

**LA FERIA
INDEPENDENT SCHOOL DISTRICT
La Feria, Texas**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

FOR THE YEAR ENDED AUGUST 31, 2016

**LA FERIA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2016**

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**LA FERIA INDEPENDENT SCHOOL DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED AUGUST 31, 2016**

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INTRODUCTORY SECTION

LA FERIA INDEPENDENT SCHOOL DISTRICT
LA FERIA, TEXAS
YEAR ENDED AUGUST 31, 2016

TRUSTEES - AS OF FISCAL YEAR END

Alan Moore - President

Juan Briones - Vice-President

Gloria Casas - Secretary

Katie Johnson

Lisa Montalvo

Javier Loreda

Lalo Sosa

TRUSTEES - AS OF REPORT SUBMISSION

Juan Briones - President

Katie Johnson - Vice-President

Michelle Gomez-Vela - Secretary

Javier Loreda

Lisa Montalvo

Michael Martinez

Ruben Zambrano

SUPERINTENDENT

Mr. Raymundo Villarreal

CHIEF FINANCIAL OFFICER

Ramon Mendoza

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

La Feria Independent School District
Name of School District

Cameron
County

031-905
Co.-Dist. Number

We, the undersigned, do hereby certify that the attached annual financial reports of the above named school district were reviewed and approved -- disapproved for the year ended August 31, 2016 at a

(Check one)

meeting of the board of school trustees of such school district on the 23 day of January, 2017.


Signature of Board Secretary


Signature of Board President

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
La Feria Independent School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the La Feria Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the La Feria Independent School District, as of August 31, 2016, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and net pension liability and pension contribution information on pages 17–25 and 68-73 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 La Feria Independent School District's basic financial statements. The introductory section and other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by *Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2017, on our consideration of the La Feria Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering La Feria Independent School District's internal control over financial reporting and compliance.

Carr, Riggs & Ingram LLC

Harlingen, Texas
January 23, 2017

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MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the La Feria Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2016. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$18,642,730 at August 31, 2016.
- During the year, the District's expenses were \$42,213,059. Revenues generated in taxes and other revenues for governmental activities were \$42,914,889.
- The total cost of the District's programs increased \$2,870,838 from last year. This increase resulted from a planned salary increase for all full time staff members.
- The general fund reported a fund balance this year of \$5,667,846.
- The District received an above standard rating for the Financial Integrity Reporting System of Texas (FIRST) for 2015. This rating evaluates quality of performance in the management of school district's financial resources.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Section of this Annual Financial Report consists of four parts: (1) *management's discussion and analysis* (this section), (2) the *basic financial statements*, (3) *required supplemental information*, and (4) *other supplementary information*, which is the section that presents additional information required by the Texas Education Agency.

The Management's Discussion and Analysis section is intended to serve as an introduction to the District's Basic Financial Statements. The District's Basic Financial Statements comprise three components: (1) Government-Wide Financial Statements (2) Fund Financial Statements, and (3) Notes to the Basic Financial Statements.

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.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. All of the District's services are reported in the government-wide financial statements, including instructional, instructional leadership, student support services, general administration, support services, and debt services. Property taxes, state foundation funds and grants finance most of these activities.

The *statement of net position* presents information on all of the District's assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Net position, is one way to measure the District's financial health or *position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To fully assess the overall health of the District; however, non-financial factors need to be considered as well, such as changes in the District's average daily attendance, its property tax base and the condition of the District's facilities.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (governmental activities). All of the District's services are reported in the government-wide financial statements, including instructional leadership, student support services, general administration, support services and debt services.

New Accounting Standards Adopted

In fiscal year 2016, the District adopted new statements of financial accounting standards issued by the Governmental Accounting Standards Board:

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72 requires disclosures to be made about fair value measurements, the level of fair value hierarchy and valuation techniques. Governments should organize these disclosures by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent).

GASB Statement No. 73 extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.

GASB Statement No. 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 79 establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related requirements. 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 to show that it is properly using taxes and grants.

The District has the following kinds of funds:

Governmental funds: Government funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the year.

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

The District maintains 14 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds. Data from the other governmental funds are combined in a single, aggregated presentation. The District adopts an annual appropriated budget for its General Fund, National School Breakfast and Lunch Program Fund, and Debt Service Fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

Proprietary funds: Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. The District currently does not utilize any proprietary fund types.

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

Notes to Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The Required Supplementary Information relates to comparison of the original adopted budget, the final amended budget, and the actual results for the fiscal year ended. This is required supplementary information for the general fund. Also included in RSI is the Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System and the Schedule of District Contributions – Teacher Retirement System.

Other Supplementary Information

The Other Supplementary Information section contains information for the purpose for additional analysis and is not a required part of the basic financial statements. This section includes certain compliance schedules required by State Regulatory agencies.

Government-Wide Financial Analysis

Presented in Tables I and II below are summarized Statement of Net Position and Statement of Changes in Net Position for both current and prior-year data. Our analysis focuses on the current year and the comparison of prior-year amounts on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the year ended August 31, 2016, the District's assets and deferred outflows exceeded its liabilities by \$18,642,730.

Table I
Net Position Summary

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Current and other assets	\$ 8,619,114	\$ 9,481,736
Capital assets	<u>44,982,576</u>	<u>46,137,774</u>
Total assets	<u>53,601,690</u>	<u>55,619,510</u>
Deferred outflows	<u>3,838,131</u>	<u>1,075,456</u>
Other liabilities	2,070,496	3,334,825
Long-term liabilities	<u>36,218,872</u>	<u>34,498,228</u>
Total liabilities	<u>38,289,368</u>	<u>37,833,053</u>
Deferred inflows	<u>507,723</u>	<u>921,013</u>
Net investment in capital assets	15,995,846	15,082,327
Restricted	390,914	1,012,982
Unrestricted	<u>2,255,970</u>	<u>1,845,591</u>
Total net position	<u>\$18,642,730</u>	<u>\$17,940,900</u>

As depicted in Table I, a significant portion of the District's net position, 86%, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Also, approximately 2% of the net position of the District represents resources that are subject to external restriction on how they may be used. The remaining 12% of net position are unrestricted and may be used to meet the District's ongoing obligations.

Changes in Net Position

The Net Position of the District increased by \$701,830 for the year ended August 31, 2016. The total revenues from taxpayers, user service, grants and other sources for the District was \$42,914,889 an increase over fiscal year 2015 of \$4,037,376. Total expenses for the 2016 fiscal year were \$42,213,059 or \$2,870,838 more than the expenses for fiscal year 2015.

Table II
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2016</u>	<u>2015</u>
Program Revenues:		
Charges for services	\$ 699,581	\$ 816,799
Operating grants and contributions	7,763,505	6,896,413
General Revenues:		
Property taxes	4,622,844	4,521,546
State and other grants	29,618,334	26,269,610
Investment earnings	19,709	6,263
Miscellaneous local intermediate	<u>190,916</u>	<u>366,882</u>
Total Revenues	42,914,889	38,877,513
Program Expenses:		
Instruction	21,333,713	19,874,993
Instructional resources and media services	444,636	422,139
Curriculum and instructional staff development	987,516	742,966
Instructional leadership	566,484	594,632
School leadership	2,403,178	2,247,571
Guidance, counseling and evaluation services	913,205	838,243
Social services	81,046	74,216
Health services	400,711	410,376
Student (pupil) transportation	1,372,635	1,212,734
Food services	2,949,127	2,549,546
Co-curricular/extracurricular activities	2,055,456	1,846,743
General administration	1,303,701	1,076,236
Facility maintenance and operations	4,736,599	4,543,051
Security and monitoring services	52,283	46,793
Data processing services	507,216	534,138
Community services	478,398	383,837
Debt service	1,061,040	1,415,059
Payments to fiscal agent/member districts of SSA	499,854	457,277
Payments to juvenile justice alternative education	12,110	15,802
Other governmental charges	<u>54,151</u>	<u>55,869</u>
Total Expenses	<u>42,213,059</u>	<u>39,342,221</u>
Increase (decrease) in net position	701,830	(464,708)
Beginning net position	17,940,900	21,816,859
Prior period adjustment – GASB 68 and 71 pensions	<u>-</u>	<u>(3,411,251)</u>
Ending net position	<u>\$18,642,730</u>	<u>\$17,940,900</u>

The District's total revenues were \$42,914,889. A significant portion, 87%, of the District's revenue comes from state aid – formula grants and operating grants. 11% comes from taxes, while only 2% relates to charges for services.

Governmental Activities

The District's property tax rate remained unchanged from the prior year at \$1.2991 per \$100 of taxable property value.

The total cost of all programs and services was \$42,213,059; 79% of these costs are for instructional and student services.

