

**LA FERIA
INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL
AND
COMPLIANCE REPORT*

FOR THE YEAR ENDED AUGUST 31, 2014

LA FERIA INDEPENDENT SCHOOL DISTRICT

La Feria, Texas
Year Ended August 31, 2014

TRUSTEES

Juan Briones - President

Alan Moore - Vice-President

Gloria Casas - Secretary

David Bazaldua

Javier Loreda

Pancho Cobarrubias

Lalo Sosa

SUPERINTENDENT

Mr. Raymundo Villarreal

BUSINESS MANAGER

Ramon Mendoza

**LA FERIA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2014**

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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, 2014 at a meeting of the board of school trustees of such school district on the 12 day of January, 2015.

Deoria Casas
Signature of Board Secretary

Ala Moore
Signature of Board President

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
La Feria Independent School District

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the La Feria Independent School District as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the La Feria Independent School District, as of August 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 17–23 and 56-57 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the La Feria Independent School District's basic financial statements. The introductory section and the accompanying financial information listed as Texas Education Agency Required Schedules in the table of contents are presented in accordance with requirements of the Texas Education Agency for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2015, on our consideration of the La Feria Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering La Feria Independent School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is written in a cursive, flowing style.

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 12, 2015

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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, 2014. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$21,816,859 at August 31, 2014.
- During the year, the District's expenses were \$38,685,689. Revenues generated in taxes and other revenues for governmental activities were \$39,619,901.
- The total cost of the District's programs increased \$2,812,632 from last year. This increase resulted from planned one-time \$1,000 payment to all full time staff members, instructional technology and high school roof replacement.
- In November 2013 the District's taxpayers passed a tax ratification election (TRE) which allowed the District to shift 13 cents from the I & S tax rate to the M & O tax rate. This shift allowed the District to realize additional state funding which provided for increased expenditures for instructional technology, district safety initiatives and increases in staff compensation.
- The general fund reported a fund balance this year of \$6,583,571.
- The District received a superior rating for the Financial Integrity Reporting System of Texas (FIRST) for 2013. This rating evaluates quality of performance in the management of school district's financial resources.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The basic financial statements include two kinds of statements that present different views of the District:

The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status. The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.

- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

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

Government-wide Statements

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

The *statement of net position* presents information on all of the District's assets and deferred outflows and liabilities and deferred inflows, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. The *statement of activities* presents information showing how the government's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Accordingly, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The District has no business-type activities.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related requirements. The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for particular purposes to show that it is properly using taxes and grants.

The District has the following kinds of funds:

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

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

The District maintains 18 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the debt service fund, which are considered to be major funds. Data from the other governmental funds are combined in a single, aggregated presentation. The District adopts an annual appropriated budget for its General Fund, National School Breakfast and Lunch Program Fund, and Debt Service Fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

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

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

Notes to Financial Statements

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

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The Required Supplementary Information relates to comparison of the original adopted budget, the final amended budget, and the actual results for the fiscal year ended. This is required supplementary information for the general fund.

Other Supplementary Information

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

Government-Wide Financial Analysis

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

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the year ended August 31, 2014, the District's assets and deferred outflows exceeded its liabilities by \$21,816,859.

Table I
Net Position Summary

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Current and other assets	\$11,895,434	\$ 9,517,692
Capital assets	<u>46,880,029</u>	<u>46,924,353</u>
Total assets	<u>58,775,463</u>	<u>56,442,045</u>
Deferred outflows	<u>79,236</u>	<u>98,222</u>
Other liabilities	3,973,051	2,488,977
Long-term liabilities	<u>33,064,789</u>	<u>33,168,643</u>
Total liabilities	<u>37,037,840</u>	<u>35,657,620</u>
Net investment in capital assets	14,221,880	13,972,540
Restricted	1,291,190	1,640,504
Unrestricted	<u>6,303,789</u>	<u>5,269,603</u>
Total net position	<u>\$21,816,859</u>	<u>\$20,882,647</u>

As depicted in Table I, a significant portion of the District's net position, 65%, reflects its investment in capital assets less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. Also, approximately 6% of the net position of the District represents resources that are subject to external restriction on how they may be used. The remaining 29% of net position are unrestricted and may be used to meet the District's ongoing obligations.

Changes in Net Position

The Net Position of the District increased by \$934,212 for the year ended August 31, 2014. The total revenues from taxpayers, user service, grants and other sources for the District was \$39,619,901, an increase over fiscal year 2014 of \$2,769,402. Total expenses for the 2014 fiscal year were \$38,685,689 or \$2,812,632 more than the expenses for fiscal year 2013.

Table II
Changes in Net Position

	<u>Governmental Activities</u>	
	<u>2014</u>	<u>2013</u>
Program Revenues:		
Charges for services	\$ 740,220	\$ 721,538
Operating grants and contributions	6,957,098	7,171,325
General Revenues:		
Property taxes	4,519,218	4,589,427
State and other grants	27,193,975	24,296,392
Investment earnings	4,445	9,742
Miscellaneous local intermediate	<u>204,945</u>	<u>62,075</u>
Total Revenues	39,619,901	36,850,499
Program Expenses:		
Instruction	19,439,107	17,766,009
Instructional resources and media services	551,108	546,479
Curriculum and instructional staff development	764,339	582,788
Instructional leadership	605,176	558,824
School leadership	2,117,794	2,035,892
Guidance, counseling and evaluation services	846,387	925,328
Social services	99,178	90,996
Health services	419,989	385,270
Student (pupil) transportation	1,156,079	1,054,529
Food services	2,530,788	2,425,384
Co-curricular/extracurricular activities	1,746,633	1,427,880
General administration	1,089,351	1,056,810
Plant maintenance and operations	4,332,258	4,184,461
Security and monitoring services	52,093	40,031
Data processing services	410,288	345,967
Community services	448,213	369,614
Debt service	1,522,924	1,502,082
Payments to fiscal agent/member districts of SSA	449,032	450,911
Payments to juvenile justice alternative education	55,118	30,905
Other governmental charges	<u>49,834</u>	<u>92,897</u>
Total Expenses	<u>38,685,689</u>	<u>35,873,057</u>
Increase (decrease) in net position	934,212	977,442
Beginning net position	<u>20,882,647</u>	<u>19,905,205</u>
Ending net position	<u>\$21,816,859</u>	<u>\$20,882,647</u>

The District's total revenues were \$39,619,901. A significant portion, 86%, of the District's revenue comes from state aid – formula grants and operating grants. 12% comes from taxes, while only 2% relates to charges for services.

