

**LA FERIA  
INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL REPORT  
AND  
COMPLIANCE REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2011*

**LA FERIA INDEPENDENT SCHOOL DISTRICT**

La Feria, Texas  
Year Ended August 31, 2011

**TRUSTEES**

Alan Moore - President

Gloria Loya - Vice-President

John Briones - Secretary

Gloria Casas

Javier Loredo

Pancho Cobarrubias

**SUPERINTENDENT**

Dr. Nabor Cortez, Jr.

**BUSINESS MANAGER**

Ramon Mendoza

**LA FERIA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL AND COMPLIANCE REPORT  
YEAR ENDED AUGUST 31, 2011**

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**LA FERIA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL AND COMPLIANCE REPORT  
YEAR ENDED AUGUST 31, 2011**

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# **INTRODUCTORY SECTION**

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**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, 2011 at a meeting of the board of school trustees of such school district on the 23rd day of January, 2012.

  
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

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 La Feria Independent School District as of August 31, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2012 on our consideration of the District's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The accompanying Management's Discussion and Analysis, and the General Fund - Budgetary Comparison Schedule on pages 15 through 21 and 58 through 59 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise La Feria Independent School District's basic financial statements. The accompanying financial information listed as Texas Education Agency Required Schedules in the table of contents and the schedule of expenditures of federal awards are presented in accordance with requirements of the Texas Education Agency and for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



LONG CHILTON, LLP  
*Certified Public Accountants*

Harlingen, Texas  
January 18, 2012

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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, 2011. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

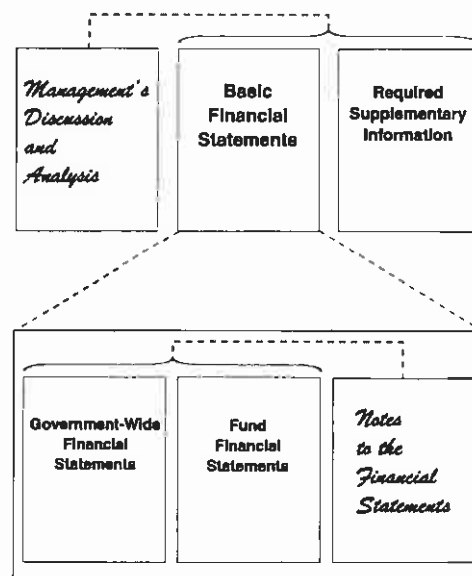
- The District's total combined net assets were \$ 19,910,502 at August 31, 2011.
- During the year, the District's expenses were \$36,740,574. Revenues generated in taxes and other revenues for governmental activities were \$36,960,155.
- The total cost of the District's programs decreased \$489,072 from last year. This decrease resulted from planned reductions in staffing and operating costs with the largest decrease in curriculum and staff development followed by instruction and school leadership.
- The general fund reported a fund balance this year of \$3,937,337.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present the 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*, such as food service. The District did not have any proprietary funds as of August 31, 2011.
- *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.

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



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

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

Type of Statements	Government-wide	Governmental Funds	Fund Statements	
			Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures &amp; changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses and changes in fund net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

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

### Government-wide Statements

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

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extra-curricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

### Fund Financial Statements

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

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

The District has the following kinds of funds:

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



- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District’s government-wide financial statements because the District cannot use these assets to finance its operations.

## FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District’s combined net assets were \$19,910,502 at August 31, 2011. (See Table A-1).

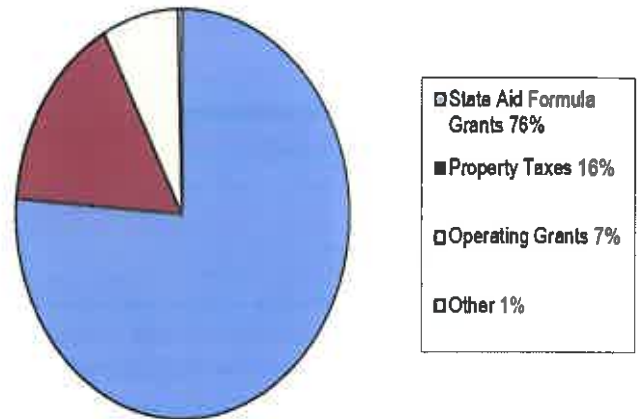
**Table A-1  
Combined Net Assets**

	<u>2011</u>	<u>2010</u>
<b>Current assets</b>		
Cash and cash equivalents	\$ 4,979,655	\$ 3,309,107
Due from other governments	3,475,000	2,840,500
Taxes receivable net of allowance for uncollectible taxes	1,079,030	1,081,141
Other receivables	217,378	88,307
Inventories – supplies and materials	58,289	118,624
Deferred expenditures	<u>244,366</u>	<u>319,663</u>
Total current assets	10,053,718	7,757,342
<b>Non-current assets</b>		
Capitalized bond and other debt issuance costs	434,252	458,301
Land	2,887,027	2,887,027
Buildings	57,191,652	46,799,631
Furniture and equipment	3,801,245	3,098,453
Construction in progress	-	9,131,100
Less accumulated depreciation	<u>(14,583,258)</u>	<u>(13,094,264)</u>
Total non-current assets	49,730,918	49,280,248
<b>Restricted assets</b>	<u>-</u>	<u>4,929,276</u>
Total assets	<u>59,784,636</u>	<u>61,966,866</u>
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	2,550,390	3,448,753
Due to other governments	21,783	21,895
Due to student groups	363	3,364
Deferred revenue	877,171	113,247
Current long-term liabilities payable	1,826,252	1,758,673
Payable from restricted assets	<u>-</u>	<u>527,931</u>
Total current liabilities	5,275,959	5,873,863
<b>Long-term liabilities</b>	<u>34,598,175</u>	<u>36,402,082</u>
Total liabilities	<u>39,874,134</u>	<u>42,275,945</u>
<b>Net assets invested in capital assets</b>	13,782,508	12,871,406
Restricted for food service	797,168	918,968
Restricted for debt service	779,108	503,362
Restricted for capital projects	114,946	1,063,987
Restricted for campus activities	84,458	-
Unrestricted net assets	<u>4,352,314</u>	<u>4,333,198</u>
	<u>\$19,910,502</u>	<u>\$19,690,921</u>

The \$4,352,314 of unrestricted net asset represents resources available to fund the programs of the District for the upcoming year.

**Changes in net assets.** The District's total general revenues were \$28,506,305. A significant portion, 76%, of the District's revenue comes from state aid-formula grants. (See adjacent chart.) 16% comes from property taxes. The remaining 8% comes from interest income, other miscellaneous charges and grants and unrestricted contributions.

The total cost of all programs and services, net of program revenues, was \$28,286,724 and 54% of these costs are for instructional services.



**Governmental Activities**

- Property tax rate is \$1.336 per \$100 valuation.

**Table A-2  
Changes in Net Assets**

	<u>2011</u>	<u>2010</u>
Program revenues		
Charges for services	\$ 527,408	\$ 497,489
Operating grants and contributions	7,926,442	9,648,179
General revenues		
Property taxes	4,568,346	4,536,370
State aid – formula	21,710,945	21,036,767
Grants/contributions not restricted	2,105,816	2,464,788
Investment earnings	19,418	28,488
Miscellaneous local intermediate	<u>101,780</u>	<u>168,623</u>
Total revenues	36,960,155	38,380,704
Instruction	18,405,479	18,895,829
Instructional resources and media services	555,588	426,547
Curriculum and instructional staff development	679,608	1,109,817
Instructional leadership	468,073	384,663
School leadership	1,991,130	2,012,211
Guidance, counseling and evaluation services	986,670	981,302
Social services	75,874	55,722
Health services	395,324	399,472
Student (pupil) transportation	924,916	953,829
Food services	2,195,735	1,958,547
Cocurricular/extracurricular activities	1,620,253	1,735,645
General administration	1,035,686	1,020,250
Plant maintenance and operations	4,376,761	4,288,465
Security and monitoring services	44,791	44,719
Data processing services	325,704	320,715
Community services	447,039	353,167
Debt service	1,675,038	1,747,853
Payments to fiscal agent/member districts of SSA	366,540	364,027
Payments to juvenile justice alternative education	82,538	97,643
Other governmental charges	<u>87,827</u>	<u>79,223</u>
Total expenses	<u>36,740,574</u>	<u>37,229,646</u>
Changes in net assets	<u>\$ 219,581</u>	<u>\$ 1,151,058</u>

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

- The cost of all *governmental* activities this year was \$36,740,574.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$4,568,346.
- The cost that was paid by those who directly benefited from the programs was \$527,408.
- The amount by grants and contributions was \$7,926,442.

