u>	<u>-</u>	<u>4,087</u>
-	-	-	-	4,271	4,271
-	-	-	-	4,271	4,271
-	-	-	3,832	-	3,832
-	-	-	-	140,111	140,111
<u>-</u>	<u>-</u>	<u>-</u>	<u>3,832</u>	<u>140,111</u>	<u>143,943</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54</u>	<u>\$ 7,919</u>	<u>\$ 144,382</u>	<u>\$ 152,301</u>

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 38,449
5800 State Program Revenues	-	-	-	718
5900 Federal Program Revenues	33,535	47,561	1,798	83,756
5020 Total Revenues	<u>33,535</u>	<u>47,561</u>	<u>1,798</u>	<u>122,923</u>
EXPENDITURES:				
Current:				
0011 Instruction	33,535	47,561	1,798	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0023 School Leadership	-	-	-	-
0035 Food Services	-	-	-	128,676
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	<u>33,535</u>	<u>47,561</u>	<u>1,798</u>	<u>128,676</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	(5,753)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	7,712
1200 Net Change in Fund Balance	-	-	-	1,959
0100 Fund Balance - September 1 (Beginning)	-	-	-	1,873
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,832</u>

255 ESEA II, A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 38,449	\$ 81,701	\$ 120,150
-	-	2,523	3,241	114,141	117,382
5,480	21,670	-	193,800	-	193,800
5,480	21,670	2,523	235,490	195,842	431,332
-	21,670	2,523	107,087	-	107,087
100	-	-	100	-	100
5,380	-	-	5,380	-	5,380
-	-	-	128,676	-	128,676
-	-	-	-	115,000	115,000
-	-	-	-	66,950	66,950
-	-	-	-	650	650
5,480	21,670	2,523	241,243	182,600	423,843
-	-	-	(5,753)	13,242	7,489
-	-	-	7,712	-	7,712
-	-	-	1,959	13,242	15,201
-	-	-	1,873	126,869	128,742
\$ -	\$ -	\$ -	\$ 3,832	\$ 140,111	\$ 143,943

REQUIRED T.E.A. SCHEDULES

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2015

Last 10 Years Ended August 31	(1)	(2)	(3)	
	Tax Rates		Assessed/Appraised Value for School Tax Purposes	
	Maintenance	Debt Service		
2006 and prior years	Various	Various	\$	Various
2007	1.290000	0.150000		39,239,931
2008	1.040050	0.150000		41,282,551
2009	1.170000	0.150000		44,529,848
2010	1.170000	0.150000		44,836,439
2011	1.170000	0.150000		45,054,167
2012	1.170000	0.150000		45,407,348
2013	1.170000	0.150000		47,020,076
2014	1.170000	0.150000		48,484,242
2015 (School year under audit)	1.170000	0.150000		49,766,061
1000 TOTALS				

(10) Beginning Balance 9/1/2014	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2015
\$ 6,858	\$ -	\$ 268	\$ 33	\$ -	\$ 6,557
662	-	87	2	-	573
984	-	75	3	-	906
1,166	-	472	59	-	635
1,699	-	245	31	-	1,423
7,099	-	4,680	579	-	1,840
7,170	-	4,494	556	-	2,120
12,889	-	6,180	764	-	5,945
27,164	-	14,818	1,832	-	10,514
-	656,912	552,795	70,991	(8,172)	24,954
<u>\$ 65,691</u>	<u>\$ 656,912</u>	<u>\$ 584,114</u>	<u>\$ 74,850</u>	<u>\$ (8,172)</u>	<u>\$ 55,467</u>

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 30,000	\$ 38,449	\$ 38,449	\$ -
5800 State Program Revenues	750	718	718	-
5900 Federal Program Revenues	89,000	83,756	83,756	-
5020 Total Revenues	119,750	122,923	122,923	-
EXPENDITURES:				
0035 Food Services	156,996	128,676	128,676	-
6030 Total Expenditures	156,996	128,676	128,676	-
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(37,246)	(5,753)	(5,753)	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	37,246	7,712	7,712	-
1200 Net Change in Fund Balances	-	1,958	1,959	1
0100 Fund Balance - September 1 (Beginning)	1,873	1,873	1,873	-
3000 Fund Balance - August 31 (Ending)	\$ 1,873	\$ 3,831	\$ 3,832	\$ 1