Governmental Activities

The District’s property tax rate decreased to \$1.2991 per \$100 of taxable property value from \$1.30 with the reduction in the debt service tax rate.

The total cost of all programs and services was \$38,865,689; 78% of these costs are for instructional and student services.

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

- The cost of all *governmental* activities this year was \$38,865,689.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$4,519,218.
- The cost that was paid by those who directly benefited from the programs was \$740,220.
- The amount by grants and contributions was \$6,957,098.

**Table III
Net Cost of Selected District Functions**

	Total Cost of Services		Net Cost of Services	
	2014	2013	2014	2013
Instruction and instructional related	\$20,754,554	\$18,895,276	\$17,243,779	\$14,981,155
School leadership	2,117,794	2,035,892	1,999,480	1,923,016
Food services	2,530,788	2,425,384	116,466	(196,385)
Plant maintenance and operations	4,332,258	4,184,461	4,238,815	4,103,298

FINANCIAL ANALYSIS OF THE DISTRICT’S FUNDS

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

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

As of August 31, 2014, the District’s governmental funds reported a combined ending fund balance of \$7,072,133, an increase of \$995,995 from last year. Of the total fund balance, \$5,262,029, or approximately 74 percent, constitutes unassigned fund balance. The remainder of fund balance is nonspendable, restricted, committed or assigned for particular purposes as follows:

**Table IV
Governmental Funds – Fund Balances**

Nonspendable	
Inventories	\$ 60,808
Prepayments	458,106
Restricted	
Grant funds	802,628
Debt service	408,632
Committed	
Campus activity funds	79,930
Unassigned	
Unassigned	<u>5,262,029</u>
	<u>\$7,072,133</u>

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the District had invested \$66,212,023 in a broad range of capital assets, including land, equipment, buildings, and vehicles.

**Table V
Capital Assets**

	<u>2014</u>	<u>2013</u>
Land	\$ 2,887,027	\$ 2,887,027
Buildings and improvements	58,332,902	57,191,652
Furniture and equipment	<u>4,992,094</u>	<u>4,535,638</u>
Total assets at historical cost	66,212,023	64,614,317
Accumulated depreciation	<u>(19,331,994)</u>	<u>(17,689,964)</u>
Net capital assets	<u>\$46,880,029</u>	<u>\$46,924,353</u>

Long-term Debt

At year-end, the District had \$33,168,643 in bonds, related premiums/discounts and other long-term liabilities as shown in Table VI. More detailed information about the District's debt is presented in the notes to the financial statements.

Bond Ratings

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

**Table VI
Long-term Debt**

	<u>2014</u>	<u>2013</u>
Bonds payable	\$29,505,000	\$31,015,000
Issuance premiums	208,111	230,388
Issuance discounts	(5,424)	(6,733)
Maintenance tax notes	1,545,000	-
Maintenance tax notes premium	31,151	-
Property finance contract	1,658,396	1,810,431
Compensated absences	<u>122,555</u>	<u>119,557</u>
	<u>\$33,064,789</u>	<u>\$33,168,643</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2015 budget preparation was \$379,462,546 which is a 4.83% increase from last year's value.
- General operating fund spending per student in the 2015 budget is \$8,705 which is an increase from the prior year average of \$8,328.
- The District's 2015 refined average daily attendance is expected to be 3,305 which is small decrease from last year.

These indicators were taken into account when adopting the general fund budget for 2015. 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 \$32,760,270 which is an increase of \$2,361,680. The District has added a salary increase to all full time staff, a fine arts initiative and an instructional technology initiative to the 2015 budget.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2015.

In the fall of 2014, the District refunded the Series 2005 bonds which will result in a tax rate savings of 3.19 cents for the 2016 fiscal year.

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 POSITION
AUGUST 31, 2014

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 8,045,389
1220 Property Taxes Receivable (Delinquent)	1,018,554
1230 Allowance for Uncollectible Taxes	(30,557)
1240 Due from Other Governments	2,016,107
1290 Other Receivables, net	327,027
1300 Inventories	60,808
1410 Prepayments	458,106
Capital Assets:	
1510 Land	2,887,027
1520 Buildings, Net	42,132,265
1530 Furniture and Equipment, Net	1,860,737
1000 Total Assets	58,775,463
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	79,236
1700 Total Deferred Outflows of Resources	79,236
LIABILITIES	
2110 Accounts Payable	1,949,619
2140 Interest Payable	137,747
2150 Payroll Deductions & Withholdings	426,691
2160 Accrued Wages Payable	614,367
2180 Due to Other Governments	844,627
Noncurrent Liabilities	
2501 Due Within One Year	1,812,438
2502 Due in More Than One Year	31,252,351
2000 Total Liabilities	37,037,840
NET POSITION	
3200 Net Investment in Capital Assets	14,221,880
3820 Restricted for Federal and State Programs	802,628
3850 Restricted for Debt Service	408,632
3870 Restricted for Campus Activities	79,930
3900 Unrestricted	6,303,789
3000 Total Net Position	\$ 21,816,859

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, 2014

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 19,439,107	\$ 143,040	\$ 2,912,625	\$ (16,383,442)
12 Instructional Resources and Media Services	551,108	-	42,368	(508,740)
13 Curriculum and Staff Development	764,339	-	412,742	(351,597)
21 Instructional Leadership	605,176	-	116,190	(488,986)
23 School Leadership	2,117,794	-	118,314	(1,999,480)
31 Guidance, Counseling and Evaluation Services	846,387	-	120,741	(725,646)
32 Social Work Services	99,178	-	11,228	(87,950)
33 Health Services	419,989	-	20,414	(399,575)
34 Student (Pupil) Transportation	1,156,079	-	52,426	(1,103,653)
35 Food Services	2,530,788	130,828	2,516,426	116,466
36 Extracurricular Activities	1,746,633	466,352	45,524	(1,234,757)
41 General Administration	1,089,351	-	51,847	(1,037,504)
51 Facilities Maintenance and Operations	4,332,258	-	93,443	(4,238,815)
52 Security and Monitoring Services	52,093	-	1,984	(50,109)
53 Data Processing Services	410,288	-	17,628	(392,660)
61 Community Services	448,213	-	423,198	(25,015)
72 Debt Service - Interest on Long Term Debt	1,448,572	-	-	(1,448,572)
73 Debt Service - Bond Issuance Cost and Fees	74,352	-	-	(74,352)
93 Payments related to Shared Services Arrangements	449,032	-	-	(449,032)
95 Payments to Juvenile Justice Alternative Ed. Prg.	55,118	-	-	(55,118)
99 Other Intergovernmental Charges	49,834	-	-	(49,834)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 38,685,689	\$ 740,220	\$ 6,957,098	(30,988,371)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	4,139,547
DT	Property Taxes, Levied for Debt Service	379,671
SF	State Aid - Formula Grants	24,566,025
GC	Grants and Contributions not Restricted	2,627,950
IE	Investment Earnings	4,445
MI	Miscellaneous Local and Intermediate Revenue	204,945
TR	Total General Revenues	31,922,583
CN	Change in Net Position	934,212
NB	Net Position - Beginning	20,882,647
NE	Net Position - Ending	\$ 21,816,859

