

**LYFORD CONSOLIDATED
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED
AUGUST 31, 2016

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

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CERTIFICATE OF BOARD

Lyford Consolidated Independent School District
Name of District

Willacy
County

245-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2016 at a meeting of the Board of Trustees of such school district on the 12th day of December, 2016.



Signature of Board Secretary



Signature of Board President



P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lyford Consolidated 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 Lyford Consolidated Independent School District (the "District"), as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The District's 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.

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**Governmental Audit
Quality Center**

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information as listed in the table of contents 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 Lyford Consolidated Independent School District's basic financial statements. The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, required TEA 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016 on our consideration of Lyford Consolidated 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 Lyford Consolidated Independent School District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Patullo, Brown & Hill, C.P.A.". The signature is written in a cursive style and is positioned above a light gray rectangular background.

Brownsville, Texas
December 9, 2016

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2016

Our discussion and analysis of Lyford Consolidated Independent School District's financial performance provides an overview of the District's financial activities for the fiscal year ending August 31, 2016. Please read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The assets exceeded its liabilities at the close of the most recent fiscal year by \$19,824,181 (net position). Of this amount, \$5,054,981 (unrestricted net position) may be used to meet the District's ongoing obligations to citizens and creditors.
- During the year, the District's expenditures exceeded revenues by \$834,242. Last year expenditures exceeded revenues by \$5,854,704.
- The District's total net position decreased by \$324,052, or approximately 2%, as a result of this year's operations.
- The District's expenditures for the fiscal year represent a decrease of about \$1,639,424 over the previous year.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balance of \$6,829,099, and a decrease of \$834,242 in comparison with prior year. \$6,283,549 is available for spending at the District's discretion (unassigned fund balance).

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities Exhibits A-1 and B-1.

These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements Exhibit C-1 and C-3 report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee.

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

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations are in Exhibit A-1 and B-1. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year, while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students and grants provided by the U.S. Department of Education to assist children with disabilities of from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

- **Governmental activities:** Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin with Exhibit C-1 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

- **Governmental funds:** The District's reports most of its basic services in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on Exhibit E-1. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net position of the District's governmental activities decreased from \$20,148,233 to \$19,824,181. Unrestricted net position – the part of net assets that can be used to finance day-to-day operations and construction was \$5,054,981 at August 31, 2016.

This decrease in governmental net assets was the result of several factors. First, the District's expenditures exceeded revenues by \$834,242. Second, the District recognition of depreciation decreased the net assets by \$2,117,120. Third, the District's net assets were decreased by miscellaneous reclassifications of \$218,069. Fourth, the District increased current year capital outlays and long-term debt principal payments by \$2,308,993.

Table I
Lyford Consolidated Independent School District
Statement of Net Position

	<u>2015</u>	<u>2016</u>
Governmental Activities		
Current and Other Assets	\$ 9,100,959	\$ 8,518,443
Capital Assets	<u>20,483,375</u>	<u>21,168,729</u>
Total Assets	<u>29,584,334</u>	<u>29,687,172</u>
Deferred Outflows of Resources		
Deferred Charge for Refunding	305,424	264,043
Deferred Outflow Related to TRS	<u>367,298</u>	<u>1,655,243</u>
Total Deferred Outflows of Resources	<u>672,722</u>	<u>1,919,286</u>
Long-Term Liabilities	8,946,190	10,760,249
Other Liabilities	<u>631,749</u>	<u>760,742</u>
Total Liabilities	<u>9,577,939</u>	<u>11,520,991</u>
Deferred Inflows of Resources		
Deferred Inflow Related to TRS	<u>530,884</u>	<u>261,286</u>
Net Position:		
Net Investment in Capital Assets	13,578,074	14,183,600
Restricted	636,194	585,600
Unrestricted	<u>5,933,965</u>	<u>5,054,981</u>
Total Net Position	<u>\$ 20,148,233</u>	<u>\$ 19,824,181</u>

Table II
Lyford Consolidated Independent School District
Statement of Activities
Governmental Activities

	<u>2015</u>	<u>2016</u>
REVENUES :		
Program Revenues:		
Charges for Services	\$ 322,956	\$ 906,049
Operating Grants and Contributions	3,460,398	3,276,482
General Revenues:		
Maintenance and Operations Taxes	3,221,323	2,541,713
Debt Service Taxes	753,468	748,329
State Aid Formula Grants	7,690,878	12,002,025
Grants and Contributions not Restricted	151,376	560,360
Investment Earnings	10,307	7,146
Miscellaneous	1,923,240	1,084,846
	<u>17,533,946</u>	<u>21,126,950</u>
EXPENSES :		
Instruction, Curriculum and		
Media Services	10,088,075	10,840,841
Instructional/School Leadership	724,806	794,244
Guidance, Social Work, Health, Transportation	1,218,690	1,220,823
Food Services	1,454,058	1,574,291
Extracurricular Activities	1,145,355	1,310,312
General Administration	1,079,028	1,267,251
Plant Maintenance and Security	2,411,200	2,670,389
Data Processing	550,647	529,584
Community Services	54,364	48,604
Debt Service	636,678	353,208
Payments Related to Shared Service Arrangements	114,762	111,970
	<u>19,477,663</u>	<u>20,721,517</u>
Increase in Net Position	<u>(1,943,717)</u>	<u>405,433</u>
Net Position - Beginning	<u>29,074,755</u>	<u>20,148,233</u>
Prior Period Adjustment	<u>(6,982,805)</u>	<u>(729,485)</u>
Net Position - Ending	<u>\$ 20,148,233</u>	<u>\$ 19,824,181</u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on Exhibit C-1) reported a combined fund balance of approximately \$6,829,099 which is less than last year's total of \$7,663,341. Included in this year's total change in fund balance are an increase of \$3,381,038 in the District's revenues and an increase of \$1,639,424 in expenditures.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two categories. The first category includes amendments to transfer funds among functions. The second category was to purchase capital outlay and construction projects.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had approximately \$21,168,729 (net of accumulated depreciation) invested in a broad range of capital assets, including land, instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance building equipment:

This year's major additions included:

Furniture and Equipment	\$ 124,112
Bus	93,283
Land Purchase	84,572
Construction	1,086,620
Maintenance Equipment	126,787
Police Car	16,325
Security Cameras	9,423
Technology Equipment	<u>76,833</u>
Total	<u>\$ 1,617,955</u>

Debt

At year-end, the District had approximately \$10,760,249 in long-term debt versus approximately \$8,946,190 last year. The District's general obligation bond rating has been the highest possible, a rating that has been assigned by national rating agencies.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rates. The District's enrollment and ADA has been maintained since last year. The District administrative staff continues to monitor the enrollment and state aid formulas to ensure that there are sufficient resources for the fiscal year. The M&O tax rate is at \$1.17 which is the maximum allowed by law with a rollback tax election.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show 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 Administrative Office, at Lyford Consolidated Independent School District, P.O. Drawer 220, Lyford, TX 78569.

