

LOVELADY INDEPENDENT
SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2013

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Lovelady Independent School District
Annual Financial Report
For The Year Ended August 31, 2013

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Introductory Section

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CERTIFICATE OF BOARD

Lovelady Independent School District
Name of School District

Houston
County

113-903
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, 2013, at a meeting of the board of trustees of such school district on the 23 day of January, 2014.

Chris Starnes
Signature of Board Secretary

Bruce M. ...
Signature of Board President

If the board of trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

Financial Section



Independent Auditors' Report

To the Board of Trustees
Lovelady 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 Lovelady Independent School District (the "District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 Lovelady Independent School District as of August 31, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Governmental
Audit Quality Center

Independent Auditors' Report

Lovelady Independent School District

Emphasis of Matter

As described in Note A to the financial statements, Lovelady Independent School District adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2013. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information identified as Required Supplementary Information 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 the Lovelady Independent School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

The introductory section and schedules labeled "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide an assurance on them.

Independent Auditors' Report

Lovelady Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2013 on our consideration of Lovelady 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 Lovelady Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
December 31, 2013

Management's Discussion & Analysis (MD&A)

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2013

This discussion and analysis of the Lovelady Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2013. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2013 was \$6,333,191.
- For the fiscal year ended August 31, 2013, the District's general fund reported a total fund balance of \$1,586,360, of which \$1,500 was restricted and \$1,584,860 was unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, and the debt service fund) reported combined ending fund balances of \$1,622,267.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the fiduciary resources belong. This fund includes student activity funds.
- *Proprietary fund* statements provide information about services provided to parties inside the District. The proprietary funds include the internal service fund (the District's insurance fund).

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2013

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

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Proprietary funds* – These funds include the internal service fund. The District's workers' compensation and unemployment fund activity is reported in the internal service fund and is shown in a separate statement of proprietary net position and a statement of changes in proprietary net position.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities that are reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$6,333,191 at August 31, 2013. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2013.

Table 1
Net Position

Description	Governmental Activities		Total Change 2013-2012
	2013	2012	
Current assets	\$ 2,209,904	\$ 2,063,836	\$ 146,068
Capital assets	5,228,427	4,341,725	886,702
Total Assets	7,438,331	6,405,561	1,032,770
Current liabilities	129,049	583,539	(454,490)
Long-term liabilities	976,091	-	976,091
Total Liabilities	1,105,140	583,539	521,601
Net Position:			
Net investment in capital assets	4,252,336	4,341,725	(89,389)
Restricted for:			
State and federal programs	35,907	-	35,907
Booster club	1,500	-	1,500
Unrestricted	2,043,448	1,480,297	563,151
Total Net Position	\$ 6,333,191	\$ 5,822,022	\$ 511,169

Total assets from governmental activities totaled \$7,438,331, which is an increase of \$1,032,770 from the 2012 fiscal year. This increase is due to an increase in capital assets. In total, assets for the year increased by 14 percent from the prior year.

Liabilities for governmental activities increased by \$521,601. This increase is due to new capital leases. In total, liabilities for the year increased by 47 percent from the prior year.

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2013

Table 2

Changes in Net Position

	Governmental Activities		Total Change
	2013	2012	2013-2012
Revenues			
Program revenues:			
Charges for services	\$ 151,069	\$ 138,877	\$ 12,192
Operating grants and contributions	539,911	556,974	(17,063)
General revenues:			
Property taxes	3,635,356	2,843,461	791,895
Grants and contributions not restricted	1,639,744	1,766,761	(127,017)
Investment earnings	3,007	1,643	1,364
Miscellaneous	98,105	140,632	(42,527)
Total Revenue	6,067,192	5,448,348	618,844
Expenses			
Instruction	3,220,546	3,091,235	129,311
Instructional resources and media services	47,097	50,706	(3,609)
Curriculum and staff development	76,420	94,515	(18,095)
School leadership	230,808	212,785	18,023
Guidance, counseling, and evaluation services	68,877	57,480	11,397
Health services	42,968	41,781	1,187
Student (pupil) transportation	275,590	377,741	(102,151)
Food services	287,387	308,402	(21,015)
Cocurricular/extracurricular activities	219,814	200,649	19,165
General administration	346,025	373,882	(27,857)
Plant maintenance and operations	411,405	383,152	28,253
Data processing services	84,981	80,435	4,546
Interest on long-term debt	38,002	632	37,370
Payments related to shared service arrangements	186,417	191,933	(5,516)
Other intergovernmental charges	19,686	13,059	6,627
Total Expenses	5,556,023	5,478,387	77,636
Change in Net Position	511,169	(30,039)	541,208
Beginning net position	5,822,022	5,852,061	(30,039)
Ending Net Position	\$ 6,333,191	\$ 5,822,022	\$ 511,169

Revenues from governmental activities totaled \$6,067,192, which is an increase of \$618,844 from the 2012 fiscal year. This includes an increase in property tax revenue of \$791,895. In total, revenues for the year increased by ten percent from the prior year.