Table III 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 \$42,213,059.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$4,622,844.
- The cost that was paid by those who directly benefited from the programs was \$699,581.
- The amount by grants and contributions was \$7,763,505.

Table III
Net Cost of Selected District Functions

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction and instructional related	\$22,765,865	\$21,040,098	\$18,854,274	\$17,424,266
School leadership	2,403,178	2,247,571	2,281,684	2,115,586
Food services	2,949,127	2,549,546	40,090	(62,787)
Facilities maintenance and operations	4,736,599	4,543,051	4,555,480	4,405,121

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements, bond covenants, and segregation for particular purposes.

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of August 31, 2016, the District's governmental funds reported a combined ending fund balance of \$5,746,333, an increase of \$423,925 from last year. Of the total fund balance, \$5,092,947, or approximately 89 percent, constitutes unassigned fund balance. The remainder of fund balance is non-spendable, restricted, committed or assigned for particular purposes as follows:

**Table IV
Governmental Funds – Fund Balances**

	<u>2016</u>	<u>2015</u>
Nonspendable		
Inventories	\$ 108,549	\$ 147,453
Prepayments	171,868	165,854
Restricted		
Grant funds	294,482	769,664
Debt service	5,521	12,010
Committed		
Campus activity funds	72,966	77,819
Unassigned		
Unassigned	<u>5,092,947</u>	<u>4,149,608</u>
	<u>\$5,746,333</u>	<u>\$5,322,408</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had invested \$67,951,658 in a broad range of capital assets, including land, equipment, buildings, and vehicles.

**Table V
Capital Assets**

	<u>2016</u>	<u>2015</u>
Land	\$ 2,887,027	\$ 2,887,027
Buildings and improvements	58,628,143	58,628,143
Furniture and equipment	<u>6,436,488</u>	<u>5,714,827</u>
Total assets at historical cost	67,951,658	67,229,997
Accumulated depreciation	<u>(22,969,081)</u>	<u>(21,092,222)</u>
Net capital assets	<u>\$44,982,576</u>	<u>\$46,137,775</u>

Long-term Debt

At year-end, the District had \$36,218,872 in bonds, related premiums/discounts and other long-term liabilities as shown in Table VI. More detailed information about the District's debt is presented in the notes to the financial statements.

Bond Ratings

The District's bonds presently carry "Aaa" ratings assigned by Moody's Investor Services.

Table VI
Long-term Debt

	<u>2016</u>	<u>2015</u>
Bonds payable	\$25,295,000	\$27,060,000
Issuance premiums	1,096,378	1,229,264
Issuance discounts	-	(989)
Maintenance tax notes	1,445,000	1,500,000
Maintenance tax notes premium	25,772	28,214
Property finance contract	1,336,668	1,500,549
Compensated absences	196,382	170,390
Net pension liability	<u>6,823,672</u>	<u>3,010,800</u>
	<u>\$36,218,872</u>	<u>\$34,498,228</u>

Net Pension Liability

The adoption of Statement No. 68 last school year resulted in the District's reporting of net pension liabilities and deferred inflows of resources and deferred outflows of resources for each of its qualified pension plans and the recognition of pension expense in accordance with the provisions of the Statement. The increase in the District's net pension liability (NPL) to \$6,823,672 at August 31, 2016 from \$3,010,800 at August 31, 2015 was the result of a significant number of changes in the actuarial assumptions that affected the measurement of the total pension liability which are detailed in the notes to the financial statements. There were also significant changes in both the deferred outflow related to TRS and the deferred inflow related to TRS which are detailed in the same note disclosure.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2017 budget preparation was \$404,764,409 which is a 7.68% increase from last year's value.
- General operating fund spending per student in the 2017 budget is \$10,005 which is an increase from the prior year average of \$9,373.
- The District's 2017 refined average daily attendance is expected to be 3,330 which is small decrease from last year.

These indicators were taken into account when adopting the general fund budget for 2017. The District adopted a balanced budget and anticipates several budget amendments throughout the fiscal year to account for changes in enrollment and other variables. The District is closely monitoring all operating costs due to the uncertainties in future state funding.

The budget for the general fund has been approved at \$35,477,540 which is a slight decrease from the current year's actual expenditures. Within this budget, the District has included a salary increase for all full time staff, a fine arts initiative and an instructional technology initiative.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office located at 505 North Villarreal Street, La Feria, Texas.

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BASIC
FINANCIAL STATEMENTS

LA FERIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 4,001,807
1220 Property Taxes Receivable (Delinquent)	928,100
1230 Allowance for Uncollectible Taxes	(27,842)
1240 Due from Other Governments	3,213,930
1290 Other Receivables, net	222,702
1300 Inventories	108,549
1410 Prepayments	171,868
Capital Assets:	
1510 Land	2,887,027
1520 Buildings, Net	39,664,948
1530 Furniture and Equipment, Net	2,430,601
1000 Total Assets	53,601,690
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	212,088
1705 Deferred Outflow Related to TRS	3,626,043
1700 Total Deferred Outflows of Resources	3,838,131
LIABILITIES	
2110 Accounts Payable	755,729
2140 Interest Payable	97,973
2150 Payroll Deductions & Withholdings	426,170
2160 Accrued Wages Payable	758,876
2180 Due to Other Governments	31,748
Noncurrent Liabilities	
2501 Due Within One Year	1,725,376
2502 Due in More Than One Year	27,669,824
2540 Net Pension Liability (District's Share)	6,823,672
2000 Total Liabilities	38,289,368
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	507,723
2600 Total Deferred Inflows of Resources	507,723
NET POSITION	
3200 Net Investment in Capital Assets	15,995,846
3820 Restricted for Federal and State Programs	369,025
3850 Restricted for Debt Service	21,889
3900 Unrestricted	2,255,970
3000 Total Net Position	\$ 18,642,730

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 21,333,713	\$ 15,417	\$ 3,568,019	\$ (17,750,277)
12 Instructional Resources and Media Services	444,636	-	19,506	(425,130)
13 Curriculum and Staff Development	987,516	-	308,649	(678,867)
21 Instructional Leadership	566,484	-	37,246	(529,238)
23 School Leadership	2,403,178	-	121,494	(2,281,684)
31 Guidance, Counseling and Evaluation Services	913,205	-	130,466	(782,739)
32 Social Work Services	81,046	-	4,479	(76,567)
33 Health Services	400,711	-	18,822	(381,889)
34 Student (Pupil) Transportation	1,372,635	-	50,339	(1,322,296)
35 Food Services	2,949,127	142,653	2,766,384	(40,090)
36 Extracurricular Activities	2,055,456	462,393	75,694	(1,517,369)
41 General Administration	1,303,701	-	48,949	(1,254,752)
51 Facilities Maintenance and Operations	4,736,599	79,118	102,001	(4,555,480)
52 Security and Monitoring Services	52,283	-	2,007	(50,276)
53 Data Processing Services	507,216	-	13,774	(493,442)
61 Community Services	478,398	-	495,676	17,278
72 Debt Service - Interest on Long Term Debt	1,058,534	-	-	(1,058,534)
73 Debt Service - Bond Issuance Cost and Fees	2,506	-	-	(2,506)
93 Payments related to Shared Services Arrangements	499,854	-	-	(499,854)
95 Payments to Juvenile Justice Alternative Ed. Prg.	12,110	-	-	(12,110)
99 Other Intergovernmental Charges	54,151	-	-	(54,151)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 42,213,059</u>	<u>\$ 699,581</u>	<u>\$ 7,763,505</u>	<u>\$ (33,749,973)</u>