**Table A-3  
Cost of District's Largest Functions**

	Total Cost of Services		Net Cost of Services	
	2011	2010	2011	2010
Instruction	\$19,640,675	\$20,432,193	\$15,309,664	\$14,203,900
School leadership	1,991,130	2,012,211	1,863,397	1,840,786
Food services	2,195,735	1,958,547	(182,459)	(175,461)
Co-curricular/extracurricular activities	1,620,253	1,735,645	1,135,922	1,257,850
Plant maintenance and operations	4,376,761	4,288,465	4,291,730	4,074,290
Debt service – interest and bond Issuance costs	1,675,038	1,747,853	1,675,038	1,747,853

**Business-type Activities**

The District did not have any business-type activities.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

Revenues from governmental fund types totaled \$36,962,264 an decrease of 4% from the preceding year. Local revenues decreased by \$137,427; state revenues decreased by \$45,712 and federal revenues decreased by \$1,360,820. The decrease in federal revenues is the result of the nonrecurring funding in the prior fiscal year from the American Recovery and Reinvestment Act (ARRA).

**General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget four times. Even with these adjustments, actual expenditures were \$163,382 below final budget amounts. There were expenditures in excess of amended budget amount for instruction only. The variance in instruction was the result of expenditures for high school allotment being recorded in fund 428 rather than in the general fund. When the oversight in coding was identified it was after fiscal year end so a budget amendment for the general fund to incorporate those expenditures was not possible.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2011, the District had invested \$63,879,924 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a net increase (including additions and deductions) of \$1,963,713 or 3% over last year.

**Table A-4  
Capital Assets**

	<u>2011</u>	<u>2010</u>
Land	\$ 2,887,027	\$ 2,887,027
Buildings and improvements	57,191,652	46,799,631
Furniture and equipment	3,801,245	3,098,453
Construction in progress	-	9,131,100
	<u>63,879,924</u>	<u>61,916,211</u>
Accumulated depreciation	<u>(14,583,258)</u>	<u>(13,094,264)</u>
	<u>\$49,296,666</u>	<u>\$48,821,947</u>

In 2008-2009, the District began work on the capital projects funded by the 2008 \$12,500,000 bond proceeds. Land for a new elementary campus as well as for a possible new high school campus was purchased and architectural fees were incurred for the new elementary campus. The construction of the new elementary campus was ongoing in 2009-2010 with the campus being occupied September 27, 2010. The other projects funded by the bond issue were begun and include additional instructional classrooms at the existing High School campus and at the W.B. Green Junior High campus. As of August 31, 2011 all of the construction projects funded by the 2008 bonds were completed.

### Long Term Debt

At year-end, the District had \$34,256,253 in bonds and related interest as shown in Table A-5. 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 A-5  
Long-term Debt**

	<u>2011</u>	<u>2010</u>
Bonds payable	\$34,130,000	\$35,755,000
Issuance premium	278,522	304,339
Issuance discount	(9,767)	(11,474)
Deferred loss on 2005 refunding bonds	(188,639)	(221,599)
Deferred gain on 2006 refunding bonds	<u>46,137</u>	<u>54,147</u>
	<u>\$34,256,253</u>	<u>\$35,880,413</u>

## FUND BALANCES

The District has adopted GASB 54 effective for the fiscal year ending August 31, 2011. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources. Previously, fund balance was classified as reserved or unreserved. GASB 54 provided 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. The District has inventories and prepaid insurance that are considered nonspendable.

The spendable fund balances include restricted, committed, assigned and unassigned based upon the hierarchy of spending constraints. **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 board of trustees); **assigned:** fund balances that contained self-imposed constraints of the government to be used for a particular purpose (the superintendent has the authority to assign up to \$200,000 for specific purposes); and **unassigned:** fund balance of the general fund that has not been constrained for any particular purpose.

As of August 31, 2011, the District's governmental funds reported ending fund balances of \$5,673,695. The unassigned fund balance of \$2,837,514 or 50% of this total amount is available for spending at the government's discretion. Of the current ending fund balances, the following categories are recorded and primary users noted in accordance with GASB No. 54.

- \$302,655 is recorded as Nonspendable for inventories and prepaid items;
- \$2,449,068 is recorded as Restricted; \$797,168 in food service; \$779,108 in debt service; and \$872,792 in capital projects;
- \$84,458 is recorded as Committed for campus activity funds;
- The District had no assigned fund balance at year end;
- \$2,837,514 is the remaining fund balance and is recorded as Unassigned.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2012 budget preparation was \$331,290,497 which is a very slight increase from last year's value.
- General operating fund spending per student in the 2012 budget is \$8,466 which is a decrease from the prior year average of \$8,778.
- The District's 2012 refined average daily attendance is expected to be the same as the current year's average.

These indicators were taken into account when adopting the general fund budget for 2012. 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 lack of growth in student enrollment and the uncertainties in future state funding.

Expenditures in the General Fund are expected to decrease to \$27,836,082 which is a 3.58% decrease. The District has added no major new programs or initiatives to the 2012 budget.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2012.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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



**BASIC  
FINANCIAL STATEMENTS**

LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2011

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 4,979,655
1220 Property Taxes Receivable (Delinquent)	1,112,402
1230 Allowance for Uncollectible Taxes	(33,372)
1240 Due from Other Governments	3,475,000
1290 Other Receivables, net	217,378
1300 Inventories	58,289
1410 Deferred Expenses	244,366
1420 Capitalized Bond and Other Debt Issuance Costs	434,252
Capital Assets:	
1510 Land	2,887,027
1520 Buildings, Net	44,916,794
1530 Furniture and Equipment, Net	1,492,845
1000 Total Assets	59,784,636
<b>LIABILITIES</b>	
2110 Accounts Payable	991,713
2140 Interest Payable	148,714
2150 Payroll Deductions & Withholdings	448,673
2160 Accrued Wages Payable	961,290
2180 Due to Other Governments	21,783
2190 Due to Student Groups	363
2300 Deferred Revenues	877,171
Noncurrent Liabilities	
2501 Due Within One Year	1,826,252
2502 Due in More Than One Year	34,598,175
2000 Total Liabilities	39,874,134
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	13,782,508
3820 Restricted for Federal and State Programs	797,168
3850 Restricted for Debt Service	779,108
3860 Restricted for Capital Projects	114,946
3870 Restricted for Campus Activities	84,458
3900 Unrestricted Net Assets	4,352,314
3000 Total Net Assets	\$ 19,910,502

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, 2011

EXHIBIT B-1

Data Control Codes	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	1	3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 18,405,479	\$ 4,364	\$ 3,795,935	\$ (14,605,180)
12 Instructional Resources and Media Services	555,588	-	64,593	(490,995)
13 Curriculum and Staff Development	679,608	-	466,119	(213,489)
21 Instructional Leadership	468,073	-	220,804	(247,269)
23 School Leadership	1,991,130	-	127,733	(1,863,397)
31 Guidance, Counseling and Evaluation Services	986,670	-	139,469	(847,201)
32 Social Work Services	75,874	-	63,718	(12,156)
33 Health Services	395,324	-	21,624	(373,700)
34 Student (Pupil) Transportation	924,916	-	48,641	(876,275)
35 Food Services	2,195,735	89,660	2,288,534	182,459
36 Extracurricular Activities	1,620,253	433,384	50,947	(1,135,922)
41 General Administration	1,035,686	-	38,203	(997,483)
51 Plant Maintenance and Operations	4,376,761	-	85,031	(4,291,730)
52 Security and Monitoring Services	44,791	-	1,587	(43,204)
53 Data Processing Services	325,704	-	85,979	(239,725)
61 Community Services	447,039	-	427,525	(19,514)
72 Debt Service - Interest on Long Term Debt	1,670,620	-	-	(1,670,620)
73 Debt Service - Bond Issuance Cost and Fees	4,418	-	-	(4,418)
93 Payments related to Shared Services Arrangements	366,540	-	-	(366,540)
95 Payments to Juvenile Justice Alternative Ed. Prg.	82,538	-	-	(82,538)
99 Other Intergovernmental Charges	87,827	-	-	(87,827)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 36,740,574</b>	<b>\$ 527,408</b>	<b>\$ 7,926,442</b>	<b>(28,286,724)</b>
<b>General Revenues:</b>				
<b>Taxes:</b>				
MT				3,555,911
DT				1,012,435
SF				21,710,945
GC				2,105,816
IE				19,418
MI				101,780
TR				<u>28,506,305</u>
CN				219,581
NB				19,690,921
NE				<u>\$ 19,910,502</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, 2011