BASIC FINANCIAL STATEMENTS

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 5,078,970
1120 Current Investments	2,116,473
1220 Property Taxes Receivable (Delinquent)	1,031,780
1230 Allowance for Uncollectible Taxes	(103,178)
1240 Due from Other Governments	357,106
1410 Prepayments	37,292
Capital Assets:	
1510 Land	155,043
1520 Buildings, Net	19,645,294
1530 Furniture and Equipment, Net	1,368,392
1000 Total Assets	29,687,172
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	264,043
1705 Deferred Outflow Related to TRS	1,655,243
1700 Total Deferred Outflows of Resources	1,919,286
LIABILITIES	
2110 Accounts Payable	337,640
2150 Payroll Deductions & Withholdings	18,824
2160 Accrued Wages Payable	362,542
2200 Accrued Expenses	8,526
2300 Unearned Revenue	33,210
Noncurrent Liabilities	
2501 Due Within One Year	547,831
2502 Due in More Than One Year	6,701,341
2540 Net Pension Liability (District's Share)	3,511,077
2000 Total Liabilities	11,520,991
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	261,286
2600 Total Deferred Inflows of Resources	261,286
NET POSITION	
3200 Net Investment in Capital Assets	14,183,600
3820 Restricted for Federal and State Programs	508,258
3850 Restricted for Debt Service	77,342
3900 Unrestricted	5,054,981
3000 Total Net Position	\$ 19,824,181

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

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Primary Gov. Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 10,080,926	\$ 462,413	\$ 1,457,331	\$ (8,161,182)
12 Instructional Resources and Media Services	209,402	-	41,845	(167,557)
13 Curriculum and Staff Development	550,513	6,811	107,660	(436,042)
21 Instructional Leadership	12,686	-	1,079	(11,607)
23 School Leadership	781,558	-	41,087	(740,471)
31 Guidance, Counseling and Evaluation Services	343,569	-	124,279	(219,290)
32 Social Work Services	40,133	-	8,252	(31,881)
33 Health Services	185,784	27,243	9,227	(149,314)
34 Student (Pupil) Transportation	651,337	-	32,515	(618,822)
35 Food Services	1,574,291	85,679	1,279,929	(208,683)
36 Extracurricular Activities	1,310,312	51,389	32,816	(1,226,107)
41 General Administration	1,267,251	122,676	42,371	(1,102,204)
51 Facilities Maintenance and Operations	2,407,379	149,838	48,625	(2,208,916)
52 Security and Monitoring Services	263,010	-	12,450	(250,560)
53 Data Processing Services	529,584	-	9,375	(520,209)
61 Community Services	48,604	-	27,641	(20,963)
72 Debt Service - Interest on Long Term Debt	352,017	-	-	(352,017)
73 Debt Service - Bond Issuance Cost and Fees	1,191	-	-	(1,191)
93 Payments related to Shared Services Arrangements	111,970	-	-	(111,970)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 20,721,517	\$ 906,049	\$ 3,276,482	(16,538,986)

Data
Control
Codes

General Revenues:

Taxes:		
MT	Property Taxes, Levied for General Purposes	2,541,713
DT	Property Taxes, Levied for Debt Service	748,329
SF	State Aid - Formula Grants	12,002,025
GC	Grants and Contributions not Restricted	560,360
IE	Investment Earnings	7,146
MI	Miscellaneous Local and Intermediate Revenue	1,084,846
TR	Total General Revenues	16,944,419
CN	Change in Net Position	405,433
NB	Net Position - Beginning	20,148,233
PA	Prior Period Adjustment	(729,485)
NE	Net Position--Ending	\$ 19,824,181

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

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Nonmajor Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 4,904,986	\$ 173,984	\$ 5,078,970
1120 Investments - Current	2,116,473	-	2,116,473
1220 Property Taxes - Delinquent	945,844	85,936	1,031,780
1230 Allowance for Uncollectible Taxes	(94,584)	(8,594)	(103,178)
1240 Receivables from Other Governments	172,850	184,256	357,106
1260 Due from Other Funds	775,319	2,314	777,633
1410 Prepayments	37,292	-	37,292
1000 Total Assets	<u>\$ 8,858,180</u>	<u>\$ 437,896</u>	<u>\$ 9,296,076</u>
LIABILITIES			
2110 Accounts Payable	\$ 337,640	\$ -	\$ 337,640
2150 Payroll Deductions and Withholdings Payable	18,824	-	18,824
2160 Accrued Wages Payable	339,667	22,875	362,542
2170 Due to Other Funds	474,333	303,300	777,633
2200 Accrued Expenditures	6,312	2,214	8,526
2300 Unearned Revenues	-	33,210	33,210
2000 Total Liabilities	<u>1,176,776</u>	<u>361,599</u>	<u>1,538,375</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	851,260	77,342	928,602
2600 Total Deferred Inflows of Resources	<u>851,260</u>	<u>77,342</u>	<u>928,602</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3430 Prepaid Items	37,292	-	37,292
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	508,258	-	508,258
3600 Unassigned Fund Balance	6,284,594	(1,045)	6,283,549
3000 Total Fund Balances	<u>6,830,144</u>	<u>(1,045)</u>	<u>6,829,099</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 8,858,180</u>	<u>\$ 437,896</u>	<u>\$ 9,296,076</u>

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

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

Total Fund Balances - Governmental Funds	\$	6,829,099
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$30,240,426 and the accumulated depreciation was (\$9,757,051). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position.		13,595,766
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position.		2,308,993
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$3,511,077, a Deferred Resource Inflow related to TRS in the amount of \$261,286 and a Deferred Resource Outflow related to TRS in the amount of \$1,655,243. This amounted to a (decrease) in Net Position in the amount of \$2,117,120.		(2,117,120)
4 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net position.		(932,601)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		140,044
19 Net Position of Governmental Activities	<u>\$</u>	<u>19,824,181</u>