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		4,159,369
DT	Property Taxes, Levied for Debt Service		463,475
SF	State Aid - Formula Grants		26,474,550
GC	Grants and Contributions not Restricted		3,143,784
IE	Investment Earnings		19,709
MI	Miscellaneous Local and Intermediate Revenue		190,916
TR	Total General Revenues		<u>34,451,803</u>
CN	Change in Net Position		701,830
NB	Net Position - Beginning		<u>17,940,900</u>
NE	Net Position--Ending		<u>\$ 18,642,730</u>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 3,661,060	\$ 284,192	\$ 56,555	\$ 4,001,807
1220 Property Taxes - Delinquent	786,340	141,760	-	928,100
1230 Allowance for Uncollectible Taxes (Credit)	(23,590)	(4,252)	-	(27,842)
1240 Receivables from Other Governments	2,907,644	-	306,286	3,213,930
1260 Due from Other Funds	1,181,929	-	72,908	1,254,837
1290 Other Receivables	222,702	-	-	222,702
1300 Inventories	108,549	-	-	108,549
1410 Prepayments	171,868	-	-	171,868
1000 Total Assets	<u>\$ 9,016,502</u>	<u>\$ 421,700</u>	<u>\$ 435,749</u>	<u>\$ 9,873,951</u>
LIABILITIES				
2110 Accounts Payable	\$ 730,357	\$ -	\$ 25,372	\$ 755,729
2150 Payroll Deductions and Withholdings Payable	426,170	-	-	426,170
2160 Accrued Wages Payable	684,229	-	74,647	758,876
2170 Due to Other Funds	713,402	278,671	262,764	1,254,837
2180 Due to Other Governments	31,748	-	-	31,748
2000 Total Liabilities	<u>2,585,906</u>	<u>278,671</u>	<u>362,783</u>	<u>3,227,360</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	762,750	137,508	-	900,258
2600 Total Deferred Inflows of Resources	<u>762,750</u>	<u>137,508</u>	<u>-</u>	<u>900,258</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	108,549	-	-	108,549
3430 Prepaid Items	171,868	-	-	171,868
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	294,482	-	-	294,482
3480 Retirement of Long-Term Debt	-	5,521	-	5,521
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	72,966	72,966
3600 Unassigned Fund Balance	5,092,947	-	-	5,092,947
3000 Total Fund Balances	<u>5,667,846</u>	<u>5,521</u>	<u>72,966</u>	<u>5,746,333</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 9,016,502</u>	<u>\$ 421,700</u>	<u>\$ 435,749</u>	<u>\$ 9,873,951</u>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2016

Total Fund Balances - Governmental Funds	\$	5,746,333
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets was \$67,951,657 and the accumulated depreciation was \$22,969,081.		44,982,576
2 Long-term liabilities including bonds, tax maintenance notes, property finance contract payable, compensated absences and accrued interest are not due and payable in the current period and are not reported as liabilities in the funds.		(29,493,173)
3 Property taxes receivable that will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unavailable in the funds.		900,258
4 Gains/losses on defeasance of debt are recognized as deferred credits or charges and amortized over the remaining life of the debt. The District has deferred charges on refundings of \$212,088 from various refundings which are not reported in the funds.		212,088
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 \$6,823,672, a deferred resource inflow related to TRS in the amount of \$507,723, and a deferred resource outflow related to TRS in the amount of \$3,626,043. This resulted in a decrease in net position by \$3,705,352.		(3,705,352)
19 Net Position of Governmental Activities	\$	18,642,730

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 4,724,558	\$ 508,172	\$ 393,058	\$ 5,625,788
5800 State Program Revenues	28,002,549	2,352,845	586,844	30,942,238
5900 Federal Program Revenues	3,334,908	-	2,319,272	5,654,180
5020 Total Revenues	<u>36,062,015</u>	<u>2,861,017</u>	<u>3,299,174</u>	<u>42,222,206</u>
EXPENDITURES:				
Current:				
0011 Instruction	17,310,927	-	2,217,203	19,528,130
0012 Instructional Resources and Media Services	413,142	-	4,915	418,057
0013 Curriculum and Instructional Staff Development	700,694	-	261,313	962,007
0021 Instructional Leadership	527,492	-	6,902	534,394
0023 School Leadership	2,128,836	-	77,125	2,205,961
0031 Guidance, Counseling and Evaluation Services	765,548	-	71,782	837,330
0032 Social Work Services	77,374	-	-	77,374
0033 Health Services	356,246	-	-	356,246
0034 Student (Pupil) Transportation	1,261,733	-	-	1,261,733
0035 Food Services	3,038,768	-	-	3,038,768
0036 Extracurricular Activities	1,752,430	-	235,096	1,987,526
0041 General Administration	1,244,067	-	-	1,244,067
0051 Facilities Maintenance and Operations	4,509,590	-	5,044	4,514,634
0052 Security and Monitoring Services	49,087	-	-	49,087
0053 Data Processing Services	582,650	-	-	582,650
0061 Community Services	9,277	-	424,647	433,924
Debt Service:				
0071 Principal on Long Term Debt	218,881	1,765,000	-	1,983,881
0072 Interest on Long Term Debt	113,891	1,100,000	-	1,213,891
0073 Bond Issuance Cost and Fees	-	2,506	-	2,506
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	499,854	-	-	499,854
0095 Payments to Juvenile Justice Alternative Ed. Prg.	12,110	-	-	12,110
0099 Other Intergovernmental Charges	54,151	-	-	54,151
6030 Total Expenditures	<u>35,626,748</u>	<u>2,867,506</u>	<u>3,304,027</u>	<u>41,798,281</u>
1200 Net Change in Fund Balances	435,267	(6,489)	(4,853)	423,925
0100 Fund Balance - September 1 (Beginning)	<u>5,232,579</u>	<u>12,010</u>	<u>77,819</u>	<u>5,322,408</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 5,667,846</u>	<u>\$ 5,521</u>	<u>\$ 72,966</u>	<u>\$ 5,746,333</u>

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

LA FERIA 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, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	423,925
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets, \$721,661 is allocated over their useful lives as depreciation expense which totaled \$1,876,859 for the year.		(1,155,198)
Because some property taxes will not be collected for several months after the District's year end, they are not considered "available" revenues in the governmental funds.		(92,738)
Repayment of principal on long-term debt is an expenditure in the funds but is not an expense in the statement of activities.		1,983,881
Governmental funds report premiums, discounts, gains and losses on debt transactions when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. In addition, interest is recorded in the governmental funds when paid but in the statement of activities it is recognized as it accrued. This is the net impact of amortization of premiums, discounts, deferred loss on refunding and the change in accrued interest.		155,357
Some expenses such as the effect of the change in compensated absences reported in the statement of activities do not require the use of current financial resources and , therefore, are not reported as expenditures in the governmental funds.		(25,992)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$598,585. Contributions made before the measurement and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability for the District. This caused a decrease in the change in net position totaling \$571,598. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$614,392. The net result is to decrease the change in net position by \$587,405.		(587,405)
Change in Net Position of Governmental Activities	\$	701,830

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 175,673	\$ 62,462
Other Receivables	722	2,228
Restricted Assets	-	2,632,950
Total Assets	<u>176,395</u>	<u>\$ 2,697,640</u>
LIABILITIES		
Accounts Payable	-	\$ 2,817
Due to Student Groups	14,576	61,873
Payable from Restricted Assets	-	2,632,950
Total Liabilities	<u>14,576</u>	<u>\$ 2,697,640</u>
NET POSITION		
Restricted for Scholarships	<u>161,819</u>	
Total Net Position	<u>\$ 161,819</u>	

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

NOTES TO FINANCIAL STATEMENTS

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LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2016

NOTE A - REPORTING ENTITY

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

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District's financial reporting entity. Based on these considerations, no other entities have been included in the District's financial reporting entity. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other government or other type of reporting entity.

The criteria used to determine whether an organization is a component unit of the District includes: financial accountability of the District for the component unit, appointment of a voting majority, fiscal dependency, ability to impose the District's will on the component unit, and whether there is a financial benefit or burden to the District. The District has no component units based upon this criteria.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

1. *Government-Wide Statements and Fund Financial Statements*

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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

The District reports the following major governmental fund:

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

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

In addition, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds: The District accounts for resources restricted to, or designated for, a specific purpose by the District or a grantor in a special revenue fund. Most federal and some state financial award programs are accounted for in these funds and sometimes unused balances must be returned to the grantor at the close of specified project periods.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Governmental Funds - Continued

Capital Projects Fund. The District uses this fund to account for bond proceeds used for construction. The District has no capital projects fund, at the present time.

Fiduciary Funds:

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

Private Purpose Trust Funds: The District accounts for donations for which the donor stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Scholarship Fund.

Agency Funds: The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund, UIL Clearing Fund and the South Texas Health Cooperative.

Fiduciary Fund Types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into restricted net position (held in trust) and unrestricted net position. The agency funds record only assets and liabilities and use the accrual basis of accounting to recognize receivables and payables. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

3. *New Accounting Standards Adopted*

In the current fiscal year, the District implemented the following new standards. The applicable provisions of these new standards are summarized below. Implementation is reflected in the financial statements and the notes to the financial statements.

- GASB Statement No. 72, *Fair Value Measurement and Application*
- GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*

GASB Statement No. 72, *Fair Value Measurement and Application*, addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, clarifies the application of certain provisions of Statement No. 68 with regard to information that is required to be presented as notes to the 10-year schedules of required supplementary information about investment-related factors that significantly affect trends in the amounts reported.

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures include information about any limitations or restrictions on participant withdrawals.

4. *Budgets*

The official school budget was prepared for adoption for required Governmental Fund types by August 31, 2015. The budget was formally adopted by the board of school trustees at a duly advertised public meeting prior to the expenditure of funds. The budget was amended by the board of school trustees throughout the year. Expenditures may not legally exceed budgeted appropriations at the function level.