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 3,743,585	\$ 304,775	\$ 894,316
1220 Property Taxes - Delinquent	883,569	228,833	-
1230 Allowance for Uncollectible Taxes (Credit)	(26,507)	(6,865)	-
1240 Receivables from Other Governments	1,705,918	510,454	-
1260 Due from Other Funds	705,376	-	-
1290 Other Receivables	213,026	-	-
1300 Inventories	58,289	-	-
1410 Deferred Expenditures	244,366	-	-
1000 Total Assets	<u>\$ 7,527,622</u>	<u>\$ 1,037,197</u>	<u>\$ 894,316</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
2110 Accounts Payable	\$ 803,011	\$ -	\$ 9,998
2150 Payroll Deductions and Withholdings Payable	448,673	-	-
2160 Accrued Wages Payable	584,839	-	-
2170 Due to Other Funds	-	36,121	11,526
2180 Due to Other Governments	21,783	-	-
2190 Due to Student Groups	-	-	-
2300 Deferred Revenues	1,731,979	221,968	-
2000 Total Liabilities	<u>3,590,285</u>	<u>258,089</u>	<u>21,524</u>
<b>Fund Balances:</b>			
<b>Nonspendable Fund Balance:</b>			
3410 Inventories	58,289	-	-
3430 Prepaid Items	244,366	-	-
<b>Restricted Fund Balance:</b>			
3450 Federal or State Funds Grant Restriction	797,168	-	-
3480 Retirement of Long-Term Debt	-	779,108	-
3490 Other Restricted Fund Balance	-	-	872,792
<b>Committed Fund Balance:</b>			
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	2,837,514	-	-
3000 Total Fund Balances	<u>3,937,337</u>	<u>779,108</u>	<u>872,792</u>
4000 Total Liabilities and Fund Balances	<u>\$ 7,527,622</u>	<u>\$ 1,037,197</u>	<u>\$ 894,316</u>

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

Other Funds	Total Governmental Funds
\$ 36,979	\$ 4,979,655
-	1,112,402
-	(33,372)
1,258,628	3,475,000
-	705,376
4,352	217,378
-	58,289
-	244,366
<u>\$ 1,299,959</u>	<u>\$ 10,759,094</u>

\$ 178,704	\$ 991,713
-	448,673
376,451	961,290
657,729	705,376
-	21,783
363	363
2,254	1,956,201
<u>1,215,501</u>	<u>5,085,399</u>

-	58,289
-	244,366

-	797,168
-	779,108
-	872,792

84,458	84,458
-	2,837,514

<u>84,458</u>	<u>5,673,695</u>
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<u>\$ 1,299,959</u>	<u>\$ 10,759,094</u>
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LA FERIA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
AUGUST 31, 2011

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>5,673,695</b>
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 \$63,879,924 and the accumulated depreciation was \$14,583,258.		49,296,666
2 Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		1,079,030
3 Issuance costs related to debt, is not a financial resource and, therefore is not reported in the funds. Issuance cost is amortized over the life of the debt.		434,252
4 Long-term liabilities, including bonds payable, property finance contract, accrued interest payable and compensated absences are not due and payable in the current period and therefore are not reported as liabilities in the funds. Liabilities at year-end related to bonds payable were \$34,256,253, finance contract payable was \$2,015,751, accrued interest payable was \$148,714 and compensated absences were \$152,423.		(36,573,141)
<b>19 Net Assets of Governmental Activities</b>	<b>\$</b>	<b>19,910,502</b>

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, 2011

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 3,828,391	\$ 1,027,211	\$ 2,420
5800 State Program Revenues	22,311,477	2,422,037	-
5900 Federal Program Revenues	2,707,137	-	-
5020 Total Revenues	<u>28,847,005</u>	<u>3,449,248</u>	<u>2,420</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	14,529,747	-	104,277
0012 Instructional Resources and Media Services	438,929	-	-
0013 Curriculum and Instructional Staff Development	221,248	-	-
0021 Instructional Leadership	255,333	-	-
0023 School Leadership	1,821,521	-	-
0031 Guidance, Counseling and Evaluation Services	884,539	-	-
0032 Social Work Services	16,681	-	-
0033 Health Services	377,140	-	-
0034 Student (Pupil) Transportation	768,659	-	235,500
0035 Food Services	2,167,724	-	-
0036 Extracurricular Activities	1,424,150	-	-
0041 General Administration	1,001,945	-	-
0051 Facilities Maintenance and Operations	3,911,772	-	-
0052 Security and Monitoring Services	44,791	-	-
0053 Data Processing Services	236,739	-	-
0061 Community Services	1,907	-	-
Debt Service:			
0071 Principal on Long Term Debt	119,810	1,625,000	-
0072 Interest on Long Term Debt	108,885	1,544,084	-
0073 Bond Issuance Cost and Fees	-	4,418	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	967,810
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	366,540	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	82,538	-	-
0099 Other Intergovernmental Charges	87,827	-	-
6030 Total Expenditures	<u>28,868,425</u>	<u>3,173,502</u>	<u>1,307,587</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(21,420)</u>	<u>275,746</u>	<u>(1,305,167)</u>
<b>SPECIAL ITEMS:</b>			
8912 Special Item - (Use)	-	-	-
1200 Net Change in Fund Balances	<u>(21,420)</u>	<u>275,746</u>	<u>(1,305,167)</u>
0100 Fund Balance - September 1 (Beginning)	<u>3,958,757</u>	<u>503,362</u>	<u>2,177,959</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 3,937,337</u>	<u>\$ 779,108</u>	<u>\$ 872,792</u>

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

Other Funds	Total Governmental Funds
\$ 361,040	\$ 5,219,062
747,862	25,481,376
3,554,689	6,261,826
<u>4,663,591</u>	<u>36,962,264</u>
3,008,352	17,642,376
94,417	533,346
451,171	672,419
205,551	460,884
109,898	1,931,419
78,705	963,244
59,193	75,874
1,769	378,909
-	1,004,159
-	2,167,724
193,524	1,617,674
24,656	1,026,601
466,170	4,377,942
-	44,791
91,576	328,315
427,473	429,380
-	1,744,810
-	1,652,969
-	4,418
219,341	1,187,151
-	366,540
-	82,538
-	87.827
<u>5,431,796</u>	<u>38,781,310</u>
<u>(768,205)</u>	<u>(1,819,046)</u>
<u>(153,500)</u>	<u>(153,500)</u>
<u>(921,705)</u>	<u>(1,972,546)</u>
<u>1,006,163</u>	<u>7,646,241</u>
<u>\$ 84,458</u>	<u>\$ 5,673,695</u>

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, 2011

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$</b>	<b>(1,972,546)</b>
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$1,963,713 exceeded depreciation expense of \$1,488,994.		474,719
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net assets.		1,744,810
Because some property taxes will not be collected for several months after the the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. This is the net change for the year.		(2,109)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the governmental funds when it is due, and thus requires the use of current financial resources. In the statement of activities, interest expense is recognized as the interest is accrued, regardless of when it is due. The interest reported in the statement of activities includes the change in accrued interest and the amortization of bond issuance premiums, discounts and issuance costs.		(17,651)
Compensated absences are recognized as liabilities in the government wide statements because the employee benefit is recognized as an obligation as it is earned. In the governmental funds, this employee benefit is recognized only when it is paid out to the retiring employee and requires the use of current financial resources.		(7,642)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>219,581</b>

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



LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2011

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 176,540	\$ 51,973
Other Receivables	5,000	10,287
Restricted Assets	-	505,515
Total Assets	<u>181,540</u>	<u>\$ 567,775</u>
<b>LIABILITIES</b>		
Accounts Payable	10,600	\$ 16,012
Due to Student Groups	10,502	49,565
Payable from Restricted Assets	-	502,198
Total Liabilities	<u>21,102</u>	<u>\$ 567,775</u>
<b>NET ASSETS</b>		
Restricted for Scholarships	<u>160,438</u>	
Total Net Assets	<u>\$ 160,438</u>	

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS  
 FIDUCIARY FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2011

	Private Purpose Trust Fund
<b>ADDITIONS:</b>	
Local and Intermediate Sources	\$ 4,883
Total Additions	<u>4,883</u>
<b>DEDUCTIONS:</b>	
Other Operating Costs	<u>2,000</u>
Total Deductions	<u>2,000</u>
Change in Net Assets	2,883
Total Net Assets - September 1 (Beginning)	<u>157,554</u>
Total Net Assets - August 31 (Ending)	<u>\$ 160,437</u>

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

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE A – REPORTING ENTITY**

This report includes the financial statements of the funds required to account for those activities, organizations and functions which are related to the La Feria Independent School District (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 receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 *The Financial Reporting Entity* since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115. The District has no component units as defined by GASB Statement No. 39.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

La Feria Independent School District's (the "District") basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) 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. *Basis of Presentation*

**Government-Wide Statements:**

The government-wide financial statements consist of the statement of net assets 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting 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.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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, 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.