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

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

Data Control Codes	10 General Fund	Other Nonmajor Funds	Total Governmental Funds	
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 4,418,925	\$ 746,425	\$ 5,165,350
5800	State Program Revenues	12,687,231	208,145	12,895,376
5900	Federal Program Revenues	1,448,060	1,150,137	2,598,197
5020	Total Revenues	18,554,216	2,104,707	20,658,923
EXPENDITURES:				
Current:				
0011	Instruction	8,447,149	1,066,169	9,513,318
0012	Instructional Resources and Media Services	167,656	35,539	203,195
0013	Curriculum and Instructional Staff Development	445,796	94,733	540,529
0021	Instructional Leadership	11,623	1,032	12,655
0023	School Leadership	743,694	-	743,694
0031	Guidance, Counseling and Evaluation Services	216,518	112,475	328,993
0032	Social Work Services	32,606	6,075	38,681
0033	Health Services	179,435	-	179,435
0034	Student (Pupil) Transportation	544,086	-	544,086
0035	Food Services	1,451,731	10,104	1,461,835
0036	Extracurricular Activities	1,201,943	-	1,201,943
0041	General Administration	1,232,324	-	1,232,324
0051	Facilities Maintenance and Operations	2,262,233	-	2,262,233
0052	Security and Monitoring Services	258,300	-	258,300
0053	Data Processing Services	514,059	-	514,059
0061	Community Services	20,105	27,641	47,746
Debt Service:				
0071	Principal on Long Term Debt	133,945	400,000	533,945
0072	Interest on Long Term Debt	116,147	351,582	467,729
0073	Bond Issuance Cost and Fees	1,191	-	1,191
Capital Outlay:				
0081	Facilities Acquisition and Construction	1,295,304	-	1,295,304
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	111,970	-	111,970
6030	Total Expenditures	19,387,815	2,105,350	21,493,165
1200	Net Change in Fund Balances	(833,599)	(643)	(834,242)
0100	Fund Balance - September 1 (Beginning)	7,617,027	46,314	7,663,341
1300	Prior Period Adjustment(s)	46,716	(46,716)	-
3000	Fund Balance - August 31 (Ending)	\$ 6,830,144	\$ (1,045)	\$ 6,829,099

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

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	(834,242)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase net position.		2,308,993
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to (decrease) net position.		(932,601)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		81,352
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$287,009. Contributions made before the measurement and during the 2015 FY were also expended and recorded as a reduction in the net pension liability for the District. This caused a decrease in the change in net position totaling \$227,651. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$27,427. The net result is to (decrease) the change in net position by \$218,069.		(218,069)
Change in Net Position of Governmental Activities	\$	405,433

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

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 79,267
Total Assets	<u>\$ 79,267</u>
LIABILITIES	
Due to Student Groups	\$ 79,267
Total Liabilities	<u>\$ 79,267</u>

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

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lyford Consolidated Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its financial statements in conformity with generally accepted accounting principles and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”).

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, state foundation funds and intergovernmental revenue.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Property taxes, state foundation funds, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting assets and liabilities.

The District reports the following major governmental fund:

1. ***The General Fund*** - is used to account for financial resources used for general operations. This is a budgeted fund and any fund balances are considered resources available for current operations. All revenues and expenditures not required to be accounted for in other funds, are accounted for in this fund.

Additionally, the District reports the following fund types:

Governmental Funds:

1. ***Special Revenue Funds*** – are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Normally, unused balances are returned to the grantor at the close of specified project periods.
2. ***Debt Service Fund*** – is used to account for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

3. ***Agency Funds*** – The District accounts for resources held for others in a custodial capacity in agency funds. The District’s Agency Fund is the Student Activity Fund.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

1. ***Deposits and Investments***

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

2. *Receivables and Payables*

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” All interfund transactions between governmental funds are eliminated on the government-wide financial statements.

3. *Capital Assets*

Capital assets, which include land, buildings, furniture and equipment, are reported in the governmental activities column in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	50
Infrastructures	50
Vehicles	10
Office Equipment	5
Computer Equipment	5

4. *Compensated Absences*

It is the District’s policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated vacation or sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

5. *Long-Term Obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of 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.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

6. *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are a deferred charge on refunding and deferred outflow related to TRS reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of inflows, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension liability.

7. *Pensions*

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

8. *Net Position*

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

9. *Net Position Flow Assumption*

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond and grant proceeds) and unrestricted resources.

In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

10. Fund Balance Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

11. Fund Balance Policies

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Trustees is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Trustees has not delegated the authority to assign fund balance. The Board of Trustees may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Program Revenue

Amounts reported as 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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

13. Property Taxes

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

14. *Data Control Codes*

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (“TEA”) in the *Financial Accountability System Resource Guide*. TEA requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide data base, policy development and funding plans.

15. *Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2016, will change.

II. RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS

A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Positions

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position.

One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including capital leases payable, are not due and payable in the current period and are not reported as liabilities in the funds.

III. RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS

A. Explanation of Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Positions

The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of Year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of Year	Change in Net Position
Land	\$ 70,471	\$ -	\$ 70,471	
Buildings & Improvements	26,144,965	(7,055,001)	19,089,964	
Machinery and Equipment	4,024,990	(2,702,050)	1,322,940	
Change in Net Position				\$ 20,483,375
Long -Term Liabilities at the Beginning of Year			Payable at the Beginning of Year	
Bonds Payable			(6,887,609)	
Change in Net Position				(6,887,609)
Net Adjustment to Net Position				\$ 13,595,766

B. Explanation of Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Balances and the Government-Wide Statement of Activities

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

Current Year Capital Outlay	Amount	Adjustments to Changes in Net Position	Adjustments in Net Position
Land	\$ 84,572	\$ 84,572	
Buildings & Improvements	1,086,620	1,086,620	
Furniture & Equipment	446,763	446,763	
Total Capital Outlay			\$ 1,617,955
Debt Principal Payments			
Notes Payable	112,918	112,918	
Bonds Payable	421,027	421,027	
Accreted Interest, Net	157,093	157,093	
Total Principal Payments	691,038	691,038	691,038
Net Adjustment to Net Position			\$ 2,308,993

IV. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

The Board of Trustees adopts an “appropriated budget” on a basis consistent with GAAP for the General Fund, Debt Service Fund and Food Service Fund (which is included in the General Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for these three funds. The General Fund Budget report is presented in Exhibit G-1 and Debt Service Fund Budget report is presented in Exhibit J-5.

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

1. Prior to August 20th the District prepares a budget for the next succeeding fiscal year beginning September. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. Public notice of the meeting must be given at least ten days prior to the meeting.
3. Prior to September 1st, 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. During the year, the budget was amended as necessary.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure functions or object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31st, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget.