5. *Cash and Cash Equivalents*

Investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less.

6. *Investments*

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

7. *Inventory*

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

8. *Prepayments*

Prepayments are prepaid expenses that will benefit periods beyond August 31, 2016. The only prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2016, and which extend beyond that date. The reported prepaid insurance is equally offset by nonspendable fund balance, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

9. Capital Assets

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

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

<u>Assets Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	10 - 50
Vehicles	8
Furniture and equipment	5 - 20

10. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

11. Long-term Obligations

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

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

12. Fair Value Measurements

Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

There are three general valuation techniques that may be used to measure fair value. The market approach uses prices generated by market transactions involving identical or comparable assets or liabilities. The cost approach uses the amount that currently would be required to replace the service capacity of an asset (replacement cost). The income approach uses valuation techniques to convert future amounts to present amounts based on current market expectations.

13. *Use of Estimates*

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

14. *Compensated Absences*

The District's policy allows employees with at least ten years of employment with the District to accumulate unused local leave. When an employee retires, the District will pay out any accumulated leave based on a formula which is weighted for years of service to the District.

15. *Accounting System*

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

16. *Data Control Codes*

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

17. *Fund Balance Reporting*

The District's policy provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items and inventories. The District has prepaid items and inventories that are considered nonspendable. In addition to the nonspendable fund balance, the policy has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The responsibility to commit funds rests with the Board of Trustees. Committed amounts cannot be used for any other purpose unless the governing board changes or lifts the constraint taking the same formal action that imposed the constraint originally. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose. The responsibility to assign funds rests with the Superintendent or the Assistant Superintendent for Business Services.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose.

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

18. *Encumbrance Accounting*

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31st and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

Outstanding encumbrances that were provided for in the subsequent year's budget are presented below:

General Fund	\$68,091
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LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

19. *Deferred Outflows and Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. The separate financial statement element, *deferred outflow 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 items that qualify for reporting in this category. The first is the deferred charge on refunding which is reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter live of the refunded or refunding debt. The District also reports deferred outflow of resources related to employee TRS pension.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category. The first is unavailable revenue from property taxes which is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that they become available. The second is deferred inflows of resources related to employee TRS pension.

NOTE C – DEPOSITS AND INVESTMENTS

Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. During the year, the District maintained either a letter of credit or the depository bank placed approved pledged securities with the District's agent bank to cover bank deposits as authorized by Chapter 2257 Collateral for Public Funds of the Government Code in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

At August 31, 2016 the carrying amount of the District's deposits (cash and certificates of deposit) was \$279,364 and the bank balance was \$734,465. Included in this balance are certificates of deposit of \$175,673. The District's cash deposits at August 31, 2016 and during the year ended August 31, 2016 were entirely covered by a letter of credit, FDIC insurance or by pledged collateral held in the District's name by a bank other than the pledging bank.

The District's cash deposits at August 31, 2016 were maintained at BBVA Compass Bank. These deposits were entirely covered FDIC insurance and pledged collateral held in the District's name by a bank other than the pledging bank.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE C – DEPOSITS AND INVESTMENTS - Continued

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

- a. Name of bank: BBVA Compass Bank.
- b. Amount of letters of credit and market value of securities pledged as of the date of the highest combined balance on deposit was \$1,600,000.
- c. Largest combined balance of cash, money market savings and certificates of deposit amounted to \$1,475,956 and occurred during the month of November 2015.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$426,400.

Investments

Statutes authorize the District to invest in obligations of U.S. Treasury or the State of Texas, certain U.S. agencies, certificates of deposits, money market savings accounts, certain municipal securities, repurchase agreements, common trust funds and other investments specifically allowed by Chapter 2256 Public Funds Investment and Chapter 2257 Collateral for Public Funds of the Government Code. The District’s investment policies and types of investments are governed by the Public Funds Investment Act (PFIA). The District’s management believes that it complied in all material respects with the requirements of the PFIA and the District’s investment policies. At August 31, 2016, all of the District’s investments were in Public Funds Investment Pools which are reported at amortized cost. The District’s investments at August 31, 2016 are shown below:

At August 31, 2016 the District’s investments are summarized below:

	<u>Weighted Average Maturity</u>	<u>Reported Amount</u>
Lone Star Investment Pool	43 days average	<u>\$6,583,777</u>

Public Funds Investment Pools

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

The District’s investment in Pools are reported at an amount determined by the fair value per share of the pool’s underlying portfolio, unless the pool is 2a7-like, in which case they are reported at amortized cost. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. All of the investment pools that the District is invested in qualify as 2a7-like pools which have met the criteria established under GASB Statement No. 79 to report their value at amortized cost. Additionally, all of the investment pools strive to maintain a \$1 per share net asset value.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE C – DEPOSITS AND INVESTMENTS - Continued

As of August 31, 2016, the investment pool utilized by the District was rated AAAM by Standard & Poor's Investor's Service.

Credit Quality Ratings

At August 31, 2016, the credit quality ratings for the District's investments, excluding securities explicitly guaranteed by the U.S. government, are as follows:

Credit Quality Distribution of Securities
With Credit Exposure as a Percentage of Total Investments

<u>Investment or Investment Type</u>	<u>Rating</u>	<u>Exposure</u>
Lone Star Investment Pool	AAAM	100%

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the District's investment in a single issuer. Portfolio diversification is employed in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer, as a way to control the risk. Investments issued or explicitly guaranteed by the U.S. government, mutual funds and investment pools are excluded from this requirement.

Restricted Assets

As of August 31, 2016, restricted assets of the Agency Fund consist of \$21,967 of cash and \$2,610,983 held in Lone Star Investment Pool as fiscal agent for the South Texas Health Cooperative.

The following is a reconciliation of the District's total cash, investments and restricted assets, with the Statement of Net Position:

Deposits	\$ 103,691
Certificates of deposit	175,673
Petty cash	9,751
Investments	<u>6,583,777</u>
Total of all funds	6,872,892
 Less: Statement of Fiduciary Net Position	
Cash and cash equivalents	(238,135)
Restricted assets	<u>(2,632,950)</u>
 Statement of Net Position	 <u>\$4,001,807</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE D - PROPERTY TAX

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

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2016 tax rate was \$1.17 for maintenance and \$.1291 for debt service per \$100 assessed valuation. The 2016 assessed valuation was \$348,274,281. Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. At August 31, 2016 outstanding taxes in the general fund and debt service fund was \$786,340 and \$141,760 with a corresponding allowance for doubtful accounts of \$23,590 and \$4,252.

NOTE E – DUE FROM AND TO OTHER GOVERNMENTS AND AGENCIES

	<u>Due From</u>	<u>Due To</u>
<u>Governmental Funds:</u>		
<i>General Fund:</i>		
Texas Education Agency:		
Foundation revenues	\$2,231,221	\$ -
National School Lunch and Breakfast Programs	103,001	-
Other government agencies	-	31,748
SHARS	<u>573,422</u>	<u>-</u>
	2,907,644	31,748
<i>Other Governmental Funds:</i>		
Texas Education Agency:		
ESEA, Title I, Part A – Improving Basic Programs	248,415	-
ESEA, Title I, Part C – Migratory Children	19,623	-
ESEA, Title II, Part A – Teacher/Principal Training	9,124	-
Career and Technical Basic Grant	351	-
Instructional Materials Allotment	942	-
Region One ESC:		
GEAR-UP	<u>27,831</u>	<u>-</u>
	<u>306,286</u>	<u>-</u>
 Total	 <u>\$3,213,930</u>	 <u>\$ 31,748</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS – CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE F – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2016, were as follows:

	<u>Property Taxes, Net</u>	<u>Other Governments</u>	<u>Due from Other Funds</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 762,750	\$2,907,644	\$1,181,929	\$222,702	\$5,075,025
Debt Service Fund	137,508	-	-	-	137,508
Other Funds	-	306,286	72,908	-	379,194
Total Governmental Activities	<u>\$ 900,258</u>	<u>\$3,213,930</u>	<u>\$1,254,837</u>	<u>\$222,702</u>	<u>\$5,591,727</u>

Payables at August 31, 2016, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	\$ 730,357	\$1,110,399	\$ 713,402	\$ 31,748	\$2,585,906
Debt Service Fund	-	-	278,671	-	278,671
Other Funds	25,372	74,647	262,764	-	362,783
Total Governmental Activities	<u>\$ 755,729</u>	<u>\$1,185,046</u>	<u>\$1,254,837</u>	<u>\$ 31,748</u>	<u>\$3,227,360</u>

NOTE G – CAPITAL ASSETS

Capital asset activity for the year ended August 31, 2016, was as follows:

	<u>General Capital Assets Sept. 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>General Capital Assets Aug. 31, 2016</u>
Governmental activities				
Capital assets not being depreciated				
Land and improvements	\$ 2,887,027	\$ -	\$ -	\$ 2,887,027
Total capital assets not being depreciated	2,887,027	-	-	2,887,027
Capital assets being depreciated				
Building and improvements	58,628,142	-	-	58,628,142
Furniture and equipment	5,714,827	721,661	-	6,436,488
Total capital assets being depreciated	64,342,969	721,661	-	65,064,630
Less accumulated depreciation:				
Building and improvements	17,548,110	1,415,084	-	18,963,194
Furniture and equipment	3,544,112	461,775	-	4,005,887
Total accumulated depreciation	21,092,222	1,876,859	-	22,969,081
Total capital assets being depreciated, net	<u>43,250,747</u>	<u>(1,155,198)</u>	<u>-</u>	<u>42,095,549</u>
Governmental activities capital assets, net	<u>\$46,137,774</u>	<u>\$(1,155,198)</u>	<u>\$ -</u>	<u>\$44,982,576</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE G – CAPITAL ASSETS - Continued

Depreciation was charged to the following functions:

Governmental Activities:

11 – Instruction	\$ 956,825
12 – Instructional Resources and Media Services	12,504
13 – Curriculum and Staff Development	6,203
21 – Instructional Leadership	7,754
23 – School Leadership	105,292
31 – Guidance, Counseling and Evaluation Services	35,489
33 – Health Services	29,674
34 – Student (Pupil) Transportation	242,854
35 – Food Services	184,038
36 – Cocurricular/Extracurricular Activities	16,733
41 – General Administration	11,955
51 – Plant Maintenance and Operations	234,825
52 – Security and Monitoring Services	1,551
53 – Data Processing Services	7,754
61 – Community Services	<u>23,408</u>
	<u>\$1,876,859</u>

NOTE H – RESTRICTED ASSETS

Restricted assets of \$2,632,950 at August 31, 2016, consisted of restricted cash and investment balances relating to the South Texas Health Cooperative for which the District serves as fiscal agent.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE I - LONG-TERM OBLIGATIONS

Long-term obligations include bonds payable, loans payable, compensated absences, and net pension liability. Changes in long-term obligations for the year ended August 31, 2016 are as follows:

<u>Governmental Activities</u>	Beginning Balance Sept. 1, 2015	<u>Increase</u>	<u>Decrease</u>	Balance Aug. 31, 2016	Due Within <u>One Year</u>
Unlimited Tax Refunding Bonds – Series 2005	\$ 710,000	\$ -	\$ 710,000	\$ -	\$ -
Unlimited Tax School Building Bonds – Series 2005	260,000	-	260,000	-	-
Unlimited Tax Refunding Bonds – Series 2006	3,100,000	-	380,000	2,720,000	400,000
Unlimited Tax School Building Bonds – Series 2008	10,790,000	-	280,000	10,510,000	290,000
Unlimited Tax Refunding Bonds – Series 2014A	3,520,000	-	40,000	3,480,000	540,000
Unlimited Tax Refunding Bonds – Series 2014B	3,505,000	-	35,000	3,470,000	30,000
Unlimited Tax Refunding Bonds – Series 2015	<u>5,175,000</u>	<u>-</u>	<u>60,000</u>	<u>5,115,000</u>	<u>20,000</u>
Total general obligation bonds	27,060,000	-	1,765,000	25,295,000	1,280,000
Premium on issuance of bonds	1,229,264	-	132,886	1,096,378	120,879
Discount on issuance of bonds	<u>(989)</u>	<u>-</u>	<u>989</u>	<u>-</u>	<u>-</u>
Subtotal on bonds	28,288,275	-	1,896,875	26,391,378	1,400,879
Maintenance tax notes	1,500,000	-	55,000	1,445,000	60,000
Premium on maintenance tax notes	28,214	-	2,442	25,772	2,392
Property finance contract	1,500,549	-	163,881	1,336,668	170,146
Compensated absences	170,390	33,386	7,394	196,382	91,959
Net pension liability	<u>3,010,800</u>	<u>4,384,470</u>	<u>571,598</u>	<u>6,823,672</u>	<u>-</u>
	<u>\$34,498,228</u>	<u>\$4,417,856</u>	<u>\$2,699,190</u>	<u>\$36,218,872</u>	<u>\$1,725,376</u>

The District's other non-current liabilities including compensated absences are liquidated in the fund where the liability was incurred. Thus, the general fund satisfies most liabilities for governmental activities.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE I - LONG-TERM OBLIGATIONS - Continued

General Obligation Bonds:

Bonds payable at August 31, 2016 are comprised of the following individual issues:

<p>In March 2006, the District issued \$5,469,998 in refunding bonds with interest rates ranging from 3.5% to 4.1% to advance refund the 1997 school building bonds outstanding. The refunding bonds mature in 2022 with principal payments ranging from \$35,000 in 2007 to \$515,000 in 2022. The net proceeds of the refunding bonds were deposited into an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds and to pay for the costs of issuance of the bonds.</p>	<p>\$ 2,720,000</p>
<p>The District issued \$12,499,995 in school building bonds to purchase land, construct a new elementary school and fund various renovation projects as well as pay for the cost of issuing the bonds. The bonds carry interest ranging from 3.0% to 5.0% and have principal payments ranging from \$209,995 in 2009 to \$750,000 in 2038.</p>	<p>10,510,000</p>
<p>The District issued \$3,595,000 Series 2014A refunding bonds with interest ranging from 2% to 4% to advance refund \$3,720,000 of the 2005 refunding bonds outstanding. These bonds mature February 15, 2027.</p>	<p>3,480,000</p>
<p>The District issued \$3,585,000 Series 2014B refunding bonds with interest ranging from 2% to 4% to advance refund \$3,745,000 of the 2005 school building bonds outstanding. These bonds mature February 15, 2037.</p>	<p>3,470,000</p>
<p>The District issued \$5,310,000 Series 2015 refunding bonds with interest ranging from 2% to 4% to advance refund \$5,595,000 of the 2005 school building bonds outstanding. These bonds mature February 15, 2037.</p>	<p><u>5,115,000</u> <u>\$25,295,000</u></p>

In prior years, the District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the respective trust account assets and related liabilities for the defeased bonds are not included in the District's financial statements. At August 31, 2016, the following outstanding bonds are considered defeased:

<u>Series</u>	<u>Ending Balance</u>
1997 Building	\$2,745,000
2005 Refunding	\$3,720,000
2005 Building	\$9,340,000
<u>Public Facilities Corporation</u>	
1999	\$ 755,000
2001	\$2,390,000
2002	\$ 665,000

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE I - LONG-TERM OBLIGATIONS - Continued

Debt service requirements on long-term debt at August 31, 2016 are as follows:

Year Ending <u>August 31.</u>	<u>General Obligation Bonds</u>		<u>Other Long-term Debt</u>		<u>Total Requirements</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 1,280,000	\$ 2,271,378	\$ 230,146	\$ 106,476	\$ 1,510,146	\$ 2,377,854
2018	1,305,000	2,248,378	236,651	98,471	1,541,651	2,346,849
2019	1,345,000	2,238,972	243,405	89,918	1,588,405	2,328,890
2020	1,410,000	2,252,503	255,416	80,869	1,665,416	2,333,372
2021	1,460,000	2,246,798	262,696	71,314	1,722,696	2,318,112
2022-2026	5,155,000	8,397,296	788,354	222,841	5,943,354	8,620,137
2027-2031	5,025,000	7,332,590	450,000	117,075	5,475,000	7,449,665
2032-2036	6,160,000	7,364,608	315,000	21,695	6,475,000	7,386,303
2037-2038	<u>2,155,000</u>	<u>2,277,451</u>	<u>-</u>	<u>-</u>	<u>2,155,000</u>	<u>2,277,451</u>
Total	<u>\$25,295,000</u>	<u>\$36,629,974</u>	<u>\$2,781,668</u>	<u>\$ 808,659</u>	<u>\$28,076,668</u>	<u>\$37,438,633</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2016.