The District reports the following major governmental funds:

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

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

**Capital Projects Fund.** The capital projects fund of the District accounts for proceeds from long-term debt financing and revenues and expenditures related to authorized construction and related capital asset acquisitions.

Additionally, the District reports the following funds:

**Nonmajor Governmental Funds:**

**Other Special Revenue Funds.** Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods.

**Fiduciary Funds:**

**Private Purpose Trust Funds.** The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District.

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

The District has no proprietary funds.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

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

The government-wide and fiduciary fund 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.

Governmental funds 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.

Deferred 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. Budgets*

The official school budget was prepared for adoption for required Governmental Fund Types by August 20, 2010. 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.

*4. Cash and Cash Equivalents*

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

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

5. *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.

6. *Inventory*

Materials, supplies and food commodities are carried in inventory at average cost and are subsequently charged to expenditures when consumed. Inventories include consumable maintenance, instructional, office and food service items. Reported inventories are equally offset by a nonspendable fund balance which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

7. *Deferred Expenditures*

Deferred expenditures are prepaid expenses that will benefit periods beyond August 31, 2011. The prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2011, and which extend beyond that date and a prepaid maintenance agreement on the District's financial software for the subsequent school year. The reported deferred expenditures are equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

8. *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	20-50
Vehicles	8
Furniture and Equipment	5-20

9. *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.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

10. *Long-term Obligations*

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, 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 requirements.

11. *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.

12. *Compensated Absences*

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

13. *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.

14. *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 ensure accuracy in building a State-wide database for policy development and funding plans.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

15. *Fund Balance Reporting*

The District has adopted GASB 54 during the current year. GASB 54 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, GASB 54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- **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.
- **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.
- **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 expenditures 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.

16. *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 31<sup>st</sup> and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE C – DEPOSITS AND INVESTMENTS**

*Investment Accounting Policy*

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the “Act”), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies; the District adhered to the requirements of the Act. Additionally, management believes that it has complied in all material respects with the requirements of District’s local investment policies.

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

The Act determines the types of investments, which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, the state of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The District policy authorizes all the State allowable investments.

The District’s management believes that it has complied in all material respects with the requirements of the Act and the District’s investment policies.

*Custodial Credit Risk*

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the District’s investment policy, and Government Code Chapter 2257 “Collateral For Public Funds” contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE C – DEPOSITS AND INVESTMENTS - Continued**

To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public fund investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and, to the extent reasonably possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than .0995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

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

Cash Deposits

At August 31, 2011, the District's carrying amount had a balance of \$221,979 (cash, interest-bearing savings accounts and a certificate of deposit) and the bank balance was \$910,719. The District's cash deposits at August 31, 2011 and during the year ended August 31, 2011 were entirely covered by FDIC insurance or by approved pledged securities for safekeeping and trust that are held in the District's name by a bank other than the pledging bank.

The District's cash deposits at August 31, 2011 are maintained at BBVA Compass Bank. These deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank. The deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District. Deposits were properly secured at all times.

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 bond and/or market value of securities pledged as of the date of the highest combined balance on deposit was \$2,639,829.
- c. Largest cash, savings and time deposit combined account balance amounted to \$2,372,895 and occurred during the month of October 2010.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$500,000.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE C – DEPOSITS AND INVESTMENTS - Continued**

Information about the sensitivity of the fair values of the District’s investments to market interest rate fluctuations is provided by the following table that shows the specific investments and their maturity:

<u>Description</u>	<u>CUSIP</u>	<u>Amount</u>	<u>Maturity</u>	<u>Days</u>
Lone Star	N/A	\$5,306,728	N/A	Daily
Certificates of Deposit	N/A	184,975	N/A	Daily
		<u>\$5,491,703</u>		

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the District’s investment policy and the Texas Public Fund Investment Act and the actual rating as of year end for each investment.

<u>Description</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating</u>	<u>Percentage</u>
Lone Star	AAA	\$5,306,728	AAA	97%
Certificates of Deposit	AAA	184,975	AAA	3

Concentration of Credit Risk

The Investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act (“PFIA”). There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Public Funds Investment Pools

First Public - Lone Star Government Overnight Fund is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAM by Standard and Poor’s and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools. The District’s investment in the Pool is reported at an amount determined by the fair value per share of the Pool’s underlying portfolio.

**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 and those expected to be collected during a 60 day period after the close of the school fiscal year.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE D - PROPERTY TAX - Continued**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2009 tax rate was \$1.040 for maintenance and \$0.296 for debt service per \$100 assessed valuation. The 2010 assessed valuation was \$331,039,817. 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, 2011 outstanding taxes in the general fund and debt service fund was \$883,569 and \$228,833 with a corresponding allowance for doubtful accounts of \$26,507 and \$6,865.

**NOTE E - DUE TO AND FROM OTHER GOVERNMENTS AND AGENCIES**

Amounts due from other governments and agencies are as follows:

	<u>Due From</u>	<u>Due To</u>
<u>General Fund</u>		
Texas Education Agency:		
Foundation Revenues	\$1,359,138	\$ -
National School Lunch and Breakfast Programs	96,064	-
Textbook fees	-	21,783
Other governmental entities		
SHARS	250,716	-
<u>Debt Service Fund</u>		
Texas Education Agency	510,454	-
<u>Other Governmental Funds</u>		
Texas Education Agency:		
ESEA Title I, Part A – Improving Basic Programs	258,732	-
ESEA Title I, SIP Academy Grant – ARRA	42,355	-
ESEA Title I, Part C	17,883	-
ESEA Title II, Part A Teacher/Principal Training	13,446	-
Education Jobs Fund	11,145	-
Title III, Part A – English Language Acquisition	2,822	-
Title XIV, State Fiscal Stabilization Fund – ARRA	333,809	-
Career and Technical Basic Grant	1,136	-
Student Success Initiative	91,669	-
Kindergarten and Pre-kindergarten Grants	31,041	-
Distinguished Awards Teacher Excellence	240,450	-
City of La Feria		
City's share of road paving project	153,500	-
Region One ESC:		
Gates Grant	25,771	-
MISD Special Education Cooperative		
IDEA, Part B, Formula – ARRA	34,869	-
	<u>\$3,475,000</u>	<u>\$ 21,783</u>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE F - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund receivable and payable balances at August 31, 2011 were:

<u>Due From</u>	<u>Due To</u>	
Title I, Part A Improving Basic Programs	General Fund	\$135,773
Title XIV, State Fiscal Stabilization Fund	General Fund	332,013
Student Activity Funds	General Fund	5,263
Debt Service Fund	General Fund	36,121
Capital Projects Fund – 2005 Series	General Fund	184,680
Capital Projects Fund – 2008 Series	General Fund	<u>11,526</u>
	Totals	<u>\$705,376</u>

All amounts are scheduled to be repaid within one year. There were no transfers made between funds during the year ended August 31, 2011.

**NOTE G – DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2011, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>					
General Fund	\$ 883,569	\$1,705,918	\$705,376	\$213,026	\$3,507,889
Debt Service Fund	228,833	510,454	-	-	739,287
Nonmajor Governmental Funds	-	<u>1,258,628</u>	-	<u>4,352</u>	<u>1,262,980</u>
Total Governmental Activities	<u>\$1,112,402</u>	<u>\$3,475,000</u>	<u>\$705,376</u>	<u>\$217,378</u>	<u>\$5,510,156</u>
Amounts not scheduled for collection during the subsequent year	\$ <u>736,085</u>	\$ _____	\$ _____	\$ _____	\$ <u>736,085</u>

Payables at August 31, 2011, were as follows:

	<u>Accounts Payable</u>	<u>Payroll Deductions and Withholding</u>	<u>Accrued Wages</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Due to Student Groups</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>							
General Fund	\$803,011	\$448,673	\$584,839	\$ -	\$ 21,783	\$ -	\$1,858,306
Debt Service Fund	-	-	-	36,121	-	-	36,121
Capital Projects Fund	9,998	-	-	11,526	-	-	21,524
Other Funds	<u>178,704</u>	-	<u>376,451</u>	<u>657,729</u>	-	<u>363</u>	<u>1,213,247</u>
Total Governmental Activities	<u>\$991,713</u>	<u>\$448,673</u>	<u>\$961,290</u>	<u>\$705,376</u>	<u>\$ 21,783</u>	<u>\$ 363</u>	<u>\$3,129,198</u>
Amounts not scheduled for payment during the subsequent year	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____	\$ _____

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE H – CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2011, was as follows:

	General Fixed Assets Sept. 1, 2010	<u>Additions</u>	<u>Deletions</u>	Adjustments and Reclassifications	General Fixed Assets Aug. 31, 2011
Governmental activities					
Capital assets not being depreciated					
Land and improvements	\$ 2,887,027	\$ -	\$ -	\$ -	\$ 2,887,027
Construction in progress	<u>9,131,100</u>	<u>956,284</u>	-	<u>(10,087,384)</u>	-
Total capital assets not being depreciated	<u>12,018,127</u>	<u>956,284</u>	-	<u>(10,087,384)</u>	<u>2,887,027</u>
Capital assets being depreciated					
Building and improvements	46,799,631	304,637	-	10,087,384	57,191,652
Furniture and equipment	<u>3,098,453</u>	<u>702,792</u>	-	-	<u>3,801,245</u>
Total capital assets being depreciated	<u>49,898,084</u>	<u>1,007,429</u>	-	<u>10,087,384</u>	<u>60,992,897</u>
Less accumulated depreciation:					
Building and improvements	10,997,549	1,277,309	-	-	12,274,858
Furniture and equipment	<u>2,096,715</u>	<u>211,685</u>	-	-	<u>2,308,400</u>
Total accumulated depreciation	13,094,264	1,488,994	-	-	14,583,258
Total capital assets being depreciated, net	<u>36,803,820</u>	<u>(481,565)</u>	-	<u>10,087,384</u>	<u>46,409,639</u>
Governmental activities capital assets, net	<u>\$48,821,947</u>	<u>\$ 474,719</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$49,296,666</u>

Depreciation was charged to the following functions:

**Government Activities:**

11 – Instruction	\$ 757,282
12 – Instructional Resources and Media Services	22,242
13 – Curriculum and instructional staff development	7,189
21 – Instructional Leadership	7,189
23 – School Leadership	59,072
31 – Guidance, Counseling and Evaluation Services	23,105
33 – Health Services	16,415
34 – Student (Pupil) Transportation	156,076
35 – Food Services	136,944
36 – Cocurricular/Extracurricular Activities	2,579
41 – General Administration	8,855
51 – Plant Maintenance and Operations	266,998
53 – Data Processing Services	7,389
61 – Community Services	<u>17,659</u>
Total depreciation expense	<u>\$1,488,994</u>

**NOTE I – RESTRICTED ASSETS**

Restricted assets of \$505,515 at August 31, 2011, consisted of restricted cash balances related to South Texas Health Cooperative. The District is the fiscal agent for the health insurance cooperative.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE J - LONG-TERM OBLIGATIONS**

Long-term obligations include bonds payable, loans payable and compensated absences. Changes in long-term obligations for the year ended August 31, 2011 are as follows:

	Beginning Balance Sept. 1, 2010	<u>Increase</u>	<u>Decrease</u>	Ending Balance Aug. 31, 2011	Due Within One Year
<b>Governmental Activities</b>					
<b>General Obligation Bonds:</b>					
<b>Unlimited Tax School Bonds</b>					
Building – Series 1998	\$ 515,000	\$ -	\$ (255,000)	\$ 260,000	\$ 260,000
Refunding – Series 2005	7,660,000	-	(610,000)	7,050,000	625,000
Building – Series 2005	10,755,000	-	(215,000)	10,540,000	220,000
Refunding – Series 2006	4,765,000	-	(305,000)	4,460,000	315,000
Building – Series 2008	<u>12,060,000</u>	-	<u>(240,000)</u>	<u>11,820,000</u>	<u>245,000</u>
	35,755,000	-	(1,625,000)	34,130,000	1,665,000
<b>Deferred amounts</b>					
Issuance premiums	304,339	-	(25,817)	278,522	(24,596)
Issuance discounts	(11,474)	-	1,707	(9,767)	1,582
Deferred loss on 2005 refunding bonds	(221,599)	-	32,960	(188,639)	30,544
Deferred loss on 2006 refunding bonds	<u>54,147</u>	-	<u>(8,010)</u>	<u>46,137</u>	<u>(7,402)</u>
	35,880,413	-	(1,624,160)	34,256,253	1,665,128
Property finance contract	2,135,561	-	(119,810)	2,015,751	125,919
Compensated absences	<u>144,781</u>	<u>13,497</u>	<u>(5,855)</u>	<u>152,423</u>	<u>35,205</u>
	<u>\$38,160,755</u>	<u>\$ 13,497</u>	<u>\$(1,749,825)</u>	<u>\$36,424,427</u>	<u>\$1,826,252</u>

**General Obligation Bonds:**

Bonds payable at August 31, 2011 are comprised of the following individual issues:

In September 1998, the District issued \$2,899,999 in current interest serial bonds with interest rates ranging from 3.65% to 4.4% to construct new facilities and to pay the costs of issuing the bonds. The current interest serial bonds mature in 2012 with a final principal payment of \$260,000. \$ 260,000

In June 2005, the District issued \$10,350,000 in refunding bonds to refund the balance outstanding on the 1992 school building bonds as well as all the lease revenue bonds issued by the La FERIA Independent School District Public Facilities Corporation which had been issued to finance various construction projects. The refunding bonds carry interest ranging from 2.7% to 4.63% and principal payments from \$455,000 in 2006 to \$85,000 in 2027. 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 the cost of issuance of the bonds. As a result, the refunded bonds are considered to be defeased and the liability for the bonds has been removed from the District's long-term liabilities. At August 31, 2011, the amount of defeased debt outstanding was \$535,000 from the 1992 bonds and \$7,593,000 from the public facilities corporation lease revenue bonds. 7,050,000

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE J - LONG-TERM OBLIGATIONS - Continued**

In June 2005, the District issued \$11,350,000 in school building bonds with interest rates ranging from 3.5% to 5.0% to construct additional facilities and to pay the costs of issuing the bonds. The principal payments on these bonds range from \$190,000 beginning in 2008 to the final installment of \$690,000 in 2037.

\$10,540,000

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. As a result, the refunded bonds are considered to be defeased and the liability for the bonds has been removed from the District's long-term liabilities. At August 31, 2011, the amount of defeased debt outstanding was \$4,710,000.

4,460,000

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.

11,820,000

\$34,130,000

Debt service requirements on general obligation bonds at August 31, 2011 are as follows:

Year Ended	Principal Value	Deferred Loss Value	Deferred Gain Value	Discount Value	Premium Value	Principal Value at Maturity	Interest	Total Requirements
August 31,	at 8/31/11	at 8/31/11	at 8/31/11	at 8/31/11	at 8/31/11			
2012	\$ 1,664,872	\$ 30,544	\$ (7,402)	\$ 1,582	\$ (24,596)	\$ 1,665,000	\$ 1,483,385	\$ 3,148,385
2013	1,450,949	28,034	(6,895)	1,452	(23,540)	1,450,000	1,426,232	2,876,232
2014	1,511,982	25,272	(6,287)	1,309	(22,276)	1,510,000	1,368,512	2,878,512
2015	1,588,278	22,243	(5,678)	1,152	(20,995)	1,585,000	1,306,287	2,891,287
2016	1,634,685	19,102	(5,070)	989	(19,706)	1,630,000	1,242,187	2,872,187
2017-2021	8,288,136	54,189	(14,399)	2,807	(75,733)	8,255,000	5,241,208	13,496,208
2022-2026	4,989,251	9,041	(406)	468	(43,354)	4,955,000	3,785,782	8,740,782
2027-2031	4,876,041	214	-	8	(31,263)	4,845,000	2,726,153	7,571,153
2032-2036	6,095,796	-	-	-	(15,796)	6,080,000	1,406,125	7,486,125
2037-2038	<u>2,156,263</u>	-	-	-	<u>(1,263)</u>	<u>2,155,000</u>	<u>128,000</u>	<u>2,283,000</u>
Total	\$34,256,253	\$188,639	\$ (46,137)	\$ 9,767	\$ (278,522)	\$34,130,000	\$20,113,871	\$54,243,871

**Property Finance Contract**

During the year ended August 31, 2009, the District entered into a property finance contract for an energy management system with TAC Americans, Inc. (TAC). The note is payable in 15 annual installment payments and carries interest at 5.1%. The note is secured by the components of the energy management system (primarily air conditioning units and fluorescent lights) and matures November 12, 2022. TAC has guaranteed that the annual payments over the 15 year life of the contract will be funded by energy cost reductions.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE J - LONG-TERM OBLIGATIONS - Continued**

Debt service requirements on the property finance contract at August 31, 2011 are as follows:

<u>Year Ended</u> <u>August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2012	\$ 125,919	\$102,776	\$ 228,695
2013	132,339	96,356	228,695
2014	139,087	89,608	228,695
2015	146,178	82,517	228,695
2016	153,631	67,231	220,862
2016-2020	893,953	249,522	1,143,475
2021-2023	424,644	32,746	457,390
Total	<u>\$2,015,751</u>	<u>\$720,756</u>	<u>\$2,736,507</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, 2011.

The District's other noncurrent liabilities are liquidated in the fund where the liability was incurred. Thus, the general fund satisfies most liabilities for governmental activities.