B. Excess of Expenditures Over Appropriations

For the year ended August 31, 2016 expenditures exceeded budget in the following line items:

<u>General Fund Function</u>	<u>Amount</u>
11	\$ 30,689
23	8,286
32	244
51	165,060
71	21,027
72	94,627
73	629

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with counterparty's trust department in the District's name in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2016, the carrying amount of the District's deposits, excluding agency funds, was \$5,078,970, and the bank balance was \$3,512,217. The District's cash deposits at August 31, 2016 and during the year, were covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The District monitors cash flows regularly when TEA funds are received to ensure that the bank pledges sufficient collateral.

District Policies and Legal Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial risk for deposits.

Foreign Currency Risk for Deposits – The District limits the risk that changes in exchange rates will adversely affect the fair value of a deposit. At year-end, the District was not exposed to foreign currency risk.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy.

The policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

The Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The District’s temporary investments at August 31, 2016, are shown below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			
		<u>Less Than 1</u>	<u>1 to 5</u>	<u>6 to 10</u>	<u>More Than 10</u>
Tex Pool	\$ 151,324	\$ 151,324	\$ -	\$ -	\$ -
LoneStar Investment	735	735	-	-	-
Tex Star	661	661	-	-	-
BBVA CD	<u>1,963,753</u>	<u>1,963,753</u>	-	-	-
Total	<u>\$ 2,116,473</u>	<u>\$ 2,116,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Additional policies and contractual provisions governing deposits and investments for the District are specified below:

Credit Risk – In accordance with state law and the District’s investment policy, investments in mutual funds and investment pools must be rated at least AAA or have an equivalent rating, commercial paper must be rated at least A-1, P-1 or have an equivalent rating, and obligations of states, agencies, counties, and cities must be at least A or its equivalent.

Custodial Risk for Investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by third parties were fully collateralized and held in the District’s name.

Concentration of Credit Risk – The investment portfolio is diversified in terms of investment instruments and maturity scheduling to reduce risk of loss resulting from over concentration of assets in specific class of investments, specific maturity or specific issuer. As of August 31, 2016, the District had 93% of its investments in certificates of deposits in BBVA Compass Bank and Wells Fargo Securities. These certificates of deposit were fully covered by eligible pledged securities. The District had 7% of its investments in TASB investment pools rated AAA as noted above.

Interest Rate Risk – In accordance with state law and the District’s investment policy, the District does not purchase any investments greater than five (5) years for its operating funds.

Foreign Currency Risk for Investments – The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment. At year-end, the District was not exposed to foreign currency risk.

B. Interfund Receivables and Payables

Interfund balances at August 31, 2016 consisted of the following individual fund balances:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental	\$ 775,319
Nonmajor governmental	General fund	<u>2,314</u>
Totals		<u>\$ 777,633</u>

Balances resulted from the lag between the dates that payments for expenditures are made and the date a granting agency reimbursed the District.

IV. DETAILED NOTES ON ALL FUNDS

C. Due from Other Governments and Agencies

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from local, federal and state governments as of August 31, 2016, are summarized below.

	<u>Grants</u>	<u>State Entitlements</u>	<u>Totals</u>
General fund	\$ 51,689	\$ 121,161	\$ 172,850
Nonmajor governmental funds	<u>123,145</u>	<u>61,111</u>	<u>184,256</u>
Totals	<u>\$ 174,834</u>	<u>\$ 182,272</u>	<u>\$ 357,106</u>

D. Capital Assets

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

	<u>Beginning Balance 09/01/15</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 08/31/16</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 70,471	\$ 84,572	\$ -	\$ 155,043
Total capital assets, not being depreciated	<u>70,471</u>	<u>84,572</u>	<u>-</u>	<u>155,043</u>
Capital assets, being depreciated:				
Buildings and improvements	26,144,965	1,086,620	-	27,231,585
Machinery and equipment	<u>4,024,990</u>	<u>446,763</u>	<u>-</u>	<u>4,471,753</u>
Total capital assets, being depreciated	<u>30,169,955</u>	<u>1,533,383</u>	<u>-</u>	<u>31,703,338</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,055,001)	(531,290)	-	(7,586,291)
Machinery and equipment	<u>(2,702,050)</u>	<u>(401,311)</u>	<u>-</u>	<u>(3,103,361)</u>
Total accumulated depreciation	<u>(9,757,051)</u>	<u>(932,601)</u>	<u>-</u>	<u>(10,689,652)</u>
Total capital assets, being depreciated, net	<u>20,412,904</u>	<u>600,782</u>	<u>-</u>	<u>21,013,686</u>
Total capital assets, net	<u>\$ 20,483,375</u>	<u>\$ 685,354</u>	<u>\$ -</u>	<u>\$ 21,168,729</u>

IV. DETAILED NOTES ON ALL FUNDS

D. Capital Assets

Depreciation expense was charged to governmental functions of the government as follows:

Governmental activities:

Instruction	\$ 275,189
Instructional resources media services	500
School leadership	6,399
Student pupil transportation	83,692
Food services	79,392
Co-curricular/extracurricular	81,673
General administration	2,007
Plant maintenance and operations	295,594
Security and monitoring services	12,672
Data processing services	<u>95,483</u>
Total depreciation expense - governmental activities	<u>\$ 932,601</u>

E. Long-Term Obligations

Bonds Payable

Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of long term debt for the year ended August 31, 2016 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 09/01/15	Retired Current Year	Amounts Outstanding 08/31/16	Amounts Due in One Year
Unlimited Tax School Building Bonds Series 2006	4.18%	\$ 6,470,000	\$ 132,297	\$ 3,165,000	\$ (400,000)	\$ 2,765,000	\$ 415,000
Unlimited Tax Refunding Bonds Series 2007	4.131%	4,069,997	<u>313,912</u>	<u>3,722,609</u>	<u>(21,027)</u>	<u>3,701,582</u>	<u>16,582</u>
Totals			<u>\$ 446,209</u>	<u>\$ 6,887,609</u>	<u>\$ (421,027)</u>	<u>\$ 6,466,582</u>	<u>\$ 431,582</u>

Debt service requirements for the bonds payable are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2017	\$ 431,582	\$ 433,934	\$ 865,516
2018	615,000	248,169	863,169
2019	640,000	223,054	863,054
2020	670,000	196,834	866,834
2021	700,000	169,288	869,288
2022-2026	1,670,000	527,105	2,197,105
2027-2031	1,420,000	248,544	1,668,544
2032-2036	<u>320,000</u>	<u>13,440</u>	<u>333,440</u>
Total	<u>\$ 6,466,582</u>	<u>\$ 2,060,368</u>	<u>\$ 8,526,950</u>