NOTE J - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Other Funds</u>	<u>Total</u>
Property taxes	\$4,235,739	\$ 479,843	\$ -	\$4,715,582
Food sales	142,653	-	-	142,653
Investment income	18,936	703	70	19,709
Penalties and interest	167,420	27,626	-	195,046
Co-curricular student activities	65,326	-	390,624	455,950
Other	<u>94,484</u>	<u>-</u>	<u>2,364</u>	<u>96,848</u>
	<u>\$4,724,558</u>	<u>\$ 508,172</u>	<u>\$ 393,058</u>	<u>\$5,625,788</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE K – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Nonmajor Fund
Deferred outflows of resources:			
Deferred outflows from pension activities	\$3,626,043	\$ -	\$ -
Deferred charge for refunding	<u>212,088</u>	<u>-</u>	<u>-</u>
Total deferred outflows of resources	<u>\$3,838,131</u>	<u>\$ -</u>	<u>\$ -</u>
Deferred inflows of resources:			
Deferred inflows from pension activities	\$ 507,723	\$ -	\$ -
Unavailable property taxes	<u>-</u>	<u>762,750</u>	<u>137,508</u>
Total deferred inflows of resources	<u>\$ 507,723</u>	<u>\$762,750</u>	<u>\$137,508</u>

NOTE L – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2016 were:

<u>Due to</u>	<u>Due From</u>	
General Fund	Other Funds	\$ 72,908
General Fund	Funds within the general fund	<u>640,494</u>
		713,402
Debt Service Fund	General Fund	223,489
Debt Service Fund	Funds within the general fund	<u>55,182</u>
		278,671
Other Funds	General Fund	188,851
Other Funds	Funds within the general fund	<u>73,913</u>
		<u>262,764</u>
		<u>\$1,254,837</u>

The remaining balances resulted from a routine lag between the dates that transactions such as year-end payroll accruals and worker's compensation adjustment payments are made between the funds.

All amounts are scheduled to be repaid within one year.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE M - GENERAL FUND FEDERAL SOURCE REVENUES

Federally financed programs are generally accounted for in the Other Governmental Funds of the District, except for indirect costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA and certain direct revenues. The District recognized in the General fund such revenues for the year ended August 31, 2016, from various federal sources as follows:

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
School Breakfast Program	10.553	\$ 795,654
National School Lunch Program	10.555	1,595,689
USDA – Donated Commodities	10.565	172,225
Indirect costs earned on federal programs:		
ESEA Title I, Part C Migrant	84.011	4,283
ESEA Title III, A English Language Acquisition	84.365A	821
SHARS/Medicaid	-	742,155
Medicaid Administrative Claim	93.778	24,081
		<u>\$3,334,908</u>

NOTE N – COMPLIANCE AND ACCOUNTABILITY

a. Finance-Related Legal and Contractual Provision

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

<u>Violations</u>	<u>Action Taken</u>
Expenditures exceeded amended budget in the following functions: GENERAL FUND	
0011 Instruction	Salaries for instructional aides were reclassified from Title I, Part A to the general fund at the end of the year which caused this budget variance.
0012 Instructional Resources and Media Services	Overage charges on copiers were higher than in prior years and are the only cost that was identified as contributing to this variance.
0013 Curriculum and Instructional Staff Development	The District invested in significant staff development during the current school year and the associated travel and cost for substitutes when the teachers were in training caused this budget variance.
0035 Food Services	The District ordered new serving line equipment for the high school cafeteria expecting that it would not arrive until after the start of the new school year. However, when the equipment arrived prior to year-end it was booked and thus resulted in a large variance.
0051 Facility Maintenance and Operations	Repair costs associated with starting the new school year were higher than anticipated and caused this variance.

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

No deficit fund balances were reported in the current year.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE O - CONTINGENT LIABILITIES

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

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2016 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE P – DEFINED BENEFIT PENSION PLAN

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE P – DEFINED BENEFIT PENSION PLAN - Continued

Benefits Provided

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

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-employer contributing entity (state) (NECE)	6.8%	6.8%
Employer	6.8%	6.8%

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

2016 Employer Contributions	\$ 598,585
2016 Member Contributions	\$1,578,622
2015 NECE On-behalf Contributions	\$1,164,714

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE P – DEFINED BENEFIT PENSION PLAN - Continued

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

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

In addition to the employer contributions listed above, there are two additional changes an employer is subject to:

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the State contribution rate for certain instructional as administrative employees; and 100% of the State rate for certain instructional as administrative employees; and 100% of the State contribution rate for all other employees.

Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit changes during the year	None
Ad-hoc post-employment benefit changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE P – DEFINED BENEFIT PENSION PLAN - Continued

Discount Rate

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U. S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation	-	-	2.2
Alpha	-	-	<u>1.0%</u>
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.*

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE P – DEFINED BENEFIT PENSION PLAN – Continued

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	<u>1% Decrease In Discount Rate (7.0%)</u>	<u>Discount Rate (8.0%)</u>	<u>1% Increase in Discount Rate (9.0%)</u>
District's proportionate share of the net pension liability	\$10,691,407	\$6,823,672	\$3,602,088

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

At August 31, 2015, the District reported a liability of \$6,823,672 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 6,823,672
State's proportionate share that is associated with the District	<u>13,900,128</u>
Total	<u>\$20,723,800</u>

The net pension liability was measured as of August 31, 2015 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, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0193039% which was an increase of 0.0080323% from its proportion measured as of August 31, 2014.

Changes Since the Prior Actuarial Valuation – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

- The inflation assumption was decreased from 3.00% to 2.50%.
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE P – DEFINED BENEFIT PENSION PLAN – Continued

Mortality Assumptions

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

- Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

- The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE P – DEFINED BENEFIT PENSION PLAN – Continued

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

For the year ended August 31, 2016, the District recognized pension expense of \$1,980,545 and revenue of \$1,980,545 for support provided by the State.

At August 31, 2016, the District reports its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 38,725	\$262,240
Changes in actuarial assumptions	162,761	243,439
Difference between projected and actual investment earnings	990,350	-
Changes in proportion and difference between the employer’s contributions and the proportionate share of contributions	<u>1,835,622</u>	<u>2,044</u>
Total net amounts per August 31, 2015 measurement date	3,027,458	507,723
Contributions paid to TRS subsequent to the measurement date	<u>598,585</u>	-
Total	<u>\$3,626,043</u>	<u>\$507,723</u>

The \$598,585 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2017. The net amounts of the employer’s balances of deferred outflows and inflows of resources related to the other pension differences and changes described above will be recognized in pension expense as follows:

<u>Pension Plan Years Ended August 31:</u>	<u>Pension Expense Amount</u>
2017	\$455,792
2018	455,792
2019	455,792
2020	685,846
2021	263,303
Thereafter	203,210

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE Q – RETIREE HEALTH CARE PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2016–2014.

Fiscal Year	Contribution Rates and Contribution Amounts						
	Member		State on-behalf		District		Covered Payroll
	Rate	Amount	Rate	Amount	Rate	Amount	
2016	6.500%	\$142,515	1.000%	\$219,263	0.550%	\$120,595	\$21,926,324
2015	6.500%	137,690	1.000%	211,832	0.550%	116,307	21,183,150
2014	6.500%	132,041	1.000%	203,140	0.550%	111,727	20,314,011

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Subsidy payments received by TRS-Care on behalf of the District are shown in the table below for fiscal years 2016-2014.

Fiscal Year	Medicare Part D
2016	\$88,513
2015	90,081
2014	55,901

Contributions made by the State on behalf of the District have been recorded in the government-wide financial statements and in the fund financial statements of the General Fund as both state revenues and payroll expenditures.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE R - RISK MANAGEMENT

The District is exposed to various risks of loss related to general and legal liability; auto liability and auto physical damage; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the District carries commercial insurance. In addition, the District is a member of the Texas association of School Boards Joint Account Self-Insurance Fund (Fund). The Fund was created to formulate, develop and administer a program of modified self-funding for the property and/or liability coverage for its membership, provide claims administration, and develop a comprehensive loss control program. The District pays contributions to the Fund for its workers compensation and unemployment compensation coverage. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and will provide, through commercial companies, reinsurance contracts. There were no significant reductions in coverage in the past fiscal year.

Health Coverage

The District provides the employees with a health insurance plan. The District paid premiums of \$346 per month per employee, and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to South Texas Health Cooperative which was formed in 1999 by several school districts. The cooperative is governed by a board of directors composed of the superintendents of the member districts. Claims are processed by Continental Benefits and reinsurance has been obtained for specific claims in excess of \$300,000 with no aggregate limit through Standard Security Life Insurance Company of New York. If the cooperative ceases to exist or the District decides not to participate, the District will be responsible for any unpaid claims for its employees. The monthly premium per employee for the 2017 school year remains at \$346.

NOTE S - JOINT VENTURE - SHARED SERVICE ARRANGEMENTS

The District participates in the Mercedes ISD Special Education Cooperative to provide special education services. The District contributed \$499,854 to the cooperative for school year 2016 and the funds were expended for payroll costs, purchased and contracted services, supplies and materials, and miscellaneous operating expenses.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

NOTE T – FUND BALANCES

Committed for Campus Activity Funds – the School Board has taken action to commit the fund balance in the campus activity fund to the respective campus. The purpose for this committed fund balance is to ensure the availability of these funds for each campus.

Assigned – the School Board has authorized the superintendent by board resolution to assign funds for specifically identified purposes.