**NOTE K - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

	<u>General</u> <u>Fund</u>	<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Other</u> <u>Funds</u>	<u>Total</u>
Property taxes, net of discounts	\$3,500,293	\$ 988,796	\$ -	\$ -	\$4,489,090
Penalties, interest and other	145,300	37,847	-	-	183,147
Tuition and fees	4,021	-	-	-	4,021
Investment income	12,648	568	2,420	3,782	19,418
Other	343	-	-	-	343
Food service activity	89,660	-	-	-	89,660
Athletic activity	76,126	-	-	-	76,126
Activity fund revenues	-	-	-	357,258	357,258
	<u>\$3,828,391</u>	<u>\$1,027,211</u>	<u>\$ 2,420</u>	<u>\$361,040</u>	<u>\$5,219,062</u>

**NOTE L - DEFERRED REVENUE**

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Taxes	\$1,079,030	\$ -	\$1,079,030
Foundation revenue overpayment	-	874,917	874,917
Other	-	2,254	2,254
	<u>\$1,079,030</u>	<u>\$877,171</u>	<u>\$1,956,201</u>

Deferred property taxes will be recognized as revenue in the fiscal year that they become available.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE M - GENERAL FUND FEDERAL SOURCE REVENUES**

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
School Breakfast Program	10.553	\$ 731,712
National School Lunch Program	10.555	1,405,303
USDA – Donated Commodities	10.565	129,077
Indirect costs earned on federal programs		
Career and Technical – Basic Grant	84.011	1,354
IDEA, Part B, Formula - ARRA	84.365A	1,058
SHARS/Medicaid	-	423,081
Medicaid Administrative Claim	-	<u>15,552</u>
		<u>\$2,707,137</u>

**NOTE N - 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, 2011 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.

Obligations under the construction contracts in existence at August 31, 2011 are expected to be liquidated within the following reporting period.

**NOTE O - DEFINED BENEFIT PENSION PLAN**

*Plan description.* La Feria Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE O - DEFINED BENEFIT PENSION PLAN - Continued**

*Funding Policy.* State law provides for a state contribution rate of 6.58% and a member contribution rate of 6.4%. In certain instances the reporting district is required to make all or a portion of the state's contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

State contributions to TRS made on behalf of La Feria Independent School District's employees for the year ended August 31, 2009 were \$1,219,939, for the year ended August 31, 2010 were \$1,239,366, and for the year ended August 31, 2011 were \$1,278,705. La Feria Independent School District paid additional state contributions for the year ended August 31, 2009 of \$313,401, for the year ended August 31, 2010 of \$335,837, and for the year ended August 31, 2011 of \$319,125, respectively on the portion of the employees' salaries that exceeded the statutory minimum.

**NOTE P - POSTEMPLOYMENT HEALTH BENEFITS FOR PUBLIC SCHOOL EMPLOYEES**

*Plan Description.* The Teacher Retirement System of Texas (TRS) administers the Texas Public School Retired Employees Group Insurance Plan (TRS-Care), a cost-sharing multiple-employer defined benefit OPEB plan, in accordance with Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish basic and optional group coverage for participants.

The TRS-Care program is currently funded on a pay-as-you-go basis and is subject to changes based on available funding. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts and the State of Texas.

*Benefit Provisions and Service Requirements.* Retirees can receive a free basic level of coverage and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. Generally, TRS public school retirees with more than 10 years of service and their dependents are eligible for this insurance coverage.

*Funding Policy.* Funding for the free basic coverage is provided by the program based upon public school district payroll. 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. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010 and 2009. 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.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE Q - SCHOOL DISTRICT RETIREE HEALTH PLAN**

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

*Funding Policy.* Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010 and 2009. 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. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$207,800, \$206,414 and \$200,550, respectively, the active member contributions were \$135,070, \$134,169 and \$130,358, respectively, and the school district's contributions were \$114,290, \$113,527, and \$110,303, respectively, which equaled the required contributions each year.

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. For the years ended August 31, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$57,051, \$53,575 and \$45,094, respectively.

**NOTE R - RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2011, the District participated in a number of programs through TASB Risk Management Fund. There were no significant reductions in coverage in the past fiscal year.

**Property and Liability Programs**

During the year ended August 31, 2011, La Feria ISD participated in the TASB Risk Management Fund's (the Fund) Property Program with coverage in Auto Physical Damage, Band Floater, Office Equipment Floater and Property. The District also participated in the TASB Risk Management Fund's Liability Program with coverage in Auto Liability, General Liability, School Professional Legal Liability and Sexual Misconduct Claims Endorsement. Both Funds were created and are operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**NOTE R - RISK MANAGEMENT - Continued**

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property and Liability Programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2011, the Fund anticipates La Feria ISD has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2010, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

**Workers' Compensation Insurance**

During the year ended August 31, 2011, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund ("the Fund"). The District contributed \$179,922 in premiums to the Fund. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All districts participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The District participates in the Fund's reimbursable aggregate deductible program. As such, the District is responsible for a certain amount of claims liability as outlined on the District's Contribution and Coverage Summary document. After the District's deductible has been met, the Fund is responsible for additional claims.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2010, the Fund carries a discounted reserve of \$73,157,884 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2010, member districts will have no additional liability beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of Independent auditors to conduct an independent financial audit after the close of each plan year on June 30<sup>th</sup> and is approved by the Fund's Board of Trustees in February the following year. The Fund's audited financial statements as of August 31, 2010, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

**Unemployment Compensation Pool**

During the year ended August 31, 2011, La Feria ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE R - RISK MANAGEMENT – Continued**

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2010, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

**Health Coverage**

The District provides the employees with a health insurance plan. The District paid premiums of \$255 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 Group and Pension Administrators, Inc. and reinsurance has been obtained for both specific (claims in excess of \$200,000) and aggregate losses (in excess of \$3,444,438) through HCC Life Insurance Company. 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 2012 school year increases to \$265.

**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 \$366,540 to the cooperative for school year 2011 and the funds were expended for payroll costs, purchased and contracted services, supplies and materials, and miscellaneous operating expenses.

**NOTE T - 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:

For the year ended August 31, 2011, expenditures exceeded appropriations in the general fund in the following functions (the legal level of budgetary control):

<u>Function</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance</u>
11 Instruction	\$14,278,423	\$14,529,747	\$ (251,324)

The variance in instruction is the result of expenditures for high school allotment being budgeted and recorded in fund 428 and when the oversight was identified it was too late to amend the general fund budget to incorporate the expenditures.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2011**

**NOTE T - COMPLIANCE AND ACCOUNTABILITY - Continued**

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

No deficit fund balances were reported in the current year.

**NOTE U – 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.

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

Unassigned – the unassigned fund balance has no constraints.

	<u>General Funds</u>	<u>Other Governmental Funds</u>			<u>Total Governmental Funds</u>
		<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Funds</u>	
Fund balances:					
Nonspendable					
Inventories	\$ 58,289	\$ -	\$ -	\$ -	\$ 58,289
Prepaid expenses	244,366	-	-	-	244,366
Restricted					
Food service	797,168	-	-	-	797,168
Debt service	-	779,108	-	-	779,108
Capital projects	-	-	872,792	-	872,792
Committed					
Campus activity funds	-	-	-	84,458	84,458
Unassigned	<u>2,837,514</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,837,514</u>
	<u>\$3,937,337</u>	<u>\$779,108</u>	<u>\$872,792</u>	<u>\$ 84,458</u>	<u>\$5,673,695</u>

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 3,781,500	\$ 3,877,500	\$ 3,828,391	\$ (49,109)
5800	State Program Revenues	22,166,007	22,630,007	22,311,477	(318,530)
5900	Federal Program Revenues	2,197,300	2,389,300	2,707,137	317,837
5020	Total Revenues	28,144,807	28,896,807	28,847,005	(49,802)
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	14,206,423	14,278,423	14,529,747	(251,324)
0012	Instructional Resources and Media Services	418,875	443,875	438,929	4,946
0013	Curriculum and Instructional Staff Development	222,070	224,070	221,248	2,822
0021	Instructional Leadership	231,476	264,476	255,333	9,143
0023	School Leadership	1,775,210	1,825,210	1,821,521	3,689
0031	Guidance, Counseling and Evaluation Services	846,444	886,444	884,539	1,905
0032	Social Work Services	-	35,000	16,681	18,319
0033	Health Services	388,700	388,700	377,140	11,560
0034	Student (Pupil) Transportation	879,708	831,708	768,659	63,049
0035	Food Services	2,065,175	2,230,175	2,167,724	62,451
0036	Extracurricular Activities	1,144,788	1,425,788	1,424,150	1,638
0041	General Administration	841,665	1,006,665	1,001,945	4,720
0051	Facilities Maintenance and Operations	3,972,733	3,992,733	3,911,772	80,961
0052	Security and Monitoring Services	70,550	70,550	44,791	25,759
0053	Data Processing Services	307,120	327,120	236,739	90,381
0061	Community Services	4,870	4,870	1,907	2,963
Debt Service:					
0071	Principal on Long Term Debt	120,000	120,000	119,810	190
0072	Interest on Long Term Debt	109,000	109,000	108,885	115
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	370,000	367,000	366,540	460
0095	Payments to Juvenile Justice Alternative Ed. Prg.	85,000	85,000	82,538	2,462
0097	Payments to Tax Increment Fund	85,000	-	-	-
0099	Other Intergovernmental Charges	-	115,000	87,827	27,173
6030	Total Expenditures	28,144,807	29,031,807	28,868,425	163,382
1200	Net Change in Fund Balances	-	(135,000)	(21,420)	113,580
0100	Fund Balance - September 1 (Beginning)	3,958,757	3,958,757	3,958,757	-
3000	Fund Balance - August 31 (Ending)	\$ 3,958,757	\$ 3,823,757	\$ 3,937,337	\$ 113,580

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*YEAR ENDED AUGUST 31, 2011*

**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Data**

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Debt Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the Debt Service Fund Budget report appears in Exhibit J-4.