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 7,732,835	\$ 264,151	\$ 48,403	\$ 8,045,389
1220 Property Taxes - Delinquent	846,104	172,450	-	1,018,554
1230 Allowance for Uncollectible Taxes (Credit)	(25,383)	(5,174)	-	(30,557)
1240 Receivables from Other Governments	1,662,242	-	353,865	2,016,107
1260 Due from Other Funds	1,255,924	1,008,832	-	2,264,756
1290 Other Receivables	320,542	-	6,485	327,027
1300 Inventories	60,808	-	-	60,808
1410 Prepayments	458,106	-	-	458,106
1000 Total Assets	<u>\$ 12,311,178</u>	<u>\$ 1,440,259</u>	<u>\$ 408,753</u>	<u>\$ 14,160,190</u>
LIABILITIES				
2110 Accounts Payable	\$ 1,674,585	\$ -	\$ 275,034	\$ 1,949,619
2150 Payroll Deductions and Withholdings Payable	426,691	-	-	426,691
2160 Accrued Wages Payable	566,682	-	47,685	614,367
2170 Due to Other Funds	2,207,683	50,969	6,104	2,264,756
2180 Due to Other Governments	31,245	813,382	-	844,627
2000 Total Liabilities	<u>4,906,886</u>	<u>864,351</u>	<u>328,823</u>	<u>6,100,060</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	820,721	167,276	-	987,997
2600 Total Deferred Inflows of Resources	<u>820,721</u>	<u>167,276</u>	<u>-</u>	<u>987,997</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	60,808	-	-	60,808
3430 Prepaid Items	458,106	-	-	458,106
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	802,628	-	-	802,628
3480 Retirement of Long-Term Debt	-	408,632	-	408,632
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	79,930	79,930
3600 Unassigned Fund Balance	5,262,029	-	-	5,262,029
3000 Total Fund Balances	<u>6,583,571</u>	<u>408,632</u>	<u>79,930</u>	<u>7,072,133</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 12,311,178</u>	<u>\$ 1,440,259</u>	<u>\$ 408,753</u>	<u>\$ 14,160,190</u>

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

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

Total Fund Balances - Governmental Funds	\$	7,072,133
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets was \$66,212,023 and the accumulated depreciation was \$19,331,994.		46,880,029
2 Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as deferred inflows of resources in the fund financial statements.		987,997
3 Long-term liabilities including bonds, tax maintenance notes and property finance contract payable are not due and payable in the current period and are not reported as liabilities in the funds.		(32,708,396)
4 Long-term liabilities related to compensated absences are not due in the current period and are not reported in the funds.		(122,555)
5 Long-term liabilities including accrued interest payable are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(137,747)
6 Premiums on the issuance of bonds and limited tax maintenance notes are capitalized, net of amortization, on the government-wide financial statements.		(233,838)
7 Deferred charges on debt refundings are not available to pay for current period expenditures and are not reported in the funds.		79,236
19 Net Position of Governmental Activities	\$	21,816,859

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, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 4,631,195	\$ 536,956	\$ 390,176	\$ 5,558,327
5800 State Program Revenues	25,953,136	2,002,295	362,874	28,318,305
5900 Federal Program Revenues	3,099,495	-	2,733,273	5,832,768
5020 Total Revenues	<u>33,683,826</u>	<u>2,539,251</u>	<u>3,486,323</u>	<u>39,709,400</u>
EXPENDITURES:				
Current:				
0011 Instruction	16,455,600	-	2,103,477	18,559,077
0012 Instructional Resources and Media Services	508,743	-	34,068	542,811
0013 Curriculum and Instructional Staff Development	355,645	-	402,168	757,813
0021 Instructional Leadership	511,231	-	85,243	596,474
0023 School Leadership	1,933,303	-	94,327	2,027,630
0031 Guidance, Counseling and Evaluation Services	742,845	-	77,998	820,843
0032 Social Work Services	90,490	-	5,584	96,074
0033 Health Services	394,465	-	-	394,465
0034 Student (Pupil) Transportation	1,179,683	-	-	1,179,683
0035 Food Services	2,464,371	-	-	2,464,371
0036 Extracurricular Activities	1,485,221	-	249,473	1,734,694
0041 General Administration	1,065,555	-	-	1,065,555
0051 Facilities Maintenance and Operations	4,028,487	-	10,184	4,038,671
0052 Security and Monitoring Services	51,005	-	-	51,005
0053 Data Processing Services	504,898	-	4,807	509,705
0061 Community Services	7,324	-	423,198	430,522
Debt Service:				
0071 Principal on Long Term Debt	152,035	1,510,000	-	1,662,035
0072 Interest on Long Term Debt	69,213	1,368,513	-	1,437,726
0073 Bond Issuance Cost and Fees	70,065	4,287	-	74,352
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,292,066	-	-	1,292,066
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	449,032	-	-	449,032
0095 Payments to Juvenile Justice Alternative Ed. Prg.	55,118	-	-	55,118
0099 Other Intergovernmental Charges	49,834	-	-	49,834
6030 Total Expenditures	<u>33,916,229</u>	<u>2,882,800</u>	<u>3,490,527</u>	<u>40,289,556</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(232,403)</u>	<u>(343,549)</u>	<u>(4,204)</u>	<u>(580,156)</u>
OTHER FINANCING SOURCES (USES):				
7914 Non-Current Loans	1,545,000	-	-	1,545,000
7916 Premium or Discount on Issuance of Bonds	31,151	-	-	31,151
7080 Total Other Financing Sources (Uses)	<u>1,576,151</u>	<u>-</u>	<u>-</u>	<u>1,576,151</u>
1200 Net Change in Fund Balances	1,343,748	(343,549)	(4,204)	995,995
0100 Fund Balance - September 1 (Beginning)	<u>5,239,823</u>	<u>752,181</u>	<u>84,134</u>	<u>6,076,138</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 6,583,571</u>	<u>\$ 408,632</u>	<u>\$ 79,930</u>	<u>\$ 7,072,133</u>