IV. DETAILED NOTES ON ALL FUNDS

E. Long-Term Obligations

Notes Payable

A summary of notes payable for the year ended August 31, 2016 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 09/01/15	Retired Current Year	Adjustment	Amounts Outstanding 08/31/16	Amounts Due in One Year
Government Capital Corporation Public Property Finance Contract	3.800%	\$ 840,909	\$ -	\$ (112,918)	\$ 729,485	\$ 616,567	\$ 116,249
Totals			\$ -	\$ (112,918)	\$ 729,485	\$ 616,567	\$ 116,249

Debt service requirements for the notes payable are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2017	\$ 116,249	\$ 18,189	\$ 134,438
2018	119,679	14,759	134,438
2019	123,209	11,229	134,438
2020	126,844	7,594	134,438
2021	130,586	3,852	134,438
Total	\$ 616,567	\$ 55,623	\$ 672,190

F. Changes in Long-Term Liabilities

The following is a summary of the changes in long-term debt:

	Balance 9/01/2015	Additions	Reductions	Balance 8/31/2016	Due Within One Year
Bonds Payable	\$ 6,887,608	\$ -	\$ (421,027)	\$ 6,466,581	\$ 431,582
Notes Payable	-	729,486	(112,918)	616,568	134,438
Accreted Interest	323,116	6,880	(163,973)	166,023	-
TRS Pension	1,735,465	1,775,612	-	3,511,077	-
Total	\$ 8,946,189	\$ 2,511,978	\$ (697,918)	\$ 10,760,249	\$ 566,020

G. Defined Benefit Pension Plan

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

IV. **DETAILED NOTES ON ALL FUNDS**

G. **Defined Benefit Pension Plan**

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

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

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2016 as discussed in Note 1 of the TRS 2015 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2015 and 2016.

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2016 Employer Contributions		\$ 287,009
2016 Member Contributions		742,657
2015 NECE On-behalf Contributions		528,368

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

IV. DETAILED NOTES ON ALL FUNDS

G. Defined Benefit Pension Plan

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

Valuation Date	8/31/2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Market Value
Single Discount Rate	8.00%
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.50%
Salary Increases including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

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

IV. DETAILED NOTES ON ALL FUNDS

G. Defined Benefit Pension Plan

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Real Return Geometric Basis	Expected Contributed to Long-Term Portfolio Return*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	70.0%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	90.0%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Risk Parity			2.0%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

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

IV. **DETAILED NOTES ON ALL FUNDS**

G. **Defined Benefit Pension Plan**

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 5,501,196	\$ 3,511,077	\$ 1,853,432

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2016, the District's liability was \$3,511,077 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 3,511,077
State's proportionate share that is associated with the District	<u>6,305,738</u>
Total	<u>\$ 9,816,815</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0099327.

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

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2016, measurement period, the District's pension expense was \$898,466 and revenue of \$898,466 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 22,322	\$ 134,934
Changes in actuarial assumptions	93,818	125,260
Difference between projected and actual investment earnings	466,878	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	<u>785,216</u>	<u>1,092</u>
Total	<u>\$ 1,368,234</u>	<u>\$ 261,286</u>

IV. DETAILED NOTES ON ALL FUNDS

G. Defined Benefit Pension Plan

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

<u>Year ended August 31,</u>	<u>Pension Expense Amount</u>
2017	\$ 195,820
2018	195,820
2019	195,819
2020	328,427
2021	110,864
Thereafter	80,198

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Total net amounts per August 31, 2015, measurement date	\$ 1,368,234	\$ 261,286
Contributions paid to TRS subsequent to the measurement date	<u>287,009</u>	<u>-</u>
Totals	<u>\$ 1,655,243</u>	<u>\$ 261,286</u>

Medicare Part D – On-behalf Payments. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. As a result this provision allows for the Texas Public School Retired Employee Group Program (TRS-Care) to receive drug subsidy payments from the federal government to offset pharmacy claims paid by TRS-Care on behalf of plan participants. GASB Statement No. 24 requires recognition of these on-behalf payments in the financial statements. Medicare Part D payments made on behalf of the District’s participants for the years ended August 31, 2016, 2015 and 2014 were \$46,324, \$47,473, and \$29,722, respectively.

H. Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan. The District contributed \$250 per employee monthly to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. The plan was authorized by Section 21.922 Texas Education Code, and was documented by contractual agreement.

I. Shared Service Arrangements

The District participates in several shared service arrangements including:

- A Special Ed Co-op through Raymondville ISD County-District number 245-903 (\$111,970 coded under object 6492 was contributed to the Co-op; this co-op is also funded by the District’s IDEA funding. The District is one of six members of the Co-op).
- The District has a shared service arrangement with Brownsville School District for the Deaf County-District number 031-901 through the Special Ed Co-op through Raymondville ISD.

V. **DETAILED NOTES ON ALL FUNDS**

I. **Shared Service Arrangements**

- GEAR UP Grant through Region One ESC Service Center County-District 108-950 (\$91,062 is coded under 5929 for revenues and 6100 through 6400 for expenditures; the District invoices Region One for the Expenditures incurred).

The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Lyford Consolidated Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

J. **Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal 2016, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the current fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

K. **Revenues from Local and Intermediate Sources**

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

	<u>General</u>	<u>Other Nonmajor Funds</u>	<u>Total</u>
Property taxes	\$ 2,425,086	\$ 738,781	\$ 3,163,867
Penalties, interest and other tax related income	1,080,898	7,391	1,088,289
Investment income	6,893	253	7,146
Co-curricular student activities	44,578	-	44,578
Other	<u>861,470</u>	<u>-</u>	<u>861,470</u>
Total	<u>\$ 4,418,925</u>	<u>\$ 746,425</u>	<u>\$ 5,165,350</u>

L. **Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and/or disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

IV. DETAILED NOTES ON ALL FUNDS

M. Maintenance of Effort

The District sponsors a modified self-insurance plan to provide health care benefits to staff members and their dependents.

A. Total District premium paid for health care for 2015-2016:		\$	620,368
B. Subtract any non-medical expenditures:			
Life insurance	\$	1,551	
Dental insurance		-	
Vision insurance		-	
Long-term disability		-	
Short-term disability		-	
Alternate plans		-	
COBRA expense		-	
Retiree expense		-	
			<u>1,551</u>
C. 2015-2016 Maintenance of Effort:		\$	<u>618,817</u>

N. Prior Period Adjustment

The District entered into a loan agreement with Government Capital Corporation for an energy conservation project during their 2014 fiscal year that was not recorded within their accounting records. This resulted in a prior period adjustment of \$729,485 to record the debt as a note payable (See footnote IV E).