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

- Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
- Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.
- Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

**EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Expenditures exceeded appropriations in the general fund in function 11 instruction by \$251,324. The variance in instruction is the result of expenditures for high school allotment being recorded in fund 428 rather than fund 199. When the oversight in coding was identified it was after August 31, 2011 so a budget amendment for the general fund to incorporate these expenditures was not possible.

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**TEXAS EDUCATION AGENCY**  
**REQUIRED SCHEDULES**

LA FERIA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2011

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2002 and prior years	Various	Various	\$ Various
2003	1.452000	0.090000	153,630,855
2004	1.452000	0.090000	168,801,835
2005	1.454000	0.090000	208,842,554
2006	1.364000	0.245000	266,839,324
2007	1.249000	0.245000	283,238,415
2008	1.040000	0.245000	300,434,726
2009	1.040000	0.300000	321,087,577
2010	1.040000	0.296000	328,621,783
2011 (School year under audit)	1.040000	0.296000	331,039,817
1000 TOTALS			

	(10) Beginning Balance 9/1/2010	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2011
\$	121,675	\$ -	\$ 4,435	\$ 1,282	\$ (4,421)	\$ 111,537
	31,389	-	2,776	172	(623)	27,818
	32,014	-	4,641	288	(1,169)	25,916
	38,576	-	5,392	334	(1,434)	31,416
	64,692	-	10,745	1,930	(1,143)	50,874
	89,452	-	21,898	4,296	(480)	62,778
	124,899	-	35,741	8,420	2,418	83,156
	229,307	-	72,519	20,919	2,801	138,670
	382,574	-	141,106	40,161	(8,945)	192,362
	-	4,587,458	3,264,325	929,077	(6,181)	387,875
\$	<u>1,114,578</u>	\$ <u>4,587,458</u>	\$ <u>3,563,578</u>	\$ <u>1,006,879</u>	\$ <u>(19,177)</u>	\$ <u>1,112,402</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2012-2013  
 GENERAL AND SPECIAL REVENUE FUNDS  
 AUGUST 31, 2011

**FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST**

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ 20,604	\$ 263,683	\$ 417,483	\$ -	\$ -	\$ 701,770
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	37,876	-	-	-	-	-	37,876
6212	Audit Services	-	-	-	39,233	-	-	39,233
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	87,827	-	-	-	-	87,827
621X	Other Professional Services	-	-	6,658	48,106	-	-	54,764
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	15,028	-	-	15,028
6240	Contr. Maint. and Repair	-	-	-	-	5,990	-	5,990
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	80	9,094	-	-	9,174
6290	Miscellaneous Contr.	-	-	-	210	-	-	210
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,131	-	6,373	51,089	-	-	58,593
6410	Travel, Subsistence, Stipends	10,072	-	11,768	4,410	-	-	26,250
6420	Ins. and Bonding Costs	-	250	-	-	-	-	250
6430	Election Costs	7,358	-	-	-	-	-	7,358
6490	Miscellaneous Operating	11,976	215	81,471	114,775	-	-	208,437
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<b>\$ 68,413</b>	<b>\$ 108,896</b>	<b>\$ 370,033</b>	<b>\$ 699,428</b>	<b>\$ 5,990</b>	<b>\$ -</b>	<b>\$ 1,252,760</b>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 33,500,537

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 254,720
Total Debt & Lease(6500)	(11)	228,695
Plant Maintenance (Function 51, 6100-6400)	(12)	3,906,018
Food (Function 35, 6341 and 6499)	(13)	806,850
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		699,428

SubTotal: 5,895,710

Net Allowed Direct Cost \$ 27,604,826

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 57,191,652
Historical Cost of Building over 50 years old	(16)	\$ 2,023,654
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 3,801,245
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 816,390
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$162,988 in Function 53 expenditures are included in this report on administrative costs.  
 \$87,827 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.



LA FERIA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 81,500	\$ 81,500	\$ 90,105	\$ 8,605
5800	State Program Revenues	16,775	16,775	22,443	5,668
5900	Federal Program Revenues	2,116,000	2,276,000	2,266,091	(9,909)
5020	Total Revenues	2,214,275	2,374,275	2,378,639	4,364
<b>EXPENDITURES:</b>					
0035	Food Services	2,065,175	2,230,175	2,167,724	62,451
0051	Facilities Maintenance and Operations	149,100	279,100	277,367	1,733
6030	Total Expenditures	2,214,275	2,509,275	2,445,091	64,184
1200	Net Change in Fund Balances	-	(135,000)	(66,452)	68,548
0100	Fund Balance - September 1 (Beginning)	918,968	918,968	918,968	-
3000	Fund Balance - August 31 (Ending)	\$ 918,968	\$ 783,968	\$ 852,516	\$ 68,548

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, 2011

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 990,000	\$ 995,000	\$ 1,027,211	\$ 32,211
5800	State Program Revenues	2,187,585	2,187,585	2,422,037	234,452
5020	Total Revenues	3,177,585	3,182,585	3,449,248	266,663
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on Long Term Debt	1,625,000	1,625,000	1,625,000	-
0072	Interest on Long Term Debt	1,544,085	1,544,085	1,544,084	1
0073	Bond Issuance Cost and Fees	8,500	13,500	4,418	9,082
6030	Total Expenditures	3,177,585	3,182,585	3,173,502	9,083
1200	Net Change in Fund Balances	-	-	275,746	275,746
0100	Fund Balance - September 1 (Beginning)	503,362	503,362	503,362	-
3000	Fund Balance - August 31 (Ending)	\$ 503,362	\$ 503,362	\$ 779,108	\$ 275,746

## **FEDERAL AWARDS SECTION**

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

Board of Trustees  
La Feria Independent School District

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of La Feria Independent School District (the "District"), as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 18, 2012. 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.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 11-1.

We noted certain matters that we reported to management of the District in a separate letter dated January 18, 2012.

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the District's Board of Trustees, the District's audit committee, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**LONG CHILTON, LLP**  
*Certified Public Accountants*

Harlingen, Texas  
January 18, 2012

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees  
La Feria Independent School District

Members of the Board:

**Compliance**

We have audited La Feria Independent School District's compliance with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 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, 2011. La Feria Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of La Feria Independent School District's management. Our responsibility is to express an opinion on La Feria Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the La Feria Independent School District's compliance with those requirements.

In our opinion, La Feria Independent School District complied, in all material respects, with the 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, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 11-2.

**Internal Control Over Compliance**

Management of La Feria Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered La Feria Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of La Feria Independent School District's internal control over compliance.

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*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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

La Feria Independent School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit La Feria Independent School District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the audit committee, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LONG CHILTON, LLP  
*Certified Public Accountants*

Harlingen, Texas  
January 18, 2012

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**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**YEAR ENDED AUGUST 31, 2011**

**Section I - Summary of Auditors' Results**

*Financial Statements*

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weaknesses?  yes  no

Noncompliance material to financial statements noted?  yes  no

*Federal Awards*

Internal control over major programs:

- Material weakness(es) identified?  yes  no
- Significant deficiencies identified that are not considered to be material weakness(es)?  yes  no

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

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

Identification of major programs:

*CFDA Number(s)*

84.010  
84.389  
84.394  
84.011

*Name of Federal Program or Cluster*

Title I, Part A Cluster:  
ESEA Title I, Part A – Improving Basic Programs  
ESEA Title I, Part A – Improving Basic Programs - ARRA  
AARA of 2009 Title XIV State Fiscal Stabilization Fund  
Title I, Part C – Migrant Education

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

Auditee qualified as low-risk auditee?  yes  no

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**Section II - Financial Statement Findings**

**PROGRAM DESCRIPTION**

**DESCRIPTION**

**Schedule Reference Number: (11-1)**

**Expenditures in Excess of Budget Appropriations**

General

Condition Found:

As indicated in the notes to the District's financial statements, we noted one instance in which the District's budget had been exceeded on a functional level.