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2014

Total Net Change in Fund Balances - Governmental Funds	\$	995,995
Capital outlays are reported in governmental funds as expenditures. However, in the government-wide financial statements they are shown as increases in capital assets and their cost is allocated over their useful lives as depreciation expense. This is the amount by which depreciation of \$1,642,030 exceeded capital outlays of \$1,597,706.		(44,324)
Repayment of long-term principal is an expenditure in the governmental fund financial statements but it is a reuction in long-term liabilities in the government-wide financial statements.		1,662,035
Issuance of limited tax maintenance notes provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. The district issued \$1,545,000 of tax notes including a premium of \$31,151		(1,576,151)
The change in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		(2,998)
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 funds when it is due, and thus requiries the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrued, regardless of when it is due. The increase in interest reported in the statement of activies includes an increase in accrued interest payable of \$12,828, amortization of bond premiums of (\$20,968) and amortization of deferred charge on refunding of \$18,986.		(10,846)
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues decreased by this amount this year.		(89,499)
Change in Net Position of Governmental Activities	\$	934,212

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

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

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 175,556	\$ 71,121
Other Receivables	8,578	1,372
Restricted Assets	-	695,669
Total Assets	<u>184,134</u>	<u>\$ 768,162</u>
LIABILITIES		
Accounts Payable	8,089	\$ 5,278
Due to Student Groups	14,565	70,532
Payable from Restricted Assets	-	692,352
Total Liabilities	<u>22,654</u>	<u>\$ 768,162</u>
NET POSITION		
Restricted for Scholarships	<u>161,480</u>	
Total Net Position	<u>\$ 161,480</u>	

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

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 position and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. 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, 2014

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.

Nonmajor Governmental Funds:

Other Special Revenue Funds. The District accounts for resources restricted to, or committed for, specific purpose by the District or a grantor in a special revenue fund. Most federal and some state financial award programs are accounted for in these funds and sometimes unused balances 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. The District has no capital projects funds at the present time.

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. Because the assets are held in a trustee capacity and are not available to support District programs, these funds are not included in the government-wide statements.

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

The District has no proprietary funds.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

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.

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

3. Budgets

The official school budget was prepared for adoption for required Governmental Fund Types by August 20, 2013. 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, 2014

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. *Prepayments*

Prepayments are items that will benefit periods beyond August 31, 2014. The prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2014, and which provide coverage beyond that date and textbooks purchased for the subsequent school year. The reported prepayments are equally offset by nonspendable fund balance, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

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, 2014

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 are recorded and are amortized over the term of the related debt using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs incurred are expensed in the current period.

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

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.

15. *Fund Balance Reporting*

The District 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. The District has prepayments and inventories that are considered nonspendable.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 (commitments may be established, modified, or rescinded only through a resolution approved by the Board); **assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose; and **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 31st and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

17. *Deferred Outflows and Inflows of Resources*

The District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District's acquisition of net position applicable to a future reporting period.

The District adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The District has an accounting loss on refunding bonds which is a deferred resource outflow and also has unavailable revenues from property taxes which are deferred resource inflows under this standard.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

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.

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, 2014

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, 2014, the District's carrying amount of deposits (cash, interest-bearing savings accounts and certificate of deposits) was \$510,212 and the bank balance was \$750,701. The District's cash deposits at August 31, 2014 and during the year ended August 31, 2014 were entirely covered by FDIC insurance or by approved pledged securities for safekeeping and trust that are held in the District's name by a bank other than the pledging bank except for one day, October 30, 2013. On October 30, 2013 the deposits were undercollateralized by \$428,009.

The District's cash deposits at August 31, 2014 are maintained at BBVA Compass Bank. These 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 other than on the one date previously specified.

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 \$1,300,388.
- c. Largest cash, savings and time deposit combined account balance amounted to \$2,074,472 and occurred during the month of October 2013.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$346,075.

On October 31, 2013, the bank pledged additional collateral so the exposure was limited to one day only.

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, 2014

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	<u>\$8,477,523</u>	N/A	Daily

The District’s investment pool is considered cash and cash equivalents and the restricted asset in the agency fund on Exhibit E-1 of \$227,729 is also part of Lone Star Investment Pool.

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	<u>\$8,477,523</u>	AAA	100%

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.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED AUGUST 31, 2014

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 2013 tax rate was \$1.17 for maintenance and \$0.1291 for debt service per \$100 assessed valuation. The 2013 assessed valuation was \$336,042,315. 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, 2014, outstanding taxes in the general fund and debt service fund was \$846,104 and \$172,450 with a corresponding allowance for doubtful accounts of \$25,383 and \$5,174.

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	\$1,180,378	\$ -
National School Lunch and Breakfast Programs	62,878	-
Other governmental entities		
SHARS	418,986	31,245
State Comptroller	-	
<u>Debt Service Fund</u>		
Texas Education Agency - EDA	-	777,610
Texas Education Agency - IFA	-	35,772
<u>Other Governmental Funds</u>		
Texas Education Agency:		
ESEA Title I, Part A – Improving Basic Programs	98,378	-
ESEA Title I, SIP Academy Grant – ARRA	20,927	-
ESEA Title I, Part C	83,902	-
ESEA Title II, Part A Teacher/Principal Training	53,305	-
Career and Technical Basic Grant	1,934	-
State Textbook	49,070	-
Region One ESC:		
GEAR-UP	<u>46,349</u>	<u>-</u>
	<u>\$2,016,107</u>	<u>\$ 844,627</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

NOTE F - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2014 were:

<u>Due From</u>	<u>Due To</u>	
Debt Service Fund	General Fund	\$ 50,969
Non-major Funds	General Fund	6,104
Private Purpose Trust Fund	General Fund	1,198,851
Due to Other Funds – Governmental Funds		<u>1,008,832</u>
Totals		<u>\$2,264,756</u>

All amounts are scheduled to be repaid within one year. There were no transfers made between funds during the year ended August 31, 2014.