REQUIRED SUPPLEMENTARY INFORMATION

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis - See Note III A)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,475,456	\$ 3,939,007	\$ 4,418,925	\$ 479,918
5800	State Program Revenues	11,831,717	11,860,375	12,687,231	826,856
5900	Federal Program Revenues	133,953	1,315,127	1,448,060	132,933
5020	Total Revenues	15,441,126	17,114,510	18,554,216	1,439,706
EXPENDITURES:					
Current:					
0011	Instruction	8,326,570	8,416,460	8,447,149	(30,689)
0012	Instructional Resources and Media Services	179,474	179,474	167,656	11,818
0013	Curriculum and Instructional Staff Development	417,467	448,134	445,796	2,338
0021	Instructional Leadership	11,949	11,949	11,623	326
0023	School Leadership	753,908	735,408	743,694	(8,286)
0031	Guidance, Counseling and Evaluation Services	218,134	219,134	216,518	2,616
0032	Social Work Services	32,362	32,362	32,606	(244)
0033	Health Services	177,665	181,820	179,435	2,385
0034	Student (Pupil) Transportation	654,790	654,790	544,086	110,704
0035	Food Services	1,179,204	1,579,204	1,451,731	127,473
0036	Extracurricular Activities	1,101,066	1,222,425	1,201,943	20,482
0041	General Administration	1,212,032	1,342,410	1,232,324	110,086
0051	Facilities Maintenance and Operations	2,079,733	2,097,173	2,262,233	(165,060)
0052	Security and Monitoring Services	267,495	270,295	258,300	11,995
0053	Data Processing Services	654,452	657,172	514,059	143,113
0061	Community Services	23,637	20,650	20,105	545
Debt Service:					
0071	Principal on Long Term Debt	228,283	112,918	133,945	(21,027)
0072	Interest on Long Term Debt	-	21,520	116,147	(94,627)
0073	Bond Issuance Cost and Fees	-	562	1,191	(629)
Capital Outlay:					
0081	Facilities Acquisition and Construction	5,117,000	5,117,000	1,295,304	3,821,696
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	115,000	115,000	111,970	3,030
6030	Total Expenditures	22,750,221	23,435,860	19,387,815	4,048,045
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(7,309,095)	(6,321,350)	(833,599)	5,487,751
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	115,257	-	(115,257)
8911	Transfers Out (Use)	-	(115,257)	-	115,257
7080	Total Other Financing Sources (Uses)	-	-	-	-
1200	Net Change in Fund Balances	(7,309,095)	(6,321,350)	(833,599)	5,487,751
0100	Fund Balance - September 1 (Beginning)	7,617,027	7,617,027	7,617,027	-
1300	Prior Period Adjustment(s)	-	-	46,716	46,716
3000	Fund Balance - August 31 (Ending)	\$ 307,932	\$ 1,295,677	\$ 6,830,144	\$ 5,534,467

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0099327%	0.0064971%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 3,511,077	\$ 1,735,465
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	6,305,738	5,254,219
Total	<u>\$ 9,816,815</u>	<u>\$ 6,989,684</u>
District's Covered-Employee Payroll	\$ 10,073,575	\$ 9,665,095
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	34.85%	17.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

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

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

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

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 287,009	\$ 227,651
Contribution in Relation to the Contractually Required Contribution	(287,009)	(227,651)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 10,314,685	\$ 10,073,575
Contributions as a Percentage of Covered-Employee Payroll	2.78%	2.26%

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

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

COMBINING STATEMENTS

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2016

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	242 Summer Feeding Program	244 Career and Technical - Basic Grant	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 33,210	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes	-	-	-	-
1240	Receivables from Other Governments	75,928	8,728	-	-
1260	Due from Other Funds	-	-	-	-
1000	Total Assets	<u>\$ 75,928</u>	<u>\$ 8,728</u>	<u>\$ 33,210</u>	<u>\$ -</u>
LIABILITIES					
2160	Accrued Wages Payable	\$ 20,974	\$ 1,901	\$ -	\$ -
2170	Due to Other Funds	52,923	6,644	-	-
2200	Accrued Expenditures	2,031	183	-	-
2300	Unearned Revenues	-	-	33,210	-
2000	Total Liabilities	<u>75,928</u>	<u>8,728</u>	<u>33,210</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
3600	Unassigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 75,928</u>	<u>\$ 8,728</u>	<u>\$ 33,210</u>	<u>\$ -</u>

255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	265 Title IV, B Community Learning	270 ESEA VI, Pt B Rural & Low Income	274 GEAR UP	410 State Textbook Fund	428 High School Allotment	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 33,210
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	2,296	-	36,193	61,111	-	184,256
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,296</u>	<u>\$ -</u>	<u>\$ 36,193</u>	<u>\$ 61,111</u>	<u>\$ -</u>	<u>\$ 217,466</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,875
-	-	2,296	-	36,193	61,111	-	159,167
-	-	-	-	-	-	-	2,214
-	-	-	-	-	-	-	33,210
<u>-</u>	<u>-</u>	<u>2,296</u>	<u>-</u>	<u>36,193</u>	<u>61,111</u>	<u>-</u>	<u>217,466</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,296</u>	<u>\$ -</u>	<u>\$ 36,193</u>	<u>\$ 61,111</u>	<u>\$ -</u>	<u>\$ 217,466</u>

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2016

Data Control Codes		599 Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
1110	Cash and Cash Equivalents	\$ 140,774	\$ 173,984
1220	Property Taxes - Delinquent	85,936	85,936
1230	Allowance for Uncollectible Taxes	(8,594)	(8,594)
1240	Receivables from Other Governments	-	184,256
1260	Due from Other Funds	2,314	2,314
1000	Total Assets	<u>\$ 220,430</u>	<u>\$ 437,896</u>
LIABILITIES			
2160	Accrued Wages Payable	\$ -	\$ 22,875
2170	Due to Other Funds	144,133	303,300
2200	Accrued Expenditures	-	2,214
2300	Unearned Revenues	-	33,210
2000	Total Liabilities	<u>144,133</u>	<u>361,599</u>
DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	77,342	77,342
2600	Total Deferred Inflows of Resources	<u>77,342</u>	<u>77,342</u>
FUND BALANCES			
3600	Unassigned Fund Balance	(1,045)	(1,045)
3000	Total Fund Balances	<u>(1,045)</u>	<u>(1,045)</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 220,430</u>	<u>\$ 437,896</u>