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 81,412	\$ 81,701	\$ 81,701	\$ -
5800 State Program Revenues	117,894	114,141	114,141	-
5020 Total Revenues	199,306	195,842	195,842	-
EXPENDITURES:				
Debt Service:				
0071 Principal on Long Term Debt	115,000	115,000	115,000	-
0072 Interest on Long Term Debt	66,950	66,950	66,950	-
0073 Bond Issuance Cost and Fees	1,000	650	650	-
6030 Total Expenditures	182,950	182,600	182,600	-
1200 Net Change in Fund Balances	16,356	13,242	13,242	-
0100 Fund Balance - September 1 (Beginning)	126,869	126,869	126,869	-
3000 Fund Balance - August 31 (Ending)	\$ 143,225	\$ 140,111	\$ 140,111	\$ -

**REPORT ON INTERNAL CONTROL &
COMPLIANCE**



ARNOLD, WALKER, ARNOLD, & Co., P.C.

Certified Public Accountants and Consultants

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MEMBER

American Institute Of
Certified Public Accountants

Texas State Society Of
Certified Public Accountants

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

Board of Trustees
Miller Grove Independent School District
Cumby, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Miller Grove Independent School District, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 29, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs under 2015-1 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as item 2015-2.

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.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

October 29, 2015

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

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the Miller Grove Independent School District was an unmodified opinion.
- b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. None
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. NONE
- d. Where applicable, a statement that control deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. N/A
- e. The type of report the auditor issued on compliance for major programs. N/A
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section __.510(a). These include: N/A
- g. An identification of major programs: N/A
- h. The dollar threshold used to distinguish between Type A and Type B programs. N/A
- i. A statement as to whether the auditee qualified as a low-risk auditee. N/A

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

2015-1 Eligible Meal Counts for Reimbursement

Criteria- Internal Controls call for proper accumulation of eligible meals submitted for reimbursement.

Deficiency- Lack of understanding of new software related to cafeteria accounting resulted in incorrect paid meal counts.

Context- The paid meal count for January 2015 appears to have been overstated because adult meals were included in totals. The reimbursement for that month appears overstated by about \$23. This error has continued to occur through the end of the year.

Effect- Paid meal counts have been overstated, thus the reimbursement for these meals appears to be overstated.

Cause- Cafeteria personnel had not been adequately trained in order to accomplish the needed accounting for paid meals. Some adult meals were included in the count that should not have been.

Recommendation- Personnel must obtain adequate training to be able to report the proper count. Internal controls over this process need to be improved.

Views and Planned Corrective Actions of Responsible Officials- The Superintendent and Cafeteria Manager agree with this recommendation and corrections are already being made and additional training will be obtained.

2015-2 Board Training

Criteria- Board members are required to receive at least a minimum number of Board training hours annually.

Deficiency- Board members did not receive the hours of training as required.

Context- Some Board members received some training but did not meet the minimum requirement. Some members received no training this year.

Effect- Board members are not receiving the training needed to have the most effective and up to date knowledge available.

Cause- Board members did not attend the minimum required training.

Recommendation- Board members must obtain at least the minimum number of hours of training required annually.

Views and Planned Corrective Actions of Responsible Officials- The Superintendent and Board members agree with this finding and the required training is being obtained.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in Lf Above

NONE

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

PRIOR YEAR'S FINDINGS/ NONCOMPLIANCE

2014-1 Cafeteria Revenue

There was no reconciliation of daily records of income to deposits because of inadequate training on new software.

2014-2 Board Training

Board members did not attend training classes during the year so the minimum training hour requirements were not met.

STATUS OF PRIOR YEAR'S FINDINGS/ NONCOMPLIANCE

2014-1 Cafeteria Revenue

The District made the corrective action.

2014-2 Board Training

Some Board members obtained some training, but did not meet the minimum requirement. Some Board members received no training. See 2015-2.

MILLER GROVE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2015

CORRECTIVE ACTION

2015-1 Cafeteria personnel are still being trained in the use of the software and reconciliation of daily meal counts. Internal controls have been reviewed and improved. The software company will provide additional training. Corrections should be completed by November 30, 2015.

2015-2 Board members will receive at least the minimum Board training hours required each year. There are 2 training events scheduled so that all will receive required hours. This should be corrected by April, 2016.

Superintendent Steve Johnson is responsible for these corrective actions.