NOTE G – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2014, 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>
Governmental Activities:					
General Fund	\$ 846,104	\$1,662,242	\$1,255,924	\$320,542	\$4,084,812
Debt Service Fund	172,450	-	1,008,832	-	1,181,282
Other Funds	-	<u>353,865</u>	-	<u>6,485</u>	<u>360,350</u>
Total Governmental Activities	<u>\$1,018,554</u>	<u>\$2,016,107</u>	<u>\$2,264,756</u>	<u>\$327,027</u>	<u>\$5,626,444</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 670,869</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 670,869</u>

Payables at August 31, 2014, 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>
Governmental Activities:						
General Fund	\$1,674,585	\$426,691	\$566,682	\$2,207,683	\$ 31,244	\$4,906,885
Debt Service Fund	-	-	-	50,969	813,382	864,351
Other Funds	<u>275,034</u>	<u>-</u>	<u>47,685</u>	<u>6,104</u>	<u>-</u>	<u>328,823</u>
Total Governmental Activities	<u>\$1,949,619</u>	<u>\$426,691</u>	<u>\$614,367</u>	<u>\$2,264,756</u>	<u>\$844,626</u>	<u>\$6,100,059</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, 2014

NOTE H – CAPITAL ASSETS

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

	General Capital Assets Sept. 1, 2013	Additions	Deletions	General Capital Assets Aug. 31, 2014
Governmental activities				
Capital assets not being depreciated				
Land and improvements	\$ 2,887,027	\$ _____	\$ _____	\$ 2,887,027
Total capital assets not being depreciated	<u>2,887,027</u>	<u>_____</u>	<u>_____</u>	<u>2,887,027</u>
Capital assets being depreciated				
Building and improvements	57,191,652	1,141,250	-	58,332,902
Furniture and equipment	<u>4,535,638</u>	<u>456,456</u>	<u>_____</u>	<u>4,992,094</u>
Total capital assets being depreciated	<u>61,727,290</u>	<u>1,597,706</u>	<u>_____</u>	<u>63,324,996</u>
Less accumulated depreciation for:				
Building and improvements	14,897,807	1,302,830	-	16,200,637
Furniture and equipment	<u>2,792,157</u>	<u>339,200</u>	<u>_____</u>	<u>3,131,357</u>
Total accumulated depreciation	17,689,964	1,642,030	-	19,331,994
Total capital assets being depreciated, net	<u>44,037,326</u>	<u>(44,323)</u>	<u>_____</u>	<u>43,993,003</u>
Governmental activities capital assets, net	<u>\$46,924,353</u>	<u>\$ (44,323)</u>	<u>\$ _____</u>	<u>\$46,880,030</u>

The high school re-roofing project which was financed by the issuance of the 2014 limited tax maintenance notes was still in progress at year end. The estimated cost to complete the project in the 2014-2015 school year is \$238,627 which is included in the adopted general fund budget for the new school year.

Depreciation was charged to the following functions:

Government Activities:	
11 – Instruction	\$ 877,032
12 – Instructional Resources and Media Services	8,297
13 – Curriculum and instructional staff development	6,526
21 – Instructional Leadership	8,702
23 – School Leadership	90,164
31 – Guidance, Counseling and Evaluation Services	25,544
32 – Social Work Services	3,104
33 – Health Services	25,524
34 – Student (Pupil) Transportation	181,659
35 – Food Services	146,412
36 – Cocurricular/Extracurricular Activities	11,939
41 – General Administration	23,796
51 – Plant Maintenance and Operations	210,201
52 – Security and Monitoring Services	1,088
53 – Data Processing Services	4,351
61 – Community Services	<u>17,691</u>
	<u>\$1,642,030</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED AUGUST 31, 2014

NOTE I – RESTRICTED ASSETS

Restricted assets of \$695,669 at August 31, 2014, consisted of restricted cash and investment balances related to South Texas Health Cooperative which is reported as an agency fund on Exhibit E-1. The District is the fiscal agent for the health insurance cooperative.

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, 2014 are as follows:

	Beginning Balance Sept. 1, 2013	Increase	Decrease	Ending Balance Aug. 31, 2014	Due Within One Year
<u>Governmental Activities</u>					
Bonds payable					
General obligation bonds	\$31,015,000	\$ -	\$(1,510,000)	\$29,505,000	\$1,585,000
Premium on bonds	230,388	-	(22,277)	208,111	(20,995)
Discount on bonds	(6,733)	-	1,309	(5,424)	1,152
Sub-total bonds	31,238,655	-	(1,530,968)	29,707,687	1,565,157
Maintenance tax notes	-	1,545,000	-	1,545,000	45,000
Premium on maintenance tax notes	-	31,151	-	31,151	(2,937)
Property finance contract	1,810,431	-	(152,035)	1,658,396	157,847
Total long-term debt	33,049,086	1,576,151	(1,683,003)	32,942,234	1,765,067
Other long-term liabilities					
Compensated absences	119,557	17,603	(14,605)	122,555	47,371
Total	\$33,168,643	\$1,593,754	\$(1,697,608)	\$33,064,789	\$1,812,438

General Obligation Bonds:

Bonds payable at August 31, 2014 are comprised of the following individual issues:

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, 2014, the amount of defeased debt outstanding was \$5,203,000 from the public facilities corporation lease revenue bonds.

\$5,125,000

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

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.

\$ 9,850,000

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, 2014, the amount of defeased debt outstanding was \$3,810,000.

3,465,000

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.

