

**LA FERIA  
INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL REPORT  
AND  
COMPLIANCE REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2012*

**LA FERIA INDEPENDENT SCHOOL DISTRICT**

La Feria, Texas  
Year Ended August 31, 2012

**TRUSTEES**

Juan Briones - President

Alan Moore - Vice-President

Gloria Casas - Secretary

David Bazaldua

Javier Loreda

Pancho Cobarrubias

**INTERIM SUPERINTENDENT**

Dr. Nabor Cortez, Jr.

**BUSINESS MANAGER**

Ramon Mendoza

**LA FERIA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL AND COMPLIANCE REPORT  
YEAR ENDED AUGUST 31, 2012**

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**LA FERIA INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL AND COMPLIANCE REPORT  
YEAR ENDED AUGUST 31, 2012**

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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, 2012 at a meeting of the board of school trustees of such school district on the 14th day of January, 2013.



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 La Feria Independent School District, as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of La Feria Independent School 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 the 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 the La Feria Independent School District, as of August 31, 2012, 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 9, 2013, on our consideration of the La Feria Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and General Fund - Budgetary Comparison information on pages 15 through 21 and 56 through 57 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the La Feria Independent School District's financial statements as a whole. The accompanying financial information listed as Texas Education Agency Required Schedules in the table of contents, are presented in accordance with the requirements of the Texas Education Agency for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The Texas Education Agency Required Schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The Texas Education Agency Required Schedules and the schedule of expenditures of federal awards has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas Education Agency Required Schedules and the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



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

Harlingen, Texas  
January 9, 2013

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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, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

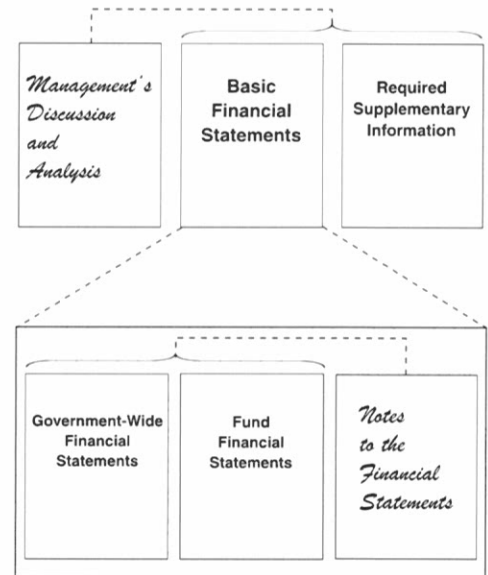
- The District's total combined net assets were \$20,315,414 at August 31, 2012.
- During the year, the District's expenses were \$35,604,421. Revenues generated in taxes and other revenues for governmental activities were \$36,009,333.
- The total cost of the District's programs decreased \$1,136,153 from last year. This decrease resulted from planned reductions in staffing and operating costs with the largest decrease in instruction.
- The general fund reported a fund balance this year of \$4,625,719.

### 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, 2012.
- *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.

Summary ↔ Detail

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

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	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 \$20,315,414 at August 31, 2012. (See Table A-1).

**Table A-1  
Combined Net Assets**

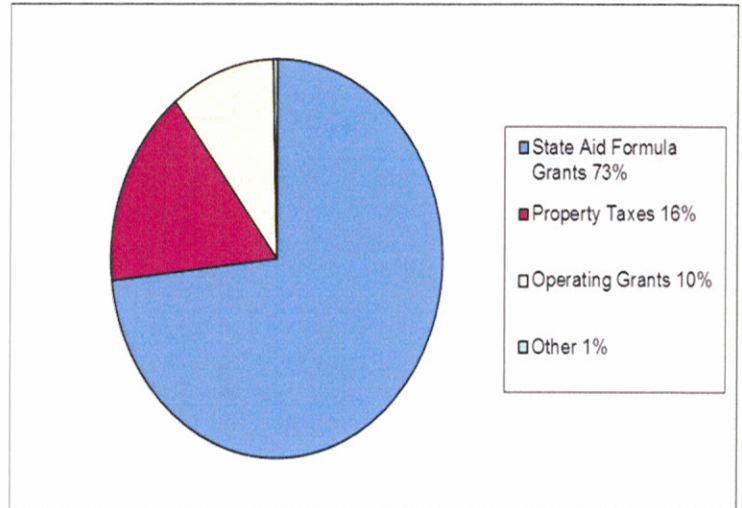
	<u>2012</u>	<u>2011</u>
Current assets		
Cash and cash equivalents	\$4,747,709	\$ 4,979,655
Due from other governments	2,840,201	3,475,000
Taxes receivable net of allowance for uncollectible taxes	1,093,154	1,079,030
Other receivables	148,482	217,378
Inventories – supplies and materials	72,405	58,289
Deferred expenditures	<u>340,887</u>	<u>244,366</u>
Total current assets	9,242,838	10,053,718
Non-current assets		
Capitalized bond and other debt issuance costs	410,208	434,252
Land	2,887,027	2,887,027
Buildings	57,191,652	57,191,652
Furniture and equipment	3,859,558	3,801,245
Less accumulated depreciation	<u>(16,132,079)</u>	<u>(14,583,258)</u>
Total non-current assets	48,216,366	49,730,918
Total assets	57,459,204	59,784,636
Current liabilities		
Accounts payable and accrued liabilities	1,769,236	2,550,753
Due to other governments	668,984	21,783
Unearned revenue	-	877,171
Current long-term liabilities payable	<u>1,643,461</u>	<u>1,826,252</u>
Total current liabilities	4,081,681	5,275,959
Long-term liabilities	<u>33,062,109</u>	<u>34,598,175</u>
Total liabilities	37,143,790	39,874,134
Net assets invested in capital assets	13,577,605	13,782,508
Restricted for federal and state programs	959,836	797,168
Restricted for debt service	677,933	779,108
Restricted for capital projects	115,971	114,946
Restricted for campus activities	82,681	84,458
Unrestricted net assets	<u>4,901,388</u>	<u>4,352,314</u>
	<u>\$20,315,414</u>	<u>\$19,910,502</u>



The \$4,901,388 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 \$28,754,831. A significant portion, 73%, of the District's revenue comes from state aid-formula grants. (See adjacent chart.) 16% comes from property taxes. The remaining 11% 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 \$28,349,919 and 53% 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**