Unassigned – the unassigned fund balance has no constraints.

	<u>General Fund</u>	<u>Other Governmental Funds Debt Service</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Fund balances:				
Nonspendable:				
Inventories	\$ 108,549	\$ -	\$ -	\$ 108,549
Prepaid expenses	171,868	-	-	171,868
Restricted:				
Food service	294,482	-	-	294,482
Debt service	-	5,521	-	5,521
Committed:				
Campus activity funds	-	-	72,966	72,966
Unassigned:	<u>5,092,947</u>	<u>-</u>	<u>-</u>	<u>5,092,947</u>
	<u>\$5,667,846</u>	<u>\$ 5,521</u>	<u>\$ 72,966</u>	<u>\$5,746,333</u>

NOTE U – SUBSEQUENT EVENTS

The District issued \$8,360,000 in Unlimited Tax Refunding Bonds, Series 2016 dated October 1, 2016 to refund all of the 2006 Refunding bonds outstanding of \$2,720,000 and a portion of the 2008 School Building bonds outstanding consisting of the maturities from 2029 through 2038 of \$6,090,000 which carried interest of 5%. The interest rates on the 2016 Refunding bonds range from 2% to 4% and will mature February 15, 2038. The bonds sold October 13, 2016 at a premium of \$1,154,412 with costs of issuance and underwriter's discount of \$156,350.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

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	\$ 4,585,319	\$ 4,755,319	\$ 4,724,558	\$ (30,761)
5800	State Program Revenues	26,478,767	27,578,767	28,002,549	423,782
5900	Federal Program Revenues	3,295,525	3,295,525	3,334,908	39,383
5020	Total Revenues	34,359,611	35,629,611	36,062,015	432,404
EXPENDITURES:					
Current:					
0011	Instruction	16,412,380	16,792,380	17,310,927	(518,547)
0012	Instructional Resources and Media Services	468,594	403,594	413,142	(9,548)
0013	Curriculum and Instructional Staff Development	449,120	629,120	700,694	(71,574)
0021	Instructional Leadership	553,650	528,650	527,492	1,158
0023	School Leadership	2,070,850	2,130,850	2,128,836	2,014
0031	Guidance, Counseling and Evaluation Services	784,566	766,566	765,548	1,018
0032	Social Work Services	81,650	81,650	77,374	4,276
0033	Health Services	435,600	370,600	356,246	14,354
0034	Student (Pupil) Transportation	1,267,202	1,292,202	1,261,733	30,469
0035	Food Services	2,635,225	2,936,225	3,038,768	(102,543)
0036	Extracurricular Activities	1,495,470	1,755,470	1,752,430	3,040
0041	General Administration	1,079,625	1,279,625	1,244,067	35,558
0051	Facilities Maintenance and Operations	4,156,320	4,492,320	4,509,590	(17,270)
0052	Security and Monitoring Services	50,100	50,100	49,087	1,013
0053	Data Processing Services	402,400	592,400	582,650	9,750
0061	Community Services	16,500	16,500	9,277	7,223
Debt Service:					
0071	Principal on Long Term Debt	219,000	219,000	218,881	119
0072	Interest on Long Term Debt	114,400	114,400	113,891	509
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	470,000	500,000	499,854	146
0095	Payments to Juvenile Justice Alternative Ed. Prg.	25,000	25,000	12,110	12,890
0099	Other Intergovernmental Charges	58,000	58,000	54,151	3,849
6030	Total Expenditures	33,245,652	35,034,652	35,626,748	(592,096)
1100	Excess of Revenues Over Expenditures	1,113,959	594,959	435,267	(159,692)
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(500,000)	(900,000)	-	900,000
1200	Net Change in Fund Balances	613,959	(305,041)	435,267	740,308
0100	Fund Balance - September 1 (Beginning)	5,232,579	5,232,579	5,232,579	-
3000	Fund Balance - August 31 (Ending)	\$ 5,846,538	\$ 4,927,538	\$ 5,667,846	\$ 740,308

LA FERIA 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, 2016

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.193039%	0.112716%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 6,823,672	\$ 3,010,800
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	13,900,128	11,676,975
Total	<u>\$ 20,723,800</u>	<u>\$ 14,687,775</u>
District's Covered-Employee Payroll	\$ 21,183,150	\$ 20,314,011
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	32.21%	14.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "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."

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 598,585	\$ 571,598
Contribution in Relation to the Contractually Required Contribution	(598,585)	(576,173)
Contribution Deficiency (Excess)	\$ -0-	\$ (4,575)
District's Covered-Employee Payroll	\$ 21,926,324	\$ 21,183,150
Contributions as a Percentage of Covered-Employee Payroll	2.73%	2.70%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

Note: In accordance with GASB 68, Paragraph 138, only two years of data are presented this reporting period. "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."

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2016

Stewardship, compliance, and accountability

I. Budgetary information

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

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

- Prior to August 20 for a fiscal year start date of September 1, the District prepares a budget based on the modified zero-based budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- After one or more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.
- Prior to August 31st for a fiscal year start date of September 1, the Board legally adopts the budget for the general fund, debt service fund and food service fund.
- After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.
- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate budget manager (principal, department director or divisional administrator). Budget managers may authorize transfers within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year-end.

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
YEAR ENDED AUGUST 31, 2016

Over the course of the year, the District amended the budget seven times. Even with these adjustments, actual expenditures were \$592,096 in excess of the final amended budget due primarily to the unfavorable variance of \$(518,547) in instruction. The following summarizes the primary factor for each variance in the current school year:

Function 11 - Instruction: The District had budgeted the majority of all instructional aides' salaries to be paid from federal programs and it was not until the end of the year that staff realized there was less available funding in the federal programs for the 2015-2016 fiscal year than the salaries that had been budgeted. As a result, salaries were transferred from Title I, Part A in late August to the general fund which resulted in this large variance.

Function 12 - Instructional Resources and Media Services: Overage charges on copiers were higher than in prior years and were not anticipated when amending the budget.

Function 13 - Curriculum and Instructional Staff Development: The District invested in significant staff development during 2015-2016 but the associated travel cost and the cost for substitutes while teachers were out for the training was more than anticipated.

Function 35 - Food Service: The District ordered new serving line equipment for the high school cafeteria late in August expecting that it would not arrive until after the start of the new school year. When the equipment arrived prior to August 31, 2016, it had to be recorded in the 2015-2016 school year even though it had been budgeted for the 2016-2017 school year.

Function 51 - Facilities Maintenance and Operations: The District planned for the summer repair costs associated with starting the new school year when the final budget amended was presented for approval but the actual costs incurred were higher than anticipated.

End-of-year outstanding encumbrances that were provided for in the subsequent year's budget for the general fund total \$68,091.

II. Pension

Changes of Assumptions – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

- The inflation assumption was decreased from 3.00% to 2.50%.
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED
YEAR ENDED AUGUST 31, 2016

II. Pension – Continued

Mortality Assumptions

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

- Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

- The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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

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**OTHER SUPPLEMENTARY
INFORMATION**

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.040000	0.245000	300,434,726
2009	1.040000	0.300000	321,087,577
2010	1.040000	0.296000	328,021,783
2011	1.040000	0.296000	331,039,817
2012	1.040000	0.296000	331,172,840
2013	1.040000	0.296000	335,392,755
2014	1.170000	0.129100	376,670,030
2015	1.170000	0.129100	349,382,936
2016 (School year under audit)	1.170000	0.129100	348,274,281
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 195,629	\$ -	\$ 12,761	\$ 1,980	\$ (26,775)	\$ 154,113
30,629	-	4,015	946	(723)	24,945
45,610	-	6,778	1,955	931	37,808
51,853	-	9,968	2,837	232	39,280
64,170	-	12,406	3,531	(345)	47,888
76,930	-	15,836	4,507	94	56,681
101,829	-	25,230	6,307	(1,471)	68,821
158,749	-	54,537	6,018	(1,003)	97,191
298,308	-	142,309	15,703	(12,306)	127,990
-	4,791,597	4,036,022	445,342	(36,850)	273,383
<u>\$ 1,023,707</u>	<u>\$ 4,791,597</u>	<u>\$ 4,319,862</u>	<u>\$ 489,126</u>	<u>\$ (78,216)</u>	<u>\$ 928,100</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2016

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	\$ 600,000	\$ 600,000	\$ 508,172	\$ (91,828)
5800	State Program Revenues	1,771,100	1,771,100	2,352,845	581,745
5020	Total Revenues	2,371,100	2,371,100	2,861,017	489,917
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	1,765,000	1,765,000	1,765,000	-
0072	Interest on Long Term Debt	1,100,100	1,100,100	1,100,000	100
0073	Bond Issuance Cost and Fees	6,000	6,000	2,506	3,494
6030	Total Expenditures	2,871,100	2,871,100	2,867,506	3,594
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(500,000)	(500,000)	(6,489)	493,511
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	500,000	900,000	-	(900,000)
1200	Net Change in Fund Balances	-	400,000	(6,489)	(406,489)
0100	Fund Balance - September 1 (Beginning)	12,010	12,010	12,010	-
3000	Fund Balance - August 31 (Ending)	\$ 12,010	\$ 412,010	\$ 5,521	\$ (406,489)

SINGLE AUDIT SECTION

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

To the Board of Trustees
La Feria Independent School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the La Feria Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise La Feria Independent School District's basic financial statements, and have issued our report thereon dated January 23, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as item 2016-001.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether La Feria Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which is described in the accompanying schedule of findings and questioned costs as item 2016-002.