11,065,000
\$29,505,000

Debt service requirements on general obligation bonds at August 31, 2014 are as follows:

Year Ended <u>August 31,</u>	Principal Value at <u>Maturity</u>	<u>Interest</u>	Total <u>Requirements</u>
2015	\$ 1,585,000	\$ 1,306,287	\$ 2,891,287
2016	1,630,000	1,242,187	2,872,187
2017	1,530,000	1,179,769	2,709,769
2018	1,575,000	1,117,162	2,692,162
2019	1,640,000	1,051,609	2,691,609
2020-2024	6,695,000	4,287,612	10,982,612
2025-2029	4,575,000	3,164,115	7,739,115
2030-2034	5,505,000	1,977,875	7,482,875
2035-2038	<u>4,770,000</u>	<u>509,125</u>	<u>5,279,125</u>
Total	<u>\$29,505,000</u>	<u>\$15,835,741</u>	<u>\$45,340,741</u>

Limited Maintenance Tax Notes Payable

2014 \$1,545,000 maintenance tax notes payables in annual installments of \$111,075 to \$115,400 through February 2034 with interest from 2% to 4.5% due semi-annually, February 2015 to February 2034. TEC code Sect. 45.108.

\$1,545,000

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED AUGUST 31, 2014

NOTE J - LONG-TERM OBLIGATIONS – Continued

Debt service requirements on the limited maintenance tax notes payable at August 31, 2014 are as follows:

Year Ended <u>August 31,</u>	<u>Principal Value at Maturity</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 45,000	\$ 67,993	\$ 112,993
2016	55,000	56,525	111,525
2017	60,000	55,375	115,375
2018	60,000	53,875	113,875
2019	60,000	52,075	112,075
2020-2024	345,000	225,851	570,851
2025-2029	415,000	151,775	566,775
2030-2034	<u>505,000</u>	<u>57,663</u>	<u>562,663</u>
 Total	 <u>\$1,545,000</u>	 <u>\$ 721,132</u>	 <u>\$2,266,132</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.

Debt service requirements on the property finance contract at August 31, 2014 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 157,847	\$ 63,400	\$ 221,247
2016	163,881	57,366	221,247
2017	170,146	51,101	221,247
2018	176,651	44,596	221,247
2019	183,405	37,842	221,247
2019-2023	<u>806,466</u>	<u>78,524</u>	<u>884,990</u>
 Total	 <u>\$1,658,396</u>	 <u>\$332,829</u>	 <u>\$1,991,225</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, 2014.

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.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

NOTE K - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Debt Service Fund	Other Funds	Total
Property taxes, net of discounts	\$4,098,219	\$496,908	\$ -	\$4,595,127
Penalties, interest and other	178,512	39,924	-	218,436
Shared service arrangement	123,857	-	-	123,857
Tuition and fees	19,183	-	-	19,183
Investment income	4,279	124	42	4,445
Other income	100	-	-	100
Food service activity	130,828	-	-	130,828
Athletic activity	76,217	-	-	76,217
Activity fund revenues	<u>-</u>	<u>-</u>	<u>390,134</u>	<u>390,134</u>
	<u>\$4,631,195</u>	<u>\$536,956</u>	<u>\$390,176</u>	<u>\$5,558,327</u>

NOTE L – DEFERRED INFLOWS OF RESOURCES

Unavailable revenues from property taxes in the general fund and the debt service fund at August 31, 2014 were \$820,721 and \$167,276, respectively.

NOTE M - GENERAL FUND FEDERAL SOURCE REVENUES

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
School Breakfast Program	10.553	\$ 793,733
National School Lunch Program	10.555	1,538,326
USDA – Donated Commodities	10.565	162,041
Indirect costs earned on federal programs		
TTL I 1003(A) Priority and Focus School Grant	84.010A	260
ESEA Title I, Part C Migrant	84.011	6,667
Career and Technical – Basic Grant	84.048	1,545
ESEA II, A Training and Recruiting	84.367A	4,997
Title III, Part A LEP	84.365A	930
TTL I Priority SCH-LEA (OPT 2)	84.388	6,635
SHARS/Medicaid	-	562,920
Medicaid Administrative Claim	-	<u>21,441</u>
		<u>\$3,099,495</u>

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

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) and Instructional Facilities Allotment (IFA). The amount recorded in Due to Other Governments in the Debt Service Fund corresponds to the amounts currently shown as overpayments by TEA on the EDA and IFA payment ledgers.

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, 2014 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

NOTE O - DEFINED BENEFIT PENSION PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended 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% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, if as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

NOTE O - DEFINED BENEFIT PENSION PLAN - Continued

Contribution rates and contributions for fiscal years 2014–2012 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state’s and/or member’s contribution including federally funded personnel, new hires and amounts above statutory minimum.

Contribution Rates and Contribution Amounts						
Fiscal Year	Member		Rate	State on-behalf	District	Covered Payroll
	Rate	Amount		Amount	Amount	
2014	6.400%	\$1,300,097	6.800%	\$1,351,701	\$294,990	\$20,314,011
2013	6.400%	1,278,554	6.400%	1,212,906	270,746	19,977,399
2012	6.400%	1,307,693	6.000%	1,250,421	283,980	20,432,709

NOTE P - 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 TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, 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. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2014–2012.

Contribution Rates and Contribution Amounts							
Fiscal Year	Member		State on-behalf		District		Covered Payroll
	Rate	Amount	Rate	Amount	Rate	Amount	
2014	0.65%	\$132,041	1.00%	\$203,140	0.55%	\$111,729	\$20,314,011
2013	0.65%	129,847	0.50%	199,774	0.55%	109,823	19,977,399
2012	0.65%	132,813	1.00%	204,327	0.55%	112,380	20,432,709

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED AUGUST 31, 2014

NOTE P - SCHOOL DISTRICT RETIREE HEALTH PLAN - Continued

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Subsidy payments received by TRS-Care on behalf of the District are shown in the table below for fiscal years 2014-2012.

<u>Fiscal Year</u>	<u>Medicare Part D</u>
2014	\$55,901
2013	47,376
2012	49,738

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

NOTE Q - RISK MANAGEMENT

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

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

NOTE Q - RISK MANAGEMENT - Continued

Health Coverage

The District provides the employees with a health insurance plan. The District paid premiums of \$346 per month per employee, and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to South Texas Health Cooperative which was formed in 1999 by several school districts. The cooperative is governed by a board of directors composed of the superintendents of the member districts. Claims are processed by Maxor Administrative Services and reinsurance has been obtained for specific claims in excess of \$300,000 with no aggregate limit through Munich RE on behalf of American Alternative Insurance Group. 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 2015 school year remains at \$346.

NOTE R - JOINT VENTURE - SHARED SERVICE ARRANGEMENTS

The District participates in the Mercedes ISD Special Education Cooperative to provide special education services. The District contributed \$449,032 to the cooperative for school year 2014 and the funds were expended for payroll costs, purchased and contracted services, supplies and materials, and miscellaneous operating expenses.