	2012	2011
Program revenues		
Charges for services	\$ 583,800	\$ 527,408
Operating grants and contributions	6,670,702	7,926,442
General revenues		
Property taxes	4,649,015	4,568,346
State aid – formula	21,065,646	21,710,945
Grants/contributions not restricted	2,918,811	2,105,816
Investment earnings	9,569	19,418
Miscellaneous local intermediate	111,790	101,780
Total revenues	36,009,333	36,960,155
Instruction	17,414,420	18,405,479
Instructional resources and media services	461,092	555,588
Curriculum and instructional staff development	594,239	679,608
Instructional leadership	396,240	468,073
School leadership	1,942,828	1,991,130
Guidance, counseling and evaluation services	951,144	986,670
Social services	88,453	75,874
Health services	388,381	395,324
Student (pupil) transportation	1,107,104	924,916
Food services	2,179,652	2,195,735
Cocurricular/extracurricular activities	1,448,856	1,620,253
General administration	961,520	1,035,686
Plant maintenance and operations	4,664,018	4,376,761
Security and monitoring services	36,794	44,791
Data processing services	348,164	325,704
Community services	421,174	447,039
Debt service	1,651,811	1,675,038
Payments to fiscal agent/member districts of SSA	381,428	366,540
Payments to juvenile justice alternative education	83,614	82,538
Other governmental charges	83,489	87,827
Total expenses	35,604,421	36,740,574
Changes in net assets	\$ 404,912	\$ 219,581

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 \$35,604,421.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$4,649,015.
- The cost that was paid by those who directly benefited from the programs was \$583,800.
- The amount by grants and contributions was \$6,670,702.

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

	Total Cost of Services		Net Cost of Services	
	2012	2011	2012	2011
Instruction and instructional related	\$18,469,751	\$19,640,675	\$15,106,358	\$15,309,664
School leadership	1,942,828	1,991,130	1,839,894	1,863,397
Food services	2,179,652	2,195,735	(30,889)	(182,459)
Co-curricular/extracurricular activities	1,448,856	1,620,253	990,805	1,135,922
Plant maintenance and operations	4,664,018	4,376,761	4,301,531	4,291,730
Debt service – interest and bond issuance costs	1,648,226	1,675,038	1,648,226	1,675,038

#### **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 \$35,995,209 a decrease of 3% from the preceding year. Local revenues increased by \$120,987; state revenues decreased by \$983,369 and federal revenues decreased by \$104,673. The decrease in state revenues is the result a reduction in EDA funding in the current year plus the end of state funding for a kindergarten and pre-kindergarten program and nonrecurring funding in the prior year for teacher excellence awards.

#### **General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget three times. Even with these adjustments, actual expenditures were \$113,252 below final budget amounts. There were no expenditures in excess of amended budget amounts.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2012, the District had invested \$63,938,237 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 \$58,313 over last year.

**Table A-4**  
**Capital Assets**

	<u>2012</u>	<u>2011</u>
Land	\$ 2,887,027	\$ 2,887,027
Buildings and improvements	57,191,652	57,191,652
Furniture and equipment	<u>3,859,558</u>	<u>3,801,245</u>
	63,938,237	63,879,924
Accumulated depreciation	<u>(16,132,079)</u>	<u>(14,583,258)</u>
	<u>\$47,806,158</u>	<u>\$49,296,666</u>

### Long Term Debt

At year-end, the District had \$32,591,382 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>2012</u>	<u>2011</u>
Bonds payable	\$32,465,000	\$34,130,000
Issuance premiums	253,928	278,522
Issuance discounts	(8,185)	(9,767)
Deferred loss on 2005 refunding bonds	(158,095)	(188,639)
Deferred gain on 2006 refunding bonds	<u>38,734</u>	<u>46,137</u>
	<u>\$32,591,382</u>	<u>\$34,256,253</u>



## FUND BALANCES

The District has adopted GASB Statement No. 54. 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 Statement No. 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, 2012, the District's governmental funds reported ending fund balances of \$5,830,242. The unassigned fund balance of \$3,252,591 or 56% 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 Statement No. 54.

- \$413,292 is recorded as Nonspendable for inventories and prepaid items;
- \$2,081,678 is recorded as Restricted; \$959,836 in food service; \$677,933 in debt service; and \$443,909 in capital projects;
- \$82,681 is recorded as Committed for campus activity funds;
- The District had no assigned fund balance at year end;
- \$3,252,591 is the remaining fund balance and is recorded as Unassigned.

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

- Appraised value used for the 2013 budget preparation was \$335,392,755 which is a 1.27% increase from last year's value.
- General operating fund spending per student in the 2013 budget is \$8,364 which is a decrease from the prior year average of \$8,600.
- The District's 2013 refined average daily attendance is expected to be 3446 which is an increase of 96 students.

These indicators were taken into account when adopting the general fund budget for 2013. The District adopted a balanced budget and anticipates several budget amendments throughout the fiscal year to account for changes in enrollment and other variables. The District is closely monitoring all operating costs due to the uncertainties in future state funding.

Expenditures in the General Fund are expected to increase to \$28,823,105 which is an increase of only \$20,012. The District has added no major new programs or initiatives to the 2013 budget.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2013.

## 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.

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**BASIC**  
**FINANCIAL STATEMENTS**

LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2012

Data Control Codes	Primary Government  Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 4,747,709
1220 Property Taxes Receivable (Delinquent)	1,126,962
1230 Allowance for Uncollectible Taxes	(33,808)
1240 Due from Other Governments	2,840,201
1290 Other Receivables, net	148,482
1300 Inventories	72,405
1410 Deferred Expenses	340,887
1420 Capitalized Bond and Other Debt Issuance Costs	410,208
Capital Assets:	
1510 Land	2,887,027
1520 Buildings, Net	43,605,646
1530 Furniture and Equipment, Net	1,313,485
1000 Total Assets	57,459,204
<b>LIABILITIES</b>	
2110 Accounts Payable	710,473
2140 Interest Payable	118,778
2150 Payroll Deductions & Withholdings	409,769
2160 Accrued Wages Payable	530,216
2180 Due to Other Governments	668,984
Noncurrent Liabilities	
2501 Due Within One Year	1,643,461
2502 Due in More Than One Year	33,062,109
2000 Total Liabilities	37,143,790
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	13,577,605
3820 Restricted for Federal and State Programs	959,836
3850 Restricted for Debt Service	677,933
3860 Restricted for Capital Projects	115,971
3870 Restricted for Campus Activities	82,681
3900 Unrestricted Net Assets	4,901,388
3000 Total Net Assets	\$ 20,315,414