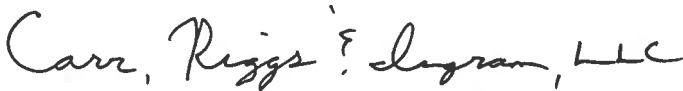
In addition, we noted certain other matters that we reported to management of the La Feria Independent School District in a separate letter dated January 23, 2017.

La Feria Independent School District's Response to Findings

La Feria Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. La Feria Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Harlingen, Texas
January 23, 2017

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees
La Feria Independent School District

Report on Compliance for Each Major Federal Program

We have audited La Feria Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of La Feria Independent School District's major federal programs for the year ended August 31, 2016. La Feria Independent School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of La Feria Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U. S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about La Feria Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, La Feria Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-003. Our opinion on each major federal program is not modified with respect to these matters.

La Feria Independent School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs.

La Feria Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

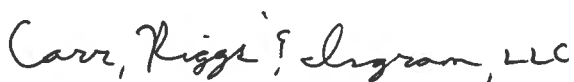
Report on Internal Control Over Compliance

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

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

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

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



Harlingen, Texas
January 23, 2017

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LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

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

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
10.553, 10.555 and 10.559 84.010A	Child Nutrition Cluster ESEA, Title I, Part A – Improving Basic Programs and TTL I 1003(A) Priority and Focus School Grant

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

Section II – Findings Related to the Financial Statement Audit as Required to Be Reported in Accordance with Generally Accepted Government Auditing Standards

A. Significant Deficiencies in Internal Control

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Schedule Reference Number: (2016-001)	Accounting for Campus Activity Funds within Centralized Accounting System
Criteria:	The Financial Accountability Resource Guide (FASRG) Section on Internal Control in 1.5.2.3 states one of the key components in any internal control system is the reconciliation and comparison of assets with records – specifically reconciliations of bank balance to general ledger balance.
Condition Found:	When the District centralized the accounting for campus activity funds in January 2016, the posting methodology in Skyward accounting system did not provide cash receipts and cash disbursements detail by campus organization code; instead only a total for all campuses was available.
Questioned Costs/Basis:	None
Context:	Business office personnel did not consider the impact of not maintaining the separate detail by campus in Skyward or how that lack of detail would impact the bank reconciliation for the general operating bank account.
Effect:	Bank reconciliations for the District’s general operating account from January through August were extremely cumbersome in that extra reports had to be generated to summarize the campus activity.
Cause:	The change in accounting for the activity funds which was intended to be positive from an internal control perspective (centralized is much preferable to decentralized) was not since the software limitations when posting the centralized transactions were not considered prior to making the change.
Recommendation:	We recommend that the District create separate special revenue funds within the 460 series for each campus if Skyward has no other solution to the problem identified.

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

**Section II – Findings Related to the Financial Statement Audit as Required to Be
Reported in Accordance with Generally Accepted Government Auditing Standards - Continued**

B. Compliance Findings

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Schedule Reference Number: (2016-002)	State Compliance – Excess Expenditures Over Appropriations
Criteria:	State law requires budget amendments to be made prior to exceeding a function total.
Condition Found:	As indicated in the District’s financial statements, we noted five instances in which the District’s budget had been exceeded on a functional level in the general fund.
Questioned Costs/Basis:	Not applicable
Context:	We noted five negative variances in the general fund expenditures.
Effect:	The District incurred expenditures that are not budgeted in advance by the Board of Trustees.
Recommendation:	We recommend the District continue to closely monitor the budget on a monthly basis.

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2016

Section III – Federal Award Findings And Questioned Costs

PROGRAM

DESCRIPTION

Schedule Reference Number: (2016-003)

Late Submission to Federal Audit Clearinghouse

Criteria:

2 CFR section 200.508(a) states the auditee is responsible for ensuring the submission of audit reports to appropriate government officials or organizations. 2 CFR section 200.512(a) states that the reporting package (which includes the audit reports and the data collection form) must be submitted the earlier of 30 calendar days after the reports are received from the auditors or nine months after the end of the audit period.

Condition Found:

Due to an oversight by the District's business office, the reporting package was not submitted to the Single Audit Clearinghouse by the deadline specified above.

Questioned Costs/Basis:

None

Context:

Administration has not established a formal procedure to monitor the deadline for submission.

Effect:

The late submission has resulted in the District being classified as a high risk auditee for the next two years.

Cause:

A system was not in place within the District to monitor the report submission deadline.

Recommendation:

We recommend that the District create a system that involves the appropriate staff members (federal programs compliance staff as well as business office staff) to monitor the submission process for the reporting package to ensure that the data collection form and audit reports are submitted prior to the deadline.

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2016

<u>PROGRAM</u>	<u>STATUS OF PRIOR YEAR FINDING/NEW COMPLIANCE</u>
Schedule Reference Number (2015-001)	Excess Expenditures Over Appropriations The District CFO and accountant renewed and amended the budget a total of seven times during the year but due to several different issues arising at or very near year end the final budget amendment was insufficient to provide for the five functional variances. See current year finding (2016-002).

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2016

FINDING

CORRECTIVE ACTION PLAN

Reference Number: (2016-001)

Accounting for Campus Activity Funds within Centralized Accounting System

The District CFO will consult with Skyward software vendor for a solution to the posting of campus activity cash receipts and disbursements by organization code and if a solution is not available, separate 46x funds will be created for each campus in the 2016-2017 school year.

Reference Number: (2016-002)

State Compliance – Excess Expenditures Over Appropriations

The District CFO and accountant will review on a monthly basis expenditures by function for the general fund during the 2016-2017 fiscal year to curtail overages of expenditure at a function level.

Reference Number: (2016-003)

Late Submission to Federal Audit Clearinghouse

The District CFO and the Director of Federal Programs will monitor the single audit clearing house submission process to ensure the reporting package (data collection form and audit reports) are submitted within 30 calendar days of receipt of the final audit report.

Contact Person:

Ramon Mendoza,
Chief Financial Officer

Implementation Time Frame:

Ongoing

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through Region One ESC</u>			
GEAR UP	84.334S	P334A110180-13	\$ 73,597
Total Passed Through Region One ESC			\$ 73,597
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101031905	\$ 1,449,636
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17610101031905	86,664
TTL I 1003(A) Priority and Focus School Grant	84.010A	15610112031905000	18,093
TTL I 1003(A) Priority and Focus School Grant	84.010A	16610112031905000	183,388
Total CFDA Number 84.010A			1,737,781
ESEA, Title I, Part C - Migratory Children	84.011	16615001031905	237,249
Career and Technical - Basic Grant	84.048	16420006031905	45,572
Title III, Part A - English Language Acquisition	84.365A	16671001031905	40,257
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501031905	173,466
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17694501031905	9,124
Total CFDA Number 84.367A			182,590
Summer School LEP	84.369A	69551502	2,226
Total Passed Through State Department of Education			\$ 2,245,675
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 2,319,272
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		\$ 24,081
Total Passed Through Texas Dept of Human Services			\$ 24,081
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 24,081
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	00153	\$ 795,654
*National School Lunch Program - Cash Assistance	10.555	00153	1,595,689
*National School Lunch Prog. - Non-Cash Assistance	10.555	00153	172,225
Total CFDA Number 10.555			1,767,914
Total Child Nutrition Cluster			2,563,568
Total Passed Through the State Department of Agriculture			\$ 2,563,568
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 2,563,568
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,906,921

*Clustered Programs

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016

NOTE A - BASIS OF PRESENTATION

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

NOTE B – PROGRAM REPORTING

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

Reconciliation

Total expenditures of federal awards, per Exhibit K-1	\$4,906,921
General Fund – Federal Revenue	
School Health and Related Services (SHARS) revenue	742,155
Indirect cost earned on federal programs	
Title I, Part C	4,283
Title III, Part A – English Language Acquisition	<u>821</u>
Total Federal Revenues, per Exhibit C-3	<u>\$5,654,180</u>