NOTE S - 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, 2014, the District had expenditures in excess of appropriations for function 73 bond issuance cost and fees of \$21,765 as a result of the issuance of the 2014 Limited Maintenance tax notes.

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

No deficit fund balances were reported in the current year.

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 YEAR ENDED AUGUST 31, 2014

NOTE T – FUND BALANCES

Committed for Campus Activity Funds – the School Board has taken action to commit the fund balance in the campus activity fund to the respective campus.

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.

	General Funds	<u>Other Governmental Funds</u> Debt Service Fund	<u>Other Funds</u>	<u>Total Governmental Funds</u>
Fund balances				
Nonspendable				
Inventories	\$ 60,808	\$ -	\$ -	\$ 60,808
Prepayments	458,106	-	-	458,106
Restricted				
Food service	802,628	-	-	802,628
Debt service	-	408,632	-	408,632
Committed				
Campus activity funds	-	-	79,930	79,930
Unassigned	<u>5,262,029</u>	<u>-</u>	<u>-</u>	<u>5,262,029</u>
	<u>\$6,583,571</u>	<u>\$408,632</u>	<u>\$ 79,930</u>	<u>\$7,072,133</u>

NOTE U – SUBSEQUENT EVENT

During November and December 2014, the district issued 2014A and 2014B Series Unlimited Tax Refunding Bonds in the amounts of \$3,595,000 and \$3,585,000 respectively. The 2014A bond proceeds were used to refund the balance outstanding on the 2005 Unlimited Tax Refunding Bonds in the amount of \$3,720,000. The 2014B bond proceeds were used to refund a portion of the bonds outstanding from the 2005 Unlimited Tax School Building Bonds in the amount of \$3,745,000. The impact of both transactions will be to significantly lower the interest cost to the District and save the taxpayers through reduced I & S tax rates in future years.

Also during December 2014, the District issued 2015 Series Unlimited Tax Refunding Bonds in the amount of \$5,505,000. The proceeds from the 2015 bonds will be used to defease the remaining balance of the 2005 School Building Bonds not defeased by the 2014B bond proceeds. This transaction has not yet settled but the District anticipates delivery of the proceeds by mid January 2015. The 2015 bonds were sold to significantly reduce the interest cost to the District.

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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, 2014

EXHIBIT G-1

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,978,689	\$ 3,978,689	\$ 4,631,195	\$ 652,506
5800	State Program Revenues	23,521,717	24,327,604	25,953,136	1,625,532
5900	Federal Program Revenues	2,589,925	2,589,925	3,099,495	509,570
5020	Total Revenues	30,090,331	30,896,218	33,683,826	2,787,608
EXPENDITURES:					
Current:					
0011	Instruction	15,070,815	16,460,422	16,455,600	4,822
0012	Instructional Resources and Media Services	530,173	525,163	508,743	16,420
0013	Curriculum and Instructional Staff Development	275,591	359,187	355,645	3,542
0021	Instructional Leadership	468,451	525,239	511,231	14,008
0023	School Leadership	1,911,208	1,967,054	1,933,303	33,751
0031	Guidance, Counseling and Evaluation Services	880,034	762,014	742,845	19,169
0032	Social Work Services	90,685	91,685	90,490	1,195
0033	Health Services	472,574	411,766	394,465	17,301
0034	Student (Pupil) Transportation	1,082,979	1,243,279	1,179,683	63,596
0035	Food Services	2,322,225	2,502,225	2,464,371	37,854
0036	Extracurricular Activities	1,337,678	1,491,678	1,485,221	6,457
0041	General Administration	929,809	1,065,809	1,065,555	254
0051	Facilities Maintenance and Operations	3,780,065	4,087,565	4,028,487	59,078
0052	Security and Monitoring Services	45,064	55,064	51,005	4,059
0053	Data Processing Services	343,047	515,335	504,898	10,437
0061	Community Services	11,399	17,399	7,324	10,075
Debt Service:					
0071	Principal on Long Term Debt	152,100	152,100	152,035	65
0072	Interest on Long Term Debt	69,213	69,213	69,213	-
0073	Bond Issuance Cost and Fees	48,300	48,300	70,065	(21,765)
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	1,500,000	1,292,066	207,934
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	460,000	450,000	449,032	968
0095	Payments to Juvenile Justice Alternative Ed. Prg.	35,000	65,000	55,118	9,882
0099	Other Intergovernmental Charges	103,000	53,000	49,834	3,166
6030	Total Expenditures	30,419,410	34,418,497	33,916,229	502,268
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(329,079)	(3,522,279)	(232,403)	3,289,876
OTHER FINANCING SOURCES (USES):					
7914	Non-Current Loans	-	1,500,000	1,545,000	45,000
7916	Premium or Discount on Issuance of Bonds	-	-	31,151	31,151
7080	Total Other Financing Sources (Uses)	-	1,500,000	1,576,151	76,151
1200	Net Change in Fund Balances	(329,079)	(2,022,279)	1,343,748	3,366,027
0100	Fund Balance - September 1 (Beginning)	5,239,823	5,239,823	5,239,823	-
3000	Fund Balance - August 31 (Ending)	\$ 4,910,744	\$ 3,217,544	\$ 6,583,571	\$ 3,366,027

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2014

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary Data

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

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 expenditures in excess of appropriations in function 73 bond issuance cost and fees in the amount of \$21,765 in the general fund. The District budgeted the net proceeds from the 2014 limited tax maintenance notes so this excess expenditure of \$21,765 was offset by excess other resources of \$76,151 (\$45,000 of note proceeds and \$31,151 premium on issuance of notes).