Expenses from governmental activities totaled \$5,556,023, which is an increase of \$77,636. This includes an increase in instruction expense of \$129,311. In total, expenses for the year increased one percent from the prior year.

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2013

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2013, the District's governmental funds reported a combined fund balance of \$1,622,267. This compares to a combined fund balance of \$1,339,413 at August 31, 2012. The fund balance in the general fund increased due to an increase in property taxes.

BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund and the food service special revenue fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2013, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's actual revenues exceeded budgeted revenues by \$275,820 and the budgeted expenditures exceeded actual expenditures by \$28,363.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the fiscal year ended August 31, 2013, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At August 31, 2013, the District had a total of \$5,228,427 invested in capital assets such as land, buildings, and District equipment. This total includes \$1,245,293 invested during the fiscal year ended August 31, 2013.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At year end, the District had a total of \$976,091 in capital lease debt.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2013

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGET AND RATES

The following factors were considered in establishing the District's budget for 2013-2014:

- The District budgeted revenues of \$4,962,189 and expenditures of \$4,962,189 for no change in the general fund fund balance.
- The District's Board of Trustees adopted a Maintenance & Operation tax rate of \$1.03 per \$100 of property valuation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and creditors with a general overview of the District's finances and to demonstrate the District's commitment to accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Lovelady Independent School District's business office at 11839 Texas State Highway 19 South, Lovelady, Texas 75851, or by calling (936) 636-7616.

Basic Financial Statements

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013

Data Control Codes		1	Governmental Activities
ASSETS:			
1110	Cash and Cash Equivalents	\$	180,265
1120	Current Investments		1,779,764
1220	Property Taxes Receivable		252,494
1230	Allowance for Uncollectible Taxes		(84,507)
1240	Due from Other Governments		81,888
Capital Assets:			
1510	Land		193,735
1520	Buildings and Improvements, Net		4,269,566
1530	Furniture and Equipment, Net		765,126
1000	Total Assets		<u>7,438,331</u>
LIABILITIES:			
2140	Interest Payable		3,617
2165	Accrued Liabilities		125,432
Noncurrent Liabilities:			
2501	Due Within One Year		94,056
2502	Due in More Than One Year		882,035
2000	Total Liabilities		<u>1,105,140</u>
NET POSITION			
3200	Net Investment in Capital Assets		4,252,336
Restricted For:			
3820	State and Federal Programs		35,907
3890	Booster Club		1,500
3900	Unrestricted		2,043,448
3000	Total Net Position	\$	<u>6,333,191</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT B-1

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 3,220,546	\$ 13,133	\$ 201,915	\$ (3,005,498)
12	Instructional Resources and Media Services	47,097	--	590	(46,507)
13	Curriculum and Staff Development	76,420	--	1,182	(75,238)
23	School Leadership	230,808	--	3,629	(227,179)
31	Guidance, Counseling, & Evaluation Services	68,877	--	1,118	(67,759)
33	Health Services	42,968	--	697	(42,271)
34	Student Transportation	275,590	--	3,652	(271,938)
35	Food Service	287,387	125,683	113,213	(48,491)
36	Cocurricular/Extracurricular Activities	219,814	12,253	2,694	(204,867)
41	General Administration	346,025	--	5,557	(340,468)
51	Facilities Maintenance and Operations	411,405	--	201,260	(210,145)
53	Data Processing Services	84,981	--	1,379	(83,602)
72	Interest on Long-term Debt	38,002	--	--	(38,002)
93	Payments Related to Shared Services Arrangements	186,417	--	3,025	(183,392)
99	Other Intergovernmental Charges	19,686	--	--	(19,686)
TG	Total Governmental Activities	<u>5,556,023</u>	<u>151,069</u>	<u>539,911</u>	<u>(4,865,043)</u>
TP	Total Primary Government	<u>\$ 5,556,023</u>	<u>\$ 151,069</u>	<u>\$ 539,911</u>	<u>(4,865,043)</u>
General Revenues:					
MT	Property Taxes, Levied for General Purposes				3,635,356
IE	Investment Earnings				3,007
GC	Grants and Contributions Not Restricted to Specific Programs				1,639,744
MI	Miscellaneous				98,105
TR	Total General Revenues				<u>5,376,212</u>
CN	Change in Net Position				511,169
	Net Position - Beginning, as Restated				5,822,022
NE	Net Position - Ending				<u>\$ 6,333,191</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2013