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	242 Summer Feeding Program	244 Career and Technical - Basic Grant
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	<u>666,595</u>	<u>184,000</u>	<u>10,104</u>	<u>28,677</u>
5020 Total Revenues	<u>666,595</u>	<u>184,000</u>	<u>10,104</u>	<u>28,677</u>
EXPENDITURES:				
Current:				
0011 Instruction	436,272	177,585	-	28,677
0012 Instructional Resources and Media Services	35,539	-	-	-
0013 Curriculum and Instructional Staff Development	53,643	667	-	-
0021 Instructional Leadership	-	698	-	-
0031 Guidance, Counseling and Evaluation Services	112,475	-	-	-
0032 Social Work Services	6,075	-	-	-
0035 Food Services	-	-	10,104	-
0061 Community Services	22,591	5,050	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
6030 Total Expenditures	<u>666,595</u>	<u>184,000</u>	<u>10,104</u>	<u>28,677</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
1300 Prior Period Adjustment(s)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	265 Title IV, B Community Learning	270 ESEA VI, Pt B Rural & Low Income	274 GEAR UP	410 State Textbook Fund	428 High School Allotment	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	203,631	-	203,631
<u>122,741</u>	<u>15,396</u>	<u>2,296</u>	<u>29,266</u>	<u>91,062</u>	<u>-</u>	<u>-</u>	<u>1,150,137</u>
<u>122,741</u>	<u>15,396</u>	<u>2,296</u>	<u>29,266</u>	<u>91,062</u>	<u>203,631</u>	<u>-</u>	<u>1,353,768</u>
93,254	15,396	1,962	18,330	91,062	203,631	-	1,066,169
-	-	-	-	-	-	-	35,539
29,487	-	-	10,936	-	-	-	94,733
-	-	334	-	-	-	-	1,032
-	-	-	-	-	-	-	112,475
-	-	-	-	-	-	-	6,075
-	-	-	-	-	-	-	10,104
-	-	-	-	-	-	-	27,641
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>122,741</u>	<u>15,396</u>	<u>2,296</u>	<u>29,266</u>	<u>91,062</u>	<u>203,631</u>	<u>-</u>	<u>1,353,768</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	46,716	46,716
-	-	-	-	-	-	(46,716)	(46,716)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		599 Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
5700	Total Local and Intermediate Sources	\$ 746,425	\$ 746,425
5800	State Program Revenues	4,514	208,145
5900	Federal Program Revenues	-	1,150,137
5020	Total Revenues	<u>750,939</u>	<u>2,104,707</u>
EXPENDITURES:			
Current:			
0011	Instruction	-	1,066,169
0012	Instructional Resources and Media Services	-	35,539
0013	Curriculum and Instructional Staff Development	-	94,733
0021	Instructional Leadership	-	1,032
0031	Guidance, Counseling and Evaluation Services	-	112,475
0032	Social Work Services	-	6,075
0035	Food Services	-	10,104
0061	Community Services	-	27,641
Debt Service:			
0071	Principal on Long Term Debt	400,000	400,000
0072	Interest on Long Term Debt	351,582	351,582
6030	Total Expenditures	<u>751,582</u>	<u>2,105,350</u>
1200	Net Change in Fund Balance	(643)	(643)
0100	Fund Balance - September 1 (Beginning)	(402)	46,314
1300	Prior Period Adjustment(s)	-	(46,716)
3000	Fund Balance - August 31 (Ending)	<u>\$ (1,045)</u>	<u>\$ (1,045)</u>

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 AGENCY FUND
 FOR THE YEAR ENDED AUGUST 31, 2016

	BALANCE SEPTEMBER 1 2015	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2016
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 70,630	\$ 8,637	\$ -	\$ 79,267
Liabilities:				
Due to Student Groups	\$ 70,630	\$ 8,637	\$ -	\$ 79,267
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 70,630	\$ 8,637	\$ -	\$ 79,267
Liabilities:				
Due to Student Groups	\$ 70,630	\$ 8,637	\$ -	\$ 79,267

REQUIRED TEA SCHEDULES

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FOR THE YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.040000	0.160000	161,753,119
2009	1.040000	0.160000	203,266,482
2010	1.040000	0.160000	180,009,343
2011	1.170000	0.160000	198,548,107
2012	1.170000	0.160000	191,273,206
2013	1.170000	0.160000	215,253,295
2014	1.170000	0.050000	821,751,835
2015	1.170000	0.110000	473,921,940
2016 (School year under audit)	1.170000	0.110000	447,975,813
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 281,062	\$ -	\$ 9,205	\$ 348	\$ (135)	\$ 271,374
34,731	-	2,372	525	-	31,834
35,194	-	2,813	433	-	31,948
56,090	-	3,640	560	126	52,016
65,695	-	9,196	1,258	(140)	55,101
71,603	-	8,999	1,231	(419)	60,954
85,577	-	11,752	1,607	(332)	71,886
108,880	-	19,641	839	(394)	88,006
156,578	-	38,821	3,687	(542)	113,528
-	3,305,515	2,321,786	728,596	-	255,133
<u>\$ 895,410</u>	<u>\$ 3,305,515</u>	<u>\$ 2,428,225</u>	<u>\$ 739,084</u>	<u>\$ (1,836)</u>	<u>\$ 1,031,780</u>

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis - See Note III A)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 107,882	\$ 107,882	\$ 100,283	\$ (7,599)
5800 State Program Revenues	28,658	28,658	27,187	(1,471)
5900 Federal Program Revenues	1,157,921	1,157,921	1,242,639	84,718
5020 Total Revenues	<u>1,294,461</u>	<u>1,294,461</u>	<u>1,370,109</u>	<u>75,648</u>
EXPENDITURES:				
0035 Food Services	<u>1,579,204</u>	<u>1,579,204</u>	<u>1,451,731</u>	<u>127,473</u>
6030 Total Expenditures	<u>1,579,204</u>	<u>1,579,204</u>	<u>1,451,731</u>	<u>127,473</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(284,743)	(284,743)	(81,622)	203,121
OTHER FINANCING SOURCES (USES):				
7961 Transfers Out (Use)	<u>(115,257)</u>	<u>(115,257)</u>	<u>-</u>	<u>115,257</u>
1200 Net Change in Fund Balances	(400,000)	(400,000)	(81,622)	318,378
0100 Fund Balance - September 1 (Beginning)	<u>589,880</u>	<u>589,880</u>	<u>589,880</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 189,880</u>	<u>\$ 189,880</u>	<u>\$ 508,258</u>	<u>\$ 318,378</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP Basis - See Note III A)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 675,465	\$ 675,465	\$ 746,425	\$ 70,960
5800	State Program Revenues	-	-	4,514	4,514
5020	Total Revenues	675,465	675,465	750,939	75,474
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	421,027	421,027	400,000	21,027
0072	Interest on Long Term Debt	446,209	446,209	351,582	94,627
6030	Total Expenditures	867,236	867,236	751,582	115,654
1200	Net Change in Fund Balances	(191,771)	(191,771)	(643)	191,128
0100	Fund Balance - September 1 (Beginning)	(402)	(402)	(402)	-
3000	Fund Balance - August 31 (Ending)	\$ (192,173)	\$ (192,173)	\$ (1,045)	\$ 191,128

FEDERAL AWARDS SECTION



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Trustees
Lyford Consolidated 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 Lyford Consolidated Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Lyford Consolidated Independent School District's basic financial statements, and have issued our report thereon dated December 9, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lyford Consolidated 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 Lyford Consolidated Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lyford Consolidated 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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyford Consolidated 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*.