Criteria:

State law requires budget amendments to be made prior to exceeding a major functional category.

Questioned Costs/Basis:

Not applicable

Context:

We noted a negative variance in one functional expenditure category.

Effect:

The District incurs expenditures that are not budgeted in advance by the Board of Trustees.

Recommendation:

Budget versus actual comparisons should continue to be made on a monthly basis, and control over expenditures should include a review of available budget amounts prior to approval of purchase orders for the expenditure of funds.

---

Total all questioned costs

\$ -

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2011*

**SECTION III – Federal Award Findings and Questioned Costs**

**PROGRAM DESCRIPTION**

**DESCRIPTION**

**Schedule Reference Number: (11-2)**

**Time and Effort Documentation**

**Title I, Part A (84.010)**

**Title I, Part A – ARRA (84.389)**

**Title I, Part C**

Criteria:

In accordance with OMB Circular A-87, “where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages must be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications must be prepared at least semi-annually and be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee.”

Condition Found:

Time and effort documentation was not adequately maintained and certifications of time and effort were not obtained at least semi-annually in accordance with Federal requirements for selected personnel charged to grant programs.

Questioned Costs/Basis:

None.

Context:

All charges to payroll for grant funded personnel must be based on one of the following: Certification; time and effort records; or substitute system.

Effect:

The District may not have complied with Federal documentation requirements. Untimely certifications of employees’ time and effort can lead to overcharges to Federal grants.

Recommendation:

Obtain and review semi-annual certifications for all personnel working in Federal grant programs in accordance with OMB Circular A-87. Implement procedures to monitor compliance with Federal grant requirements on a regular basis. Implement a process to ensure that employees are charged to the grants where they spent their time and effort.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED*  
*SCHEDULE OF STATUS OF PRIOR FINDINGS*  
*YEAR ENDED AUGUST 31, 2011*

<u><b>PROGRAM DESCRIPTION</b></u>	<u><b>STATUS OF PRIOR YEAR'S FINDING/COMPLIANCE</b></u>
Schedule Reference Number: (10-1)	<b>Allocated State Program Revenues</b>  Additional corrective action is needed as noted in the current year findings.
Schedule Reference Number: (10-2)	<b>Expenditures in Excess of Budget Appropriations</b>  Additional corrective action is needed as noted in the current year findings.
Schedule Reference Number: (10-3)	<b>Time and Effort Documentation</b>  Additional corrective action is needed as noted in the current year findings.
Schedule Reference Number: (10-4)	<b>Section 1512(c) of American Recovery and Reinvestment Act of 2009 – Quarterly Reporting</b>  No additional corrective action necessary.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED*  
**CORRECTIVE ACTION PLAN**  
*YEAR ENDED AUGUST 31, 2011*

**PROGRAM DESCRIPTION**

**CORRECTIVE ACTION PLAN**

**Schedule Reference Number: (11-1)**

**Expenditures in Excess of Budget Appropriations**

General

Corrective Action Plan:

The business manager will continue to monitor the budget on a monthly basis for the remainder of the current school year and will prepare amendments for the Board's approval as needed. Any amendments will be regularly placed on the Board's agenda for approval.

**Schedule Reference Number: (11-2)**

**Time and Effort Documentation**

Corrective Action Plan:

Management will establish procedures to insure that time and effort certifications are received in a timely manner accordingly to Federal guidelines and District policy. Management will also review and reconcile employee assignment to general ledger postings on a regular basis to test for accuracy.

---

Contact Person:

Ramon Mendoza, Business Manager

Implementation Time Frame:

Ongoing

LA FERIA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2011

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	11610101031905	\$ 1,569,396
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	12610101031905	258,732
Total CFDA Number 84.010A			1,828,128
Total Title I, Part A Cluster			1,828,128
ESEA, Title I, Part C - Migratory Children	84.011	11615001031904	286,662
ESEA, Title I, Part C - Migratory Children	84.011	12615001031905	17,883
Total CFDA Number 84.011			304,545
*IDEA, Part B, Formula - ARRA	84.391		26,338
Career and Technical - Basic Grant	84.048	11420006031905	46,639
Career and Technical - Basic Grant	84.048	12420006031905	1,136
Total CFDA Number 84.048			47,775
Title III, Part A - English Language Acquisition	84.365A	11671001031905	55,025
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	11694501031905	263,665
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12694501031905	13,446
Total CFDA Number 84.367A			277,111
Summer School LEP	84.369A	69551002	3,223
Title I SIP Academy Grant - ARRA	84.388	105520057110004	76,818
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	11557001031905	924,581
Education Jobs Fund	84.410	11550101031905	11,144
Total Passed Through State Department of Education			\$ 3,554,688
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>\$ 3,554,688</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		\$ 15,552
Total Passed Through Texas Dept of Human Services			\$ 15,552
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>\$ 15,552</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	91401001	\$ 731,712
*National School Lunch Program - Cash Assistance	10.555	71301001	1,405,303
*National School Lunch Prog. - Non-Cash Assistance	10.555		129,077
Total CFDA Number 10.555			1,534,380
Total Child Nutrition Cluster			2,266,092
Total Passed Through the State Department of Agriculture			\$ 2,266,092
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>\$ 2,266,092</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 5,836,332</b>

\*Clustered Programs

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS*  
*YEAR ENDED AUGUST 31, 2011*

**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, Summer Feeding Program, SHARS, MAC and \$4,168 of indirect cost are all 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**

Amount of federal revenues Exhibit C-3	\$6,261,826
Less amounts not considered to be federal awards, excluded on the Schedule of Expenditures of Federal Awards:	
School Health and Related Service Program (SHARS)	423,081
Indirect costs	<u>2,413</u>
Total expenditures of federal awards, per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	<u>\$5,836,332</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT  
**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS**  
 AS OF AUGUST 31, 2011

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the District receive a clean audit? Was there an unqualified opinion in the annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instance of material weaknesses in internal controls?	No
SF9	Was there any disclosures in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	None

MEMORANDUM OF ADVISORY COMMENTS  
LA FERIA INDEPENDENT SCHOOL DISTRICT

August 31, 2011



Members - Division of Firms,  
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Board of Trustees and Management  
La Feria Independent School District

In planning and performing our audit of the financial statements of the La Feria Independent School District for the year ended August 31, 2011, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

During our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters. This letter does not affect our report, dated January 18, 2012, on the financial statements of the La Feria Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This report is intended solely for the information and use of the audit committee, management, the Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LONG CHILTON, LLP  
*Certified Public Accountants*

Harlingen, Texas  
January 18, 2012

## COMMENTS AND OBSERVATIONS

### *Account Coding*

We identified five instances out of sixty-four samples where the object coding was not consistent with the TEA's Financial Accountability System Resource Guide (FASRG). The Finance Department has reclassified these items to the correct coding. We recommend that the District review charges to ensure that proper coding is utilized according to the FASRG.

### *Qualifications of Paraprofessionals*

During our review of qualifications of paraprofessionals for "highly-qualified" status, we noted two instances in which an employee's Texas Educator Certificate were invalid as of 1/31/2004 and 9/30/2010. We recommend that the District at least annually, review the files of teachers and paraprofessionals who work in a program supported with Title I, Part A funds to ensure compliance with this requirement.

### *Unallowable Title I, Part C-Migrant Program Expenditures*

While performing detailed testing of expenditures for the migrant program we noted two expenditures that were erroneously coded to this fund. Although the amounts were not significant, \$178.00 and \$2,205.57 respectively, the nature and actual use of the food and general supplies could lead to additional questioned costs. These expenditures were reclassified, but the District needs to be certain to carefully review account coding, especially those involving Federal funds, to ensure all expenditures are allowable.

### *Review of "At-Risk" Criteria*

While reviewing the method the District uses to determine that a student is in an "at-risk" situation, twelve exceptions were noted. Eleven of those did have an "at-risk" profile on file, but did not include the signature of the teacher or principal determining the status. In addition, one profile was not found in the student file. It is recommended that the District follow the State criteria for verification that a student is in an "at-risk" situation and include indication that the student "at-risk" profiles have been reviewed.

### *State Mandated Program Expenditures*

During our detailed review of program intent codes for state mandated programs, we noted that five out of sixty samples were not charged to the correct program intent code. While reclassifications were made to correct the errors, it is recommended that the account coding structure be properly reviewed before being processed to ensure that the expenditures are properly coded to the correct program intent code.