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:			
1110 Cash and Cash Equivalents	\$ 136,664	\$ 43,381	\$ 180,045
1120 Current Investments	1,779,764	--	1,779,764
1220 Property Taxes Receivable	252,494	--	252,494
1230 Allowance for Uncollectible Taxes	(84,507)	--	(84,507)
1240 Due from Other Governments	78,786	3,102	81,888
1260 Due from Other Funds	7,235	--	7,235
1000 Total Assets	<u>\$ 2,170,437</u>	<u>\$ 46,483</u>	<u>\$ 2,216,920</u>
LIABILITIES:			
Current Liabilities:			
2150 Payroll Deductions & Withholdings	\$ 295	\$ --	\$ 295
2160 Accrued Wages Payable	104,497	3,280	107,777
2170 Due to Other Funds	--	7,236	7,236
2200 Accrued Expenditures	1,965	60	2,025
2000 Total Liabilities	<u>106,757</u>	<u>10,576</u>	<u>117,333</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenue - Property Taxes	167,989	--	167,989
Unavailable Revenue - Foundation	309,331	--	309,331
2600 Total Deferred Inflows of Resources	<u>477,320</u>	<u>--</u>	<u>477,320</u>
FUND BALANCES:			
Restricted Fund Balances:			
3450 Federal/State Funds Grant Restrictions	--	35,907	35,907
3490 Booster Club	1,500	--	1,500
3600 Unassigned	1,584,860	--	1,584,860
3000 Total Fund Balances	<u>1,586,360</u>	<u>35,907</u>	<u>1,622,267</u>
4000 Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,170,437</u>	<u>\$ 46,483</u>	<u>\$ 2,216,920</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION
 AUGUST 31, 2013*

Total fund balances - governmental funds balance sheet	\$ 1,622,267
--	--------------

Amounts reported for governmental activities in the Statement of Net Position (SNP)
 are different because:

Capital assets used in governmental activities are not reported in the funds.	5,228,427
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	167,989
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	(15,115)
Payables for capital leases which are not due in the current period are not reported in the funds.	(976,091)
Payables for lease interest which are not due in the current period are not reported in the funds.	(3,617)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	<u>309,331</u>

Net position of governmental activities - Statement of Net Position	\$ <u><u>6,333,191</u></u>
---	----------------------------

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 3,727,595	\$ 149,684	\$ 3,877,279
5800 <i>State Program Revenues</i>	1,525,055	25,839	1,550,894
5900 <i>Federal Program Revenues</i>	77,577	241,853	319,430
5020 <i>Total Revenues</i>	<u>5,330,227</u>	<u>417,376</u>	<u>5,747,603</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	2,912,366	177,778	3,090,144
0012 <i>Instructional Resources and Media Services</i>	36,340	--	36,340
0013 <i>Curriculum and Staff Development</i>	72,834	--	72,834
0023 <i>School Leadership</i>	223,635	--	223,635
0031 <i>Guidance, Counseling, & Evaluation Services</i>	68,877	--	68,877
0033 <i>Health Services</i>	42,968	--	42,968
0034 <i>Student Transportation</i>	467,407	2,327	469,734
0035 <i>Food Service</i>	3,687	258,600	262,287
0036 <i>Cocurricular/Extracurricular Activities</i>	166,025	--	166,025
0041 <i>General Administration</i>	342,439	--	342,439
0051 <i>Facilities Maintenance and Operations</i>	1,210,568	--	1,210,568
0053 <i>Data Processing Services</i>	84,981	--	84,981
0071 <i>Principal on Long-term Debt</i>	92,521	--	92,521
0072 <i>Interest on Long-term Debt</i>	34,385	--	34,385
0081 <i>Capital Outlay</i>	129,520	--	129,520
0093 <i>Payments to Shared Service Arrangements</i>	186,417	--	186,417
0099 <i>Other Intergovernmental Charges</i>	19,686	--	19,686
6030 <i>Total Expenditures</i>	<u>6,094,656</u>	<u>438,705</u>	<u>6,533,361</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>(764,429)</u>	<u>(21,329)</u>	<u>(785,758)</u>
Other Financing Sources and (Uses):			
7913 <i>Issuance of Capital Leases</i>	1,068,612	--	1,068,612
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>1,068,612</u>	<u>--</u>	<u>1,068,612</u>
1200 <i>Net Change in Fund Balances</i>	304,183	(21,329)	282,854
0100 <i>Fund Balances - Beginning</i>	1,289,651	49,762	1,339,413
3000 <i>Fund Balances - Ending</i>	<u>\$ 1,593,834</u>	<u>\$ 28,433</u>	<u>\$ 1,622,267</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2013*

Net change in fund balances - total governmental funds	\$ 282,854
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	1,245,294
The depreciation of capital assets used in governmental activities is not reported in the funds.	(358,592)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	10,258
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	309,331
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	(976,091)
(Increase) decrease in accrued interest from beginning of period to end of period.	(3,617)
The net revenue (expense) of internal service funds is reported with governmental activities.	<u>1,732</u>
Change in net position of governmental activities - Statement of Activities	\$ <u>511,169</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

INTERNAL SERVICE FUND

AUGUST 31, 2013

Data Control Codes	Nonmajor Internal Service Fund	
	Insurance Fund	
	ASSETS:	
	Current Assets:	
1110	Cash and Cash Equivalents	\$ 220
	Total Current Assets	220
1000	Total Assets	220
	LIABILITIES:	
	Current Liabilities:	
2200	Accrued Expenses	\$ 15,335
	Total Current Liabilities	15,335
2000	Total Liabilities	15,335
	NET POSITION:	
3900	Unrestricted	(15,115)
3000	Total Net Position	\$ (15,115)

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION - INTERNAL SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		Nonmajor Internal Service Fund
		Insurance Fund
OPERATING REVENUES:		
5700	Local and Intermediate Sources	\$ 5,512
5020	Total Revenues	5,512
OPERATING EXPENSES:		
6100	Payroll Costs	3,780
6030	Total Expenses	3,780
1300	Change in Net Position	1,732
Total Net Position - Beginning, as Restated		(16,847)
3300	Total Net Position - Ending	\$ (15,115)

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Receipts (Payments) for Quasi-external</i>	
<i>Operating Transactions with Other Funds</i>	\$ 5,512
<i>Claims Paid</i>	(5,292)
Net Cash Provided (Used) by Operating Activities	<u>220</u>
Net Increase (Decrease) in Cash and Cash Equivalents	220
Cash and Cash Equivalents at Beginning of Year	--
Cash and Cash Equivalents at End of Year	<u>\$ 220</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Activities:	
Operating Income (Loss)	\$ 1,732
Change in Assets and Liabilities:	
<i>Increase (Decrease) in Accrued Expenses</i>	(1,512)
Total Adjustments	<u>(1,512)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 220</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2013

Data Control Codes		Private-purpose Trust Fund	Agency Fund
		Private-Purpose Trust Fund	Student Activity
ASSETS:			
1110	Cash and Cash Equivalents	\$ 3,990	\$ 40,572
1120	Current Investments	8,403	8,200
1000	Total Assets	12,393	48,772
LIABILITIES:			
Current Liabilities:			
2190	Due to Student Groups	\$ --	\$ 48,772
2000	Total Liabilities	--	48,772
NET POSITION:			
3800	Held in Trust	12,393	--
3000	Total Net Position	\$ 12,393	\$ --

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 157
Total Additions	<u>157</u>
Change in Net Position	157
Net Position-Beginning of the Year	12,236
Net Position-End of the Year	<u><u>\$ 12,393</u></u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2013

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

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

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for revenues and expenditures related to grant awards and entitlements from federal, state, and local agencies. These funds are primarily on a reimbursement basis. Nearly all of these funds cannot carry a fund balance and, other than food service fund, none of these funds are legally required to have an adopted budget.

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types

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

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

b. **Measurement Focus, Basis of Accounting**

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. **Financial Statement Amounts**

a. **Cash and Cash Equivalents**

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

b. Property Taxes

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

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building and Improvements	20 to 50 years
Vehicles	8 to 10 years
Equipment	8 to 20 years

e. 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 statement element, deferred outflows of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has no items that qualify for reporting in this category.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

f. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. Interfund Activity

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

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

i. Data Control Codes

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

j. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or 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 and proprietary 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-net position to have been depleted before unrestricted-net position is applied.

k. Fund Balance Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (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.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

I. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

<u>Violation</u>	<u>Action Taken</u>
Negative budget variance in fund 199 function 35 and in fund 240 function 35.	Budget must be amended to reflect actual expenses.

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

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

C. Deposits and Investments

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

1. Cash Deposits

At August 31, 2013, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$224,824 and the bank balance was \$249,881. The District's cash deposits at August 31, 2013 and during the year ended August 31, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments

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

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2013 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposit	\$ 1,796,225	N/A	0.22
Lone Star Investment Pool	112		
Total Investments	<u>\$ 1,796,337</u>		

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

At August 31, 2013, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

<u>Investment or Investment Type</u>	<u>Administrator</u>	<u>Rating</u>
Lone Star Investment Pool	First Public, LLC	AAA*

*Rated by Standard and Poor's Investor Services

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

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

Public Funds Investment Pools

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

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Capital Assets

Capital asset activity for the year ended August 31, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 193,735	\$ --	\$ --	\$ 193,735
Total capital assets not being depreciated	193,735	--	--	193,735
<i>Capital assets being depreciated:</i>				
Buildings and improvements	6,191,761	884,086	--	7,075,847
Vehicles and Equipment	1,823,337	361,207	--	2,184,544
Total capital assets being depreciated	8,015,098	1,245,293	--	9,260,391
Less accumulated depreciation for:				
Buildings and improvements	(2,576,195)	(230,088)	--	(2,806,283)
Vehicles and Equipment	(1,290,913)	(128,503)	--	(1,419,416)
Total accumulated depreciation	(3,867,108)	(358,591)	--	(4,225,699)
Total capital assets being depreciated, net	4,147,990	886,702	--	5,034,692
Governmental activities capital assets, net	\$ 4,341,725	\$ 886,702	\$ --	\$ 5,228,427

Depreciation was charged to functions as follows:

Instruction	\$ 179,295
Instructional Resources and Media Services	10,757
Curriculum and Staff Development	3,586
School Leadership	7,173
Student Transportation	71,719
Food Services	25,100
Extracurricular Activities	53,789
General Administration	3,586
Plant Maintenance and Operations	3,586
	<u>\$ 358,591</u>

E. Interfund Balances and Activities

Due To and From Other Funds

Balances due to and due from other funds at August 31, 2013 consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Special Revenue Fund	\$ 7,235	Short-term loans
	Total	<u>\$ 7,235</u>	

All amounts due are scheduled to be repaid within one year.

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

F. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2013 are as follows:

	Original Issue	Beginning Balance	Net Changes	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Bonds, notes, and other payables:					
Capital leases	\$ 1,068,612	\$ --	\$ 976,091	\$ 976,091	\$ 94,056
Total governmental activities	<u>\$ 1,068,612</u>	<u>\$ --</u>	<u>\$ 976,091</u>	<u>\$ 976,091</u>	<u>\$ 94,056</u>
Long-term liabilities due in more than one year				<u>\$ 882,035</u>	

Capital lease indebtedness of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the General Operating Fund. Interest expense was \$34,385 for the year ended August 31, 2013.

2. Capital Leases

The annual requirements to amortize capital leases outstanding at year end were as follows:

<u>Year Ending August 31.</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 94,056	\$ 32,850	\$ 126,906
2015	97,368	29,537	126,906
2016	100,798	26,108	126,906
2017	104,348	22,558	126,906
2018	108,023	18,883	126,906
2019-2023	471,498	36,125	507,623
Totals	<u>\$ 976,091</u>	<u>\$ 166,061</u>	<u>\$ 1,142,152</u>

G. Commitments Under Noncapitalized Leases

The District had no future commitment under operating (noncapitalized) lease agreements.

Rental Expenditures in 2013	<u>\$ 54,160</u>
-----------------------------	------------------

H. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2013, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2013

I. Pension Plan

1. Plan Description

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

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2013, 2012 and 2011, and a state contribution rate of 6.0% for fiscal years 2013 and 2012 and 6.644% for fiscal year 2011. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2013, 2012 and 2011 were \$201,764, \$206,705 and \$223,861, respectively. The District paid additional state contributions for the years ending August 31, 2013, 2012 and 2011 in the amount of \$24,070, \$34,369 and \$31,881, respectively, on the portion of the employees' salaries that exceeded the statutory minimum. The amount contributed by the State on behalf of the District was \$199,371 for the year ended August 31, 2013.

J. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2013, 2012 and 2011. For the years ended August 31, 2013, 2012, and 2011, the State's contributions to TRS-Care were \$495, \$2,008, and \$729, respectively; the active member contributions were \$20,492, \$21,052, and \$22,736, respectively; and the District's contributions were \$17,339, \$17,813, and \$19,238, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

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. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2013, 2012, and 2011, the subsidy payments received by TRS-Care on behalf of the District were \$8,409, \$8,409, and \$8,076, respectively.

K. Employee Health Care Coverage

During the year ended August 31, 2013, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2013, and terms of coverage and premium costs are included in the contractual provisions.

L. Workers' Compensation

During the year ended August 31, 