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, 2012

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>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 17,414,420	\$ 21,606	\$ 3,018,365	\$ (14,374,449)
12 Instructional Resources and Media Services	461,092	-	18,204	(442,888)
13 Curriculum and Staff Development	594,239	-	305,218	(289,021)
21 Instructional Leadership	396,240	-	113,773	(282,467)
23 School Leadership	1,942,828	-	102,934	(1,839,894)
31 Guidance, Counseling and Evaluation Services	951,144	-	99,250	(851,894)
32 Social Work Services	88,453	-	6,853	(81,600)
33 Health Services	388,381	-	20,687	(367,694)
34 Student (Pupil) Transportation	1,107,104	-	69,770	(1,037,334)
35 Food Services	2,179,652	144,721	2,065,820	30,889
36 Extracurricular Activities	1,448,856	417,473	40,578	(990,805)
41 General Administration	961,520	-	40,636	(920,884)
51 Facilities Maintenance and Operations	4,664,018	-	362,487	(4,301,531)
52 Security and Monitoring Services	36,794	-	1,252	(35,542)
53 Data Processing Services	348,164	-	9,073	(339,091)
61 Community Services	421,174	-	395,802	(25,372)
72 Debt Service - Interest on Long Term Debt	1,648,226	-	-	(1,648,226)
73 Debt Service - Bond Issuance Cost and Fees	3,585	-	-	(3,585)
93 Payments related to Shared Services Arrangements	381,428	-	-	(381,428)
95 Payments to Juvenile Justice Alternative Ed. Prg.	83,614	-	-	(83,614)
99 Other Intergovernmental Charges	83,489	-	-	(83,489)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 35,604,421</u>	<u>\$ 583,800</u>	<u>\$ 6,670,702</u>	<u>(28,349,919)</u>

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		3,623,658
DT	Property Taxes, Levied for Debt Service		1,025,357
SF	State Aid - Formula Grants		21,065,646
GC	Grants and Contributions not Restricted		2,918,811
IE	Investment Earnings		9,569
MI	Miscellaneous Local and Intermediate Revenue		111,790
TR	Total General Revenues		<u>28,754,831</u>
CN	Change in Net Assets		404,912
NB	Net Assets--Beginning		19,910,502
NE	Net Assets--Ending		<u>\$ 20,315,414</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, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ 3,310,163	\$ 1,339,386	\$ 98,160	\$ 4,747,709
1220	Property Taxes - Delinquent	893,025	233,937	-	1,126,962
1230	Allowance for Uncollectible Taxes (Credit)	(26,790)	(7,018)	-	(33,808)
1240	Receivables from Other Governments	1,919,645	132,895	787,661	2,840,201
1260	Due from Other Funds	237,243	-	-	237,243
1290	Other Receivables	143,464	-	5,018	148,482
1300	Inventories	72,405	-	-	72,405
1410	Deferred Expenditures	340,887	-	-	340,887
1000	<b>Total Assets</b>	<b>\$ 6,890,042</b>	<b>\$ 1,699,200</b>	<b>\$ 890,839</b>	<b>\$ 9,480,081</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2110	Accounts Payable	\$ 554,562	\$ -	\$ 155,911	\$ 710,473
2150	Payroll Deductions and Withholdings Payable	409,769	-	-	409,769
2160	Accrued Wages Payable	433,757	-	96,459	530,216
2170	Due to Other Funds	-	125,364	111,879	237,243
2180	Due to Other Governments	-	668,984	-	668,984
2300	Deferred Revenues	866,235	226,919	-	1,093,154
2000	<b>Total Liabilities</b>	<b>2,264,323</b>	<b>1,021,267</b>	<b>364,249</b>	<b>3,649,839</b>
Fund Balances:					
Nonspendable Fund Balance:					
3410	Inventories	72,405	-	-	72,405
3430	Prepaid Items	340,887	-	-	340,887
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	959,836	-	-	959,836
3480	Retirement of Long-Term Debt	-	677,933	-	677,933
3490	Other Restricted Fund Balance	-	-	443,909	443,909
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	82,681	82,681
3600	Unassigned Fund Balance	3,252,591	-	-	3,252,591
3000	<b>Total Fund Balances</b>	<b>4,625,719</b>	<b>677,933</b>	<b>526,590</b>	<b>5,830,242</b>
4000	<b>Total Liabilities and Fund Balances</b>	<b>\$ 6,890,042</b>	<b>\$ 1,699,200</b>	<b>\$ 890,839</b>	<b>\$ 9,480,081</b>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET ASSETS  
 AUGUST 31, 2012

<b>Total Fund Balances - Governmental Funds</b>	\$	5,830,242
<b>1</b> Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets was \$63,938,237 and the accumulated depreciation was \$16,132,079.		47,806,158
<b>2</b> 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.		1,093,154
<b>3</b> 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.		410,208
<b>4</b> 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 \$32,591,382, finance contract payable was \$1,965,108, accrued interest payable was \$118,778 and compensated absences were \$149,080.		(34,824,348)
<b>19 Net Assets of Governmental Activities</b>	<u>\$</u>	<u>20,315,414</u>

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, 2012

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,936,172	\$ 1,042,922	\$ 360,955	\$ 5,340,049
5800 State Program Revenues	22,332,925	2,007,873	157,209	24,498,007
5900 Federal Program Revenues	3,222,378	-	2,934,775	6,157,153
5020 Total Revenues	29,491,475	3,050,795	3,452,939	35,995,209
EXPENDITURES:				
Current:				
0011 Instruction	14,338,721	-	2,315,912	16,654,633
0012 Instructional Resources and Media Services	443,574	-	3,591	447,165
0013 Curriculum and Instructional Staff Development	297,804	-	288,895	586,699
0021 Instructional Leadership	297,322	-	91,378	388,700
0023 School Leadership	1,769,788	-	100,366	1,870,154
0031 Guidance, Counseling and Evaluation Services	877,255	-	43,999	921,254
0032 Social Work Services	85,349	-	547	85,896
0033 Health Services	364,261	-	-	364,261
0034 Student (Pupil) Transportation	941,552	-	-	941,552
0035 Food Services	2,046,232	-	-	2,046,232
0036 Extracurricular Activities	1,235,407	-	208,269	1,443,676
0041 General Administration	952,665	-	-	952,665
0051 Facilities Maintenance and Operations	3,987,055	-	434,888	4,421,943
0052 Security and Monitoring Services	36,794	-	-	36,794
0053 Data Processing Services	352,236	-	-	352,236
0061 Community Services	7,300	-	395,754	403,054
Debt Service:				
0071 Principal on Long Term Debt	219,391	1,665,000	-	1,884,391
0072 Interest on Long Term Debt	1,856	1,483,385	-	1,485,241
0073 Bond Issuance Cost and Fees	-	3,585	-	3,585
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	381,428	-	-	381,428
0095 Payments to Juvenile Justice Alternative Ed. Prg.	83,614	-	-	83,614
0099 Other Intergovernmental Charges	83,489	-	-	83,489
6030 Total Expenditures	28,803,093	3,151,970	3,883,599	35,838,662
1200 Net Change in Fund Balances	688,382	(101,175)	(430,660)	156,547
0100 Fund Balance - September 1 (Beginning)	3,937,337	779,108	957,250	5,673,695
3000 Fund Balance - August 31 (Ending)	\$ 4,625,719	\$ 677,933	\$ 526,590	\$ 5,830,242

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



LA FERIA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2012

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	156,547
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 depreciation of \$1,548,821 exceeded capital outlays of \$58,313.		(1,490,508)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the statement of net assets.		1,884,391
Because some property taxes will not be collected for several months after 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.		14,124
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.		5,763
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.		3,343
Refinancing the property finance contract resulted in an increase in the total obligation outstanding due to the unpaid interest that was rolled into the refinancing. Since current financial resources were not used the increase is not reported in the governmental funds.		(168,748)
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>404,912</b>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY FUND NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2012

EXHIBIT E-1

	Private Purpose Trust Fund	Agency Funds
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 177,096	\$ 50,683
Restricted Assets	-	273,803
Total Assets	<u>177,096</u>	<u>\$ 324,486</u>
<b>LIABILITIES</b>		
Accounts Payable	5,100	\$ 10,669
Due to Other Governments	-	582
Due to Student Groups	10,516	42,749
Payable from Restricted Assets	-	270,486
Total Liabilities	<u>15,616</u>	<u>\$ 324,486</u>
<b>NET ASSETS</b>		
Restricted for Scholarships	<u>161,480</u>	
Total Net Assets	<u>\$ 161,480</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, 2012

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 1,043
Total Additions	<u>1,043</u>
Change in Net Assets	1,043
Total Net Assets - September 1 (Beginning)	<u>160,437</u>
Total Net Assets - August 31 (Ending)	<u>\$ 161,480</u>

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

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**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*YEAR ENDED AUGUST 31, 2012*

**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 guidelines 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 guidelines.

**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, 2012*

**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.

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.

**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.

**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, 2012*

**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, 2011. 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, 2012*

**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, 2012. The prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2012, and which extend beyond that date and a prepaid support agreement with Region One Education Service Center 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, 2012*

**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, 2012*

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

15. *Fund Balance Reporting*

GASB Statement No. 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 Statement No. 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 expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

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, 2012*

**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, 2012*

**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 0.995 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, 2012, the District's carrying amount had a balance of \$41,506 (cash, interest-bearing savings accounts and certificate of deposits) and the bank balance was \$650,982. The District's cash deposits at August 31, 2012 and during the year ended August 31, 2012 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, 2012 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 \$1,995,516.
- c. Largest cash, savings and time deposit combined account balance amounted to \$2,016,958 and occurred during the month of January 2012.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$483,916.

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, 2012

**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	\$5,195,280	N/A	Daily
Certificates of Deposit	N/A	<u>177,096</u>	N/A	Daily
		<u>\$5,372,376</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	\$5,195,280	AAA	97%
Certificates of Deposit	AAA	<u>177,096</u>	AAA	3
		<u>\$5,372,376</u>		

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. The fund operates in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940.

**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, 2012

**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 2011 tax rate was \$1.040 for maintenance and \$0.296 for debt service per \$100 assessed valuation. The 2011 assessed valuation was \$331,172,840. 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, 2012 outstanding taxes in the general fund and debt service fund was \$893,025 and \$233,937 with a corresponding allowance for doubtful accounts of \$26,790 and \$7,018.

**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	\$1,100,867	\$ -
National School Lunch and Breakfast Programs	60,841	-
Other governmental entities		
SHARS	757,937	-
<u>Debt Service Fund</u>		
Texas Education Agency - EDA	-	668,984
Texas Education Agency - IFA	132,895	-
<u>Other Governmental Funds</u>		
Texas Education Agency:		
ESEA Title I, Part A – Improving Basic Programs	477,311	-
ESEA Title I, SIP Academy Grant – ARRA	21,985	-
ESEA Title I, Part C	6,641	-
ESEA Title II, Part A Teacher/Principal Training	22,837	-
Education Jobs Fund	192,746	-
Career and Technical Basic Grant	19,426	-
Student Success Initiative	26,912	-
Region One ESC:		
GEAR-UP	<u>19,803</u>	<u>-</u>
	<u>\$2,840,201</u>	<u>\$ 668,984</u>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2012**

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

Interfund receivable and payable balances at August 31, 2012 were:

<u>Due From</u>	<u>Due To</u>	
Debt Service Fund	General Fund	\$125,364
Student Activity Funds	General Fund	6,104
Capital Projects Fund – 2005 Series	General Fund	94,249
Capital Projects Fund – 2008 Series	General Fund	<u>11,526</u>
	Totals	<u>\$237,243</u>

All amounts are scheduled to be repaid within one year. There were no transfers made between funds during the year ended August 31, 2012.

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

Receivables at August 31, 2012, 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	\$ 893,025	\$1,919,645	\$237,243	\$143,464	\$3,193,377
Debt Service Fund	233,937	132,895	-	-	366,832
Other Funds	<u>-</u>	<u>787,661</u>	<u>-</u>	<u>5,018</u>	<u>792,679</u>
Total Governmental Activities	<u>\$1,126,962</u>	<u>\$2,840,201</u>	<u>\$237,243</u>	<u>\$148,482</u>	<u>\$4,352,888</u>
Amounts not scheduled for collection during the subsequent year	\$ <u>732,127</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>732,127</u>

Payables at August 31, 2012, 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>Total Payables</u>
<b>Governmental Activities:</b>						
General Fund	\$554,562	\$409,769	\$433,757	\$ -	\$668,984	\$2,067,072
Debt Service Fund	-	-	-	125,364	-	125,364
Other Funds	<u>155,911</u>	<u>-</u>	<u>96,459</u>	<u>111,879</u>	<u>-</u>	<u>364,249</u>
Total Governmental Activities	<u>\$710,473</u>	<u>\$409,769</u>	<u>\$530,216</u>	<u>\$237,243</u>	<u>\$668,984</u>	<u>\$2,556,685</u>
Amounts not scheduled for payment during the subsequent year	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS - CONTINUED**  
**YEAR ENDED AUGUST 31, 2012**

**NOTE H – CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2012, was as follows:

	<u>Sept. 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Aug. 31, 2012</u>
Governmental activities				
Capital assets not being depreciated				
Land and improvements	\$ <u>2,887,027</u>	\$ _____	\$ _____	\$ <u>2,887,027</u>
Total capital assets not being depreciated	<u>2,887,027</u>	_____	_____	<u>2,887,027</u>
Capital assets being depreciated				
Building and improvements	57,191,652	-	-	57,191,652
Furniture and equipment	<u>3,801,245</u>	<u>58,313</u>	_____	<u>3,859,558</u>
Total capital assets being depreciated	<u>60,992,897</u>	<u>58,313</u>	_____	<u>61,051,210</u>
Less accumulated depreciation for:				
Building and improvements	12,274,858	1,311,148	-	13,586,006
Furniture and equipment	<u>2,308,400</u>	<u>237,673</u>	_____	<u>2,546,073</u>
Total accumulated depreciation	14,583,258	1,548,821	-	16,132,079
Total capital assets being depreciated, net	<u>46,409,639</u>	<u>(1,490,508)</u>	_____	<u>44,919,131</u>
Governmental activities capital assets, net	<u>\$49,296,666</u>	<u>\$ (1,490,508)</u>	<u>\$ _____</u>	<u>\$47,806,158</u>

Depreciation was charged to the following functions:

**Government Activities:**

11 – Instruction	\$ 774,113
12 – Instructional Resources and Media Services	13,927
13 – Curriculum and instructional staff development	7,540
21 – Instructional Leadership	7,540
23 – School Leadership	72,674
31 – Guidance, Counseling and Evaluation Services	29,890
32 – Social Work Services	2,557
33 – Health Services	24,120
34 – Student (Pupil) Transportation	165,552
35 – Food Services	156,239
36 – Cocurricular/Extracurricular Activities	5,180
41 – General Administration	8,855
51 – Plant Maintenance and Operations	254,773
53 – Data Processing Services	7,741
61 – Community Services	<u>18,120</u>
	<u>\$1,548,821</u>

**NOTE I – RESTRICTED ASSETS**

Restricted assets of \$273,803 at August 31, 2012, 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, 2012**

**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, 2012 are as follows:

	Beginning Balance Sept. 1, 2011	Increase	Decrease	Ending Balance Aug. 31, 2012	Due Within One Year
<u>Governmental Activities</u>					
<b>General Obligation Bonds:</b>					
Unlimited Tax School Bonds					
Building – Series 1998	\$ 260,000	\$ -	\$ (260,000)	\$ -	\$ -
Refunding – Series 2005	7,050,000	-	(625,000)	6,425,000	640,000
Building – Series 2005	10,540,000	-	(220,000)	10,320,000	230,000
Refunding – Series 2006	4,460,000	-	(315,000)	4,145,000	330,000
Building – Series 2008	<u>11,820,000</u>	-	<u>(245,000)</u>	<u>11,575,000</u>	<u>250,000</u>
	34,130,000	-	(1,665,000)	32,465,000	1,450,000
Deferred amounts					
Issuance premiums	278,522	-	(24,594)	253,928	(23,540)
Issuance discounts	(9,767)	-	1,582	(8,185)	1,452
Deferred loss on 2005 refunding bonds	(188,639)	-	30,544	(158,095)	28,034
Deferred loss on 2006 refunding bonds	<u>46,137</u>	-	<u>(7,403)</u>	<u>38,734</u>	<u>(6,895)</u>
	34,256,253	-	(1,664,871)	32,591,382	1,449,051
Property finance contract	2,015,751	168,748	(219,391)	1,965,108	154,677
Compensated absences	<u>152,423</u>	<u>7,808</u>	<u>(11,151)</u>	<u>149,080</u>	<u>39,733</u>
	<u>\$36,424,427</u>	<u>\$176,556</u>	<u>\$(1,895,413)</u>	<u>\$34,705,570</u>	<u>\$1,643,461</u>

**General Obligation Bonds:**

Bonds payable at August 31, 2012 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 matured in 2012 with a final principal payment of \$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, 2012, the amount of defeased debt outstanding was \$6,459,000 from the public facilities corporation lease revenue bonds.

6,425,000

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
 YEAR ENDED AUGUST 31, 2012

**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. \$10,320,000

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, 2012, the amount of defeased debt outstanding was \$4,125,000. 4,145,000

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. 11,575,000

\$32,465,000

Debt service requirements on general obligation bonds at August 31, 2012 are as follows:

Year Ended	Principal Value at 8/31/12	Deferred Loss Value at 8/31/12	Deferred Gain Value at 8/31/12	Discount Value at 8/31/12	Premium Value at 8/31/12	Principal Value at Maturity	Interest	Total Requirements
August 31,								
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	1,535,521	16,241	(4,360)	841	(18,243)	1,530,000	1,179,769	2,709,769
2018-2022	8,109,554	41,232	(10,444)	2,136	(67,478)	8,075,000	4,905,191	12,980,191
2023-2027	4,589,359	5,971	-	306	(40,636)	4,555,000	3,575,482	8,130,482
2028-2032	5,023,527	-	-	-	(28,527)	4,995,000	2,490,950	7,485,950
2033-2037	6,397,183	-	-	-	(12,183)	6,385,000	1,098,375	7,483,375
2038	750,344	-	-	-	(344)	750,000	37,500	787,500
Total	<u>\$32,591,382</u>	<u>\$158,095</u>	<u>\$ (38,734)</u>	<u>\$ 8,185</u>	<u>\$ (253,928)</u>	<u>\$32,465,000</u>	<u>\$18,630,485</u>	<u>\$51,095,485</u>

**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. In October 2011 the District amended the property finance contract to reduce the interest rate to 3.823% and agreed to 12 remaining annual payments of \$221,247.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2012*

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

Debt service requirements on the property finance contract at August 31, 2012 are as follows:

Year Ended August 31,	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2013	\$ 154,677	\$ 66,570	\$ 221,247
2014	152,035	69,212	221,247
2015	157,847	63,400	221,247
2016	163,881	57,366	221,247
2017	170,147	51,100	221,247
2018-2022	953,421	152,815	1,106,236
2023	<u>213,100</u>	<u>8,147</u>	<u>221,247</u>
Total	<u>\$1,965,108</u>	<u>\$468,610</u>	<u>\$2,433,718</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, 2012.

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 Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property taxes, net of discounts	\$3,522,910	\$ 998,173	\$ -	\$4,521,083
Penalties, interest and other	165,955	44,439	-	210,394
Tuition and fees	21,606	-	-	21,606
Investment income	8,134	310	1,126	9,570
Other	15,202	-	-	15,202
Food service activity	144,721	-	-	144,721
Athletic activity	57,644	-	-	57,644
Activity fund revenues	-	-	<u>359,829</u>	<u>359,829</u>
	<u>\$3,936,172</u>	<u>\$1,042,922</u>	<u>\$360,955</u>	<u>\$5,340,049</u>

**NOTE L - DEFERRED REVENUE**

Deferred revenue at August 31, 2012 of \$1,093,154 consists only of deferred revenue from property taxes which are unavailable at year end. 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, 2012*

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

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
School Breakfast Program	10.553	\$ 767,834
National School Lunch Program	10.555	1,396,598
USDA – Donated Commodities	10.565	148,929
Indirect costs earned on federal programs		
ESEA Title I, Part A Improving Basic	84.010A	34,851
ESEA Title I, Part C Migrant	84.011	221
Career and Technical – Basic Grant	84.048	1,300
SHARS/Medicaid	-	855,600
Medicaid Administrative Claim	-	17,045
		<u>\$3,222,378</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 through its financial advisors is working with Texas Education Agency (TEA) to resolve differences in prior years funding from the existing debt allotment (EDA). During school year 2011-2012, TEA made a payment to the District for EDA funding in the amount of \$1,343,797 but then posted adjustments eliminating EDA funding from school years 2004-2005 and 2005-2006. The District's total debt obligations did not change for this period of time although lease revenue bonds were replaced by traditional bonds. The District understands from their financial advisors that TEA staff is in the process of correcting the elimination of the EDA funding for these years and accordingly has booked an amount due to TEA (see Note E for liability amount of \$668,984) which is less than the amount TEA shows as an overpayment on the most recent EDA payment ledger. This amount is based upon estimates provided by the District's financial advisors.

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, 2012 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.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2012*

**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.

*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, 2010 were \$1,293,471, for the year ended August 31, 2011 were \$1,343,534, and for the year ended August 31, 2012 were \$1,250,421. La Feria Independent School District paid additional state contributions for the year ended August 31, 2010 of \$335,837, for the year ended August 31, 2011 of \$319,125, and for the year ended August 31, 2012 of \$283,980, 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.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2012*

**NOTE P - POSTEMPLOYMENT HEALTH BENEFITS FOR PUBLIC SCHOOL EMPLOYEES – Cont.**

*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 2012, 2011 and 2010. 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.

**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 2012, 2011 and 2010. 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, 2012, 2011, and 2010, the State's contributions to TRS-Care were \$204,327, \$207,800 and \$206,414, respectively, the active member contributions were \$132,813, \$135,070 and \$134,169, respectively, and the school district's contributions were \$112,380, \$114,290, and \$113,527, 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, 2012, 2011, and 2010, the subsidy payments received by TRS-Care on behalf of the District were \$47,376, \$49,738 and \$53,575, respectively.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. This temporary program is available to help employers continue to provide coverage to early retirees. TRS has been certified for this program and has received funds from the ERRP program. For the year ended August 31, 2012, the subsidy payments received by the TRS on behalf of the District were \$52,240.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2012*

**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 2012, 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, 2012, 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.

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, 2012, 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, 2011, 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, 2012, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund ("the Fund"). The District contributed \$187,735 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.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2012*

**NOTE R - RISK MANAGEMENT – Continued**

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, 2011, the Fund carries a discounted reserve of \$72,540,560 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2011, 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 August 31 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, 2011, 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, 2012, 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.

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, 2011, 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 \$265 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 Maxor Administrative Services and reinsurance has been obtained for specific claims in excess of \$300,000 with no aggregate limit through Fidelity Security 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 2013 school year remains at \$265.



**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS - CONTINUED*  
 YEAR ENDED AUGUST 31, 2012

**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 \$381,428 to the cooperative for school year 2012 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, 2012, the District had no expenditures in excess of appropriations.

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 Debt Service Fund</u>	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Fund balances				
Nonspendable				
Inventories	\$ 72,405	\$ -	\$ -	\$ 72,405
Prepaid expenses	340,887	-	-	340,887
Restricted				
Food service	959,836	-	-	959,836
Debt service	-	677,933	-	677,933
Capital projects	-	-	443,909	443,909
Committed				
Campus activity funds	-	-	82,681	82,681
Unassigned	<u>3,252,591</u>	<u>-</u>	<u>-</u>	<u>3,252,591</u>
	<u>\$4,625,719</u>	<u>\$ 677,933</u>	<u>\$ 526,590</u>	<u>\$5,830,242</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, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,828,127	\$ 3,828,127	\$ 3,936,172	\$ 108,045
5800	State Program Revenues	22,014,568	22,692,068	22,332,925	(359,143)
5900	Federal Program Revenues	2,370,150	2,370,150	3,222,378	852,228
5020	Total Revenues	28,212,845	28,890,345	29,491,475	601,130
EXPENDITURES:					
Current:					
0011	Instruction	14,233,186	14,341,386	14,338,721	2,665
0012	Instructional Resources and Media Services	418,875	446,875	443,574	3,301
0013	Curriculum and Instructional Staff Development	222,070	298,070	297,804	266
0021	Instructional Leadership	231,476	298,476	297,322	1,154
0023	School Leadership	1,775,210	1,770,210	1,769,788	422
0031	Guidance, Counseling and Evaluation Services	846,444	878,444	877,255	1,189
0032	Social Work Services	-	88,000	85,349	2,651
0033	Health Services	388,700	368,700	364,261	4,439
0034	Student (Pupil) Transportation	879,708	964,708	941,552	23,156
0035	Food Services	2,095,650	2,095,650	2,046,232	49,418
0036	Extracurricular Activities	1,109,788	1,235,788	1,235,407	381
0041	General Administration	841,665	956,665	952,665	4,000
0051	Facilities Maintenance and Operations	3,968,533	3,993,533	3,987,055	6,478
0052	Security and Monitoring Services	70,550	40,550	36,794	3,756
0053	Data Processing Services	357,120	357,120	352,236	4,884
0061	Community Services	4,870	8,370	7,300	1,070
Debt Service:					
0071	Principal on Long Term Debt	229,000	220,300	219,391	909
0072	Interest on Long Term Debt	-	2,000	1,856	144
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	370,000	381,500	381,428	72
0095	Payments to Juvenile Justice Alternative Ed. Prg.	85,000	85,000	83,614	1,386
0099	Other Intergovernmental Charges	85,000	85,000	83,489	1,511
6030	Total Expenditures	28,212,845	28,916,345	28,803,093	113,252
1200	Net Change in Fund Balances	-	(26,000)	688,382	714,382
0100	Fund Balance - September 1 (Beginning)	3,937,337	3,937,337	3,937,337	-
3000	Fund Balance - August 31 (Ending)	\$ 3,937,337	\$ 3,911,337	\$ 4,625,719	\$ 714,382

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*YEAR ENDED AUGUST 31, 2012*

**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**

The District had no expenditures in excess of appropriations in the general fund, child nutrition program or debt service fund.

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

LA FERIA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2012

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2003 and prior years	Various	Various	\$ Various
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	1.040000	0.296000	331,039,817
2012 (School year under audit)	1.040000	0.296000	331,172,840
1000 TOTALS			



(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
\$ 139,355	\$ -	\$ 10,421	\$ 2,215	\$ (9,051)	\$ 117,668
25,916	-	2,960	183	789	23,562
31,416	-	3,841	238	1,196	28,533
50,874	-	5,960	1,070	(1,970)	41,874
62,778	-	10,006	1,963	(1,828)	48,981
83,156	-	23,374	5,506	(1,149)	53,127
138,670	-	34,736	10,020	5,462	99,376
192,362	-	57,748	16,436	6,867	125,045
387,875	-	150,705	42,893	9,622	203,899
-	4,634,225	3,311,976	942,640	5,288	384,897
<u>\$ 1,112,402</u>	<u>\$ 4,634,225</u>	<u>\$ 3,611,727</u>	<u>\$ 1,023,164</u>	<u>\$ 15,226</u>	<u>\$ 1,126,962</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014  
 GENERAL AND SPECIAL REVENUE FUNDS  
 AUGUST 31, 2012

**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	\$ -	\$ 20,579	\$ 217,117	\$ 538,498	\$ -	\$ -	\$ 776,194
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	46,645	-	-	-	-	-	46,645
6212	Audit Services	-	-	-	38,749	-	-	38,749
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	83,489	-	-	-	-	83,489
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	-	-	5,558	21,756	-	-	27,314
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	17,782	-	-	17,782
6240	Contr. Maint. and Repair	-	-	-	-	6,514	-	6,514
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	400	-	-	-	400
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	61	-	-	-	61
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	757	250	6,242	38,958	110	-	46,317
6410	Travel, Subsistence, Stipends	14,754	-	11,214	5,249	-	-	31,217
6420	Ins. and Bonding Costs	-	-	-	6,150	-	-	6,150
6430	Election Costs	735	-	-	-	-	-	735
6490	Miscellaneous Operating	1,010	215	79,195	160,282	-	-	240,702
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 63,901	\$ 104,533	\$ 319,787	\$ 827,424	\$ 6,624	\$ -	\$ 1,322,269

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 32,247,074

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 55,431
Total Debt & Lease(6500)	(11)	221,247
Plant Maintenance (Function 51, 6100-6400)	(12)	3,992,054
Food (Function 35, 6341 and 6499)	(13)	946,272
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		827,424

SubTotal: 6,042,429

Net Allowed Direct Cost \$ 26,204,645

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)	\$ 3,859,558
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 886,499
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$286,115 in Function 53 expenditures are included in this report on administrative costs.  
 \$83,489 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, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 91,200	\$ 91,200	\$ 145,087	\$ 53,887
5800 State Program Revenues	14,200	14,200	21,977	7,777
5900 Federal Program Revenues	2,235,150	2,235,150	2,313,362	78,212
5020 Total Revenues	2,340,550	2,340,550	2,480,426	139,876
EXPENDITURES:				
0035 Food Services	2,095,650	2,095,650	2,046,231	49,419
0051 Facilities Maintenance and Operations	244,900	269,900	269,519	381
6030 Total Expenditures	2,340,550	2,365,550	2,315,750	49,800
1200 Net Change in Fund Balances	-	(25,000)	164,676	189,676
0100 Fund Balance - September 1 (Beginning)	852,517	852,517	852,517	-
3000 Fund Balance - August 31 (Ending)	\$ 852,517	\$ 827,517	\$ 1,017,193	\$ 189,676

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, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,020,000	\$ 1,020,000	\$ 1,042,922	\$ 22,922
5800	State Program Revenues	2,136,706	2,136,706	2,007,873	(128,833)
5020	Total Revenues	3,156,706	3,156,706	3,050,795	(105,911)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	1,665,000	1,665,000	1,665,000	-
0072	Interest on Long Term Debt	1,483,706	1,483,706	1,483,385	321
0073	Bond Issuance Cost and Fees	8,000	8,000	3,585	4,415
6030	Total Expenditures	3,156,706	3,156,706	3,151,970	4,736
1200	Net Change in Fund Balances	-	-	(101,175)	(101,175)
0100	Fund Balance - September 1 (Beginning)	779,108	779,108	779,108	-
3000	Fund Balance - August 31 (Ending)	\$ 779,108	\$ 779,108	\$ 677,933	\$ (101,175)

## **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, 2012, which collectively comprise the La Feria Independent School District's basic financial statements and have issued our report thereon dated January 9, 2013. 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

Management of La Feria Independent School District, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered La Feria Independent School 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 La Feria Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the La Feria Independent School 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 La Feria Independent School 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of La Feria Independent School District, in a separate letter dated January 9, 2013.

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 9, 2013

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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

Compliance

We have audited La Feria Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of La Feria Independent School District's major federal programs for the year ended August 31, 2012. 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 La Feria Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of 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, 2012. 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 item 12-1.

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.

The purpose of this report is solely to describe the scope of our testing of compliance with the types of compliance requirements applicable to each of La Feria Independent School District's major programs and our testing of internal control over compliance and the results of our testing, and to provide an opinion on La Feria Independent School District's compliance but not to provide an opinion on the effectiveness of La Feria Independent School District's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering La Feria Independent School District's compliance with requirements applicable to each major program and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.



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

Harlingen, Texas  
January 9, 2013

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**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
 YEAR ENDED AUGUST 31, 2012

**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:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
84.010	ESEA Title I, Part A – Improving Basic Programs
84.388	Title I, SIP Academy Grant – ARRA
84.410	Education Jobs Fund

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, 2012*

**SECTION II - FINANCIAL STATEMENT FINDINGS**

**None noted that were required to be reported.**

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Total all questioned costs	\$ -
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**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED*  
*YEAR ENDED AUGUST 31, 2012*

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

**PROGRAM DESCRIPTION**

**DESCRIPTION**

**Schedule Reference Number: (12-1)**

**Time and Effort Documentation**

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

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. Certifications of time and effort were signed in the middle of the certification period, so they do not effectively serve as a certification of the entire period for which services were provided under a Federal award.

Questioned Costs/Basis:

None.

Context:

The final semi-annual certification for all personnel charged to Title I Part A.

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.

This process should include verification that certifications are signed after the certification period has ended.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED*  
*SCHEDULE OF STATUS OF PRIOR FINDINGS*  
*YEAR ENDED AUGUST 31, 2012*

**PROGRAM DESCRIPTION**

**STATUS OF PRIOR YEAR'S  
FINDING/COMPLIANCE**

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

**Expenditures in Excess of Budget Appropriations**

This issue has been resolved in the current year. No additional corrective action is necessary.

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

**Time and Effort Documentation**

Additional corrective action is needed as noted in the current year findings.

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED*  
*CORRECTIVE ACTION PLAN*  
*YEAR ENDED AUGUST 31, 2012*

**PROGRAM DESCRIPTION**

**Schedule Reference Number: (12-1)**

Corrective Action Plan:

**CORRECTIVE ACTION PLAN**

**Time and Effort Documentation**

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:

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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, 2012

(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 Region One ESC</u>			
GEAR-UP	84.334A		\$ 43,803
Total Passed Through Region One ESC			\$ 43,803
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	12610101031905	\$ 1,595,054
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	13610101031905	130,489
Total CFDA Number 84.010A			1,725,543
Total Title I, Part A Cluster			1,725,543
ESEA, Title I, Part C - Migratory Children	84.011	12615001031905	199,741
ESEA, Title I, Part C - Migratory Children	84.011	13615001031905	6,109
Total CFDA Number 84.011			205,850
Career and Technical - Basic Grant	84.048	12420006031905	67,988
Career and Technical - Basic Grant	84.048	13420006031905	19,427
Total CFDA Number 84.048			87,415
Title III, Part A - English Language Acquisition	84.365A	12671001031905	51,646
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12694501031905	209,911
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	13694501031905	20,425
Total CFDA Number 84.367A			230,336
Summer School LEP	84.369A	69551102	2,220
Title I SIP Academy Grant - ARRA	84.388	105520057110004	236,647
Education Jobs Fund- ARRA	84.410	11550101031905	351,315
Total Passed Through State Department of Education			\$ 2,890,972
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>\$ 2,934,775</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		\$ 17,045
Total Passed Through Texas Dept of Human Services			\$ 17,045
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<b>\$ 17,045</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401201	\$ 767,834
*National School Lunch Program - Cash Assistance	10.555	71301201	1,396,598
*National School Lunch Prog. - Non-Cash Assistance	10.555		148,929
Total CFDA Number 10.555			1,545,527
Total Child Nutrition Cluster			2,313,361
Total Passed Through the State Department of Agriculture			\$ 2,313,361
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>\$ 2,313,361</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 5,265,181</b>

\*Clustered Programs

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS*  
 YEAR ENDED AUGUST 31, 2012

**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 indirect costs 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	\$6,157,153
Less amounts not considered to be federal awards, excluded on the Schedule of Expenditures of Federal Awards:	
School Health and Related Service Program (SHARS)	855,600
Indirect costs	<u>36,372</u>
Total expenditures of federal awards, per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	<u>\$5,265,181</u>

**LA FERIA INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS*  
 AS OF AUGUST 31, 2012

<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, 2012

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, 2012, 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 9, 2013, 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 9, 2013



## COMMENTS AND OBSERVATIONS

### *Account Coding*

We identified two instances out of fifty sample items 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.

### *Special Education Classifications in PEIMS Student Roster*

One instance was noted out of twenty-five tested where a student identified for special education services in the PEIMS roster was not actually in the special education program. Data reported in the PEIMS roster must be accurately reported. Inaccurately kept records may cause the District to be out of compliance with TEA reporting requirements and may affect related maintenance of effort requirements and funding. We recommend that PEIMS data classifications for students be reviewed on a regular basis, which will help prevent such inaccuracies.

### *Disbursement Authorizations*

Two instances out of fifty disbursements tested were noted to not have been appropriately authorized with the business manager's signature. District procedures routinely require the business manager's signed approval on the payment request form prior to issuance of the check. Failing to follow District prescribed internal control procedures weakens the internal control process. We recommend that all disbursements be appropriately authorized.

### *Journal Entry Reclassifications – Federal Programs*

It was noted that a significant amount of transactions charged to Federal Awards, including Title I Part A and Education Jobs Fund, were a result of journal entry re-classifications of salaries. While these transactions appeared to be for allowable charges to the programs, the use of journal entries to reclassify a large amount of funds into a federal program may increase the risk of non-compliance in other areas. For example, if a time and effort certification is required and an employee previously did not have one on file because they weren't being paid out of federal funds, it is reasonably possible that no time and effort certifications would be obtained for such an employee when the salary was reclassified into the federal program.

We recommend that all journal entries to federal programs be reviewed and have a documented authorization from the business manager and federal programs director. This helps assure that relevant compliance issues are addressed prior to making a reclassification and requesting federal funds for such costs. We further recommend that the District improve budgeting and strategic planning of how personnel will be funded, so as to minimize the need for such entries.

### ***Conflict of Interest Statements***

Two out of fourteen instances were noted in the test of bidding and procurement where a conflict of interest statement could not be located in the bid file for the selected vendor. Lack of a conflict of interest statement may increase the likelihood that the District is not in compliance with state bidding and procurement requirements (Texas Local Government Code, Chapter 271). We recommend that a conflict of interest statement be obtained for all vendors and that bid files be maintained using a checklist of required documents. This checklist should be completed by the individual charged with maintaining the files. The file should be periodically reviewed by alternate personnel for completeness.