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TEXAS EDUCATION AGENCY
REQUIRED SCHEDULES

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2014

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2005 and prior years	Various	Various	\$ Various
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	1.040000	0.296000	331,172,840
2013	1.040000	0.260000	335,392,755
2014 (School year under audit)	1.170000	0.129100	336,042,315
1000 TOTALS			

(10) Beginning Balance 9/1/2013	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2014
\$ 162,920	\$ -	\$ 9,677	\$ 1,735	\$ (7,809)	\$ 143,699
39,851	-	5,041	905	(1,226)	32,679
44,704	-	7,766	1,523	(1,592)	33,823
43,821	-	6,754	1,591	(1,305)	34,171
76,687	-	18,711	5,397	(1,263)	51,316
90,878	-	16,939	4,821	(1,863)	67,255
128,418	-	34,437	9,801	(2,053)	82,127
192,581	-	68,154	19,398	(1,956)	103,073
330,960	-	133,117	33,415	(6,603)	157,825
-	4,658,092	3,879,997	428,126	(37,383)	312,586
<u>\$ 1,110,820</u>	<u>\$ 4,658,092</u>	<u>\$ 4,180,593</u>	<u>\$ 506,712</u>	<u>\$ (63,053)</u>	<u>\$ 1,018,554</u>

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, 2014

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	\$ 132,800	\$ 132,800	\$ 130,972	\$ (1,828)
5800 State Program Revenues	14,500	14,500	22,326	7,826
5900 Federal Program Revenues	2,424,925	2,424,925	2,494,100	69,175
5020 Total Revenues	2,572,225	2,572,225	2,647,398	75,173
EXPENDITURES:				
Current:				
0035 Food Services	2,322,225	2,502,225	2,464,371	37,854
0051 Facilities Maintenance and Operations	250,000	250,000	207,912	42,088
6030 Total Expenditures	2,572,225	2,752,225	2,672,283	79,942
1200 Net Change in Fund Balances	-	(180,000)	(24,885)	155,115
0100 Fund Balance - September 1 (Beginning)	888,323	888,323	888,323	-
3000 Fund Balance - August 31 (Ending)	\$ 888,323	\$ 708,323	\$ 863,438	\$ 155,115

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, 2014

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	\$ 1,044,000	\$ 1,044,000	\$ 536,956	\$ (507,044)
5800 State Program Revenues	1,840,000	1,840,000	2,002,295	162,295
5020 Total Revenues	2,884,000	2,884,000	2,539,251	(344,749)
EXPENDITURES:				
Debt Service:				
0071 Principal on Long Term Debt	1,510,000	1,510,000	1,510,000	-
0072 Interest on Long Term Debt	1,368,800	1,368,800	1,368,513	287
0073 Bond Issuance Cost and Fees	5,200	5,200	4,287	913
6030 Total Expenditures	2,884,000	2,884,000	2,882,800	1,200
1200 Net Change in Fund Balances	-	-	(343,549)	(343,549)
0100 Fund Balance - September 1 (Beginning)	752,181	752,181	752,181	-
3000 Fund Balance - August 31 (Ending)	\$ 752,181	\$ 752,181	\$ 408,632	\$ (343,549)

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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**

To the Board of Trustees
La Feria Independent School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the La Feria Independent School District, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise La Feria Independent School District's basic financial statements, and have issued our report thereon dated January 12, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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However, we noted certain other matters that are reported to management of the La Feria Independent School District in a separate letter dated January 12, 2015.

Purpose of this Report

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

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is written in a cursive, flowing style.

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 12, 2015

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees
La Feria Independent School District

Report on Compliance for Each Major Federal Program

We have audited La Feria Independent School District's compliance with the types of compliance requirements described in the *OMB 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, 2014. 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.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of La Feria Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 on compliance for each major federal program. However, our audit does not provide a legal determination of La Feria Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, La Feria Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

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Report on Internal Control Over Compliance

Management of La Feria Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered La Feria Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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.

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

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

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



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 12, 2015

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LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 YEAR ENDED AUGUST 31, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	___ yes	_X_ no
• Significant deficiencies identified that are not considered to be material weaknesses?	___ yes	_X_ no
Noncompliance material to financial statements noted?	___ yes	_X_ no

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	___ yes	_X_ no
• Significant deficiencies identified that are not considered to be material weakness(es)?	___ yes	_X_ no
Type of auditors' report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	___ yes	_X_ no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.010A
84.388

ESEA, Title I, Part A – Improving Basic Programs
Title I, SIP Academy Grant – ARRA

Dollar threshold used to distinguish between Type A and Type B programs:	\$300,000
Auditee qualified as low-risk auditee?	_X_ yes ___ no

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2014

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None noted that were required to be reported.

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2014

None reported.

LA FERIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2014

No matters to be reported in the current year.

Contact Person:

Ramon Mendoza, Business Manager

Implementation Time Frame:

N/A

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

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through Region One ESC</u>			
GEAR-UP	84.334A	P334A110180-13	\$ 76,107
Total Passed Through Region One ESC			\$ 76,107
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101031905	\$ 1,638,214
TTL I 1003(A) Priority and Focus School Grant	84.010A	14610112031905103	10,000
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	15610101031905	59,630
Total CFDA Number 84.010A			1,707,844
Total Title I, Part A Cluster			1,707,844
ESEA, Title I, Part C - Migratory Children	84.011	14615001031905	256,117
Career and Technical - Basic Grant	84.048	14420006031905	57,547
Career and Technical - Basic Grant	84.048	15420006031095	1,934
Total CFDA Number 84.048			59,481
Title III, Part A - English Language Acquisition	84.365A	14671001031905	43,411
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	14694501031905	185,301
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	15694501031905	5,828
Total CFDA Number 84.367A			191,129
Summer School LEP	84.369A	69551302	1,113
Title I SIP Academy Grant - ARRA	84.388	105520057110004	398,071
Total Passed Through State Department of Education			\$ 2,657,166
TOTAL DEPARTMENT OF EDUCATION			\$ 2,733,273
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778		\$ 21,441
Total Passed Through Texas Dept of Human Services			\$ 21,441
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 21,441
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		\$ 793,733
*National School Lunch Program - Cash Assistance	10.555		1,538,326
*National School Lunch Prog. - Non-Cash Assistance	10.555		162,041
Total CFDA Number 10.555			1,700,367
Total Child Nutrition Cluster			2,494,100
Total Passed Through the State Department of Agriculture			\$ 2,494,100
TOTAL DEPARTMENT OF AGRICULTURE			\$ 2,494,100
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,248,814

*Clustered Programs

LA FERIA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
 YEAR ENDED AUGUST 31, 2014

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	\$5,832,768
Less amounts not considered to be federal awards, excluded on the Schedule of Expenditures of Federal Awards:	
School Health and Related Service Program (SHARS)	562,920
Indirect costs	<u>21,034</u>
Total expenditures of federal awards, per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	<u>\$5,248,814</u>

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

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the District receive a clean audit? Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any 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