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 "Patillo, Brown & Hill, C.P.A.". The signature is written in a cursive style and is positioned above a light gray rectangular box.

Brownsville, Texas
December 9, 2016



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Board of Trustees
Lyford Consolidated Independent School District

Report on Compliance for Each Major Federal Program

We have audited Lyford Consolidated Independent School District's compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of Lyford Consolidated Independent School District's major federal programs for the year ended August 31, 2016. Lyford Consolidated 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.

Auditor's Responsibility

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

Opinion on Each Major Federal Program

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

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Other Matters

The results of our auditing procedures disclosed instances of noncompliance with the compliance requirements referred to above that are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-01. Our opinion on each major federal program is not modified with respect to these matters.

Lyford Consolidated Independent School District's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. Lyford Consolidated Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of Lyford Consolidated 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 Lyford Consolidated 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 as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lyford Consolidated 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

Lyford Consolidated Independent School District's responses to the internal control over compliance findings identified in our audit are described in the accompanying corrective action plan. Lyford Consolidated Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

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

Patillo, Brown & Hill, C.P.A.

Brownsville, Texas
December 9, 2016

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2016

I. Summary of the Auditors' Results:

The type of auditors' report on financial statements:	Unmodified
Regarding internal control over financial reporting:	
a. Material weakness(es) identified:	No
b. Significant deficiencies identified that are not considered to be material weaknesses:	None reported
c. Noncompliance which is material to the financial statements:	No
d. Regarding internal control over major programs:	
Material weakness(es) identified:	No
Significant deficiencies identified that are not considered to be material weaknesses:	Yes
e. Type of auditors' report on compliance with major programs:	Unmodified
f. Any audit findings which are required to be reported in accordance with 2CFR 200.516(a)?	Yes
g. Major programs are as follows:	Child Nutrition Cluster CFDA 10.553/10.555 10.565/10.559 ESEA Title I, Part C – Migratory Children CFDA 84.011A
h. Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
i. Low risk auditee:	No

II. Findings relating to the Financial Statements which are required to be reported in Accordance with *Generally Accepted Government Auditing Standards*.

None reported.

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

III. Findings and Questioned Costs for Federal Programs

Finding 2016-01

U.S. Department of Agriculture – Child Nutrition Cluster

Criteria:

Federal law indicates that the Food Service fund balance of a District should not exceed three months of operating expenditures.

Condition:

The District's Food Service fund balance at year-end exceeds the limitations set for the by Federal Law.

Cause:

The District had an excess of revenues over expenditures.

Effect:

As a result the District did not comply with Federal funding requirements.

Recommendation:

We recommend that the District establish a plan to expend the monies as approved by the Texas Department of Agriculture to reduce Food Service fund balance.

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

Finding 2015-01

Bank Reconciliations

Condition:

Bank reconciliations for bank accounts were not properly reconciled to the general ledger.

Recommendation:

Bank reconciliations should be prepared and reviewed in a timely manner in order to ensure that errors or irregularities are detected and corrected.

Current Year Status:

Item corrected.

Finding 2015-02

U.S. Department of Agriculture – Child Nutrition Cluster

Condition:

The District's Food Service fund balance at year-end exceeds the limitations set for the by Federal Law.

Recommendation:

We recommend that the District establish a plan to expend the monies as approved by the Texas Department of Agriculture to reduce Food Service fund balance.

Current Year Status:

See 2016-01

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

Finding 2016-01 *U.S. Department of Agriculture - Child Nutrition Cluster*

Individual responsible for corrective action: Business Office

Date corrective action will be implemented: Immediately

Corrective Action Planned: The District has implemented a timeline of items that need to be purchased for our Food Service department. The Business Manager has met with the Food Service Director and SFE to use this fund balance wisely.

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	1661010245902	\$ 684.792
ESEA, Title I, Part C - Migratory Children	84.011A	16615001245902	188.746
Career and Technical - Basic Grant	84.048A	16420006245902	28,677
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	176950247110025	2,296
GEAR UP	84.334S	P334A050083	91.062
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	16696001245902	30.224
Title III, Part A - English Language Acquisition	84.365A	16671001245902	15,696
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501245902	<u>127,227</u>
Total Passed Through State Department of Education			<u>\$ 1,168,720</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 1,168,720</u>
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	01144	\$ 494.061
*National School Lunch Program - Cash Assistance	10.555	01144	738.561
*National School Lunch Prog. - Non-Cash Assistance	10.555	01144	<u>10,017</u>
Total CFDA Number 10.555			<u>748,578</u>
*Summer Feeding Program - Cash Assistance	10.559	01144	<u>10,104</u>
Total Child Nutrition Cluster			<u>1,252,743</u>
Total Passed Through the State Department of Agriculture			<u>\$ 1,252,743</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 1,252,743</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,421,463</u>

*Clustered Programs

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
 NOTES TO SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS
 AUGUST 31, 2016

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of Lyford Consolidated Independent School District. The District’s reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the financial statements.

3. RECONCILIATION OF FEDERAL REVENUES AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 2,598,197
School health and related services revenue	(<u>176,734</u>)
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	\$ <u>2,421,463</u>

4. PASS-THROUGH EXPENDITURES

None of the federal programs expended by the District were provided to subrecipients.

5. INDIRECT COSTS

The District has received a negotiated indirect cost rate from TEA and may not elect to use a de minimis cost rate of 10% as described at 2 CFR §200.414(f) – Indirect (F&A) costs.

SCHOOLS FIRST QUESTIONNAIRE

Lyford Consolidated Independent School District

Fiscal Year 2016

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	166023
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	3511077
SF13	Pension Expense (6147) at fiscal year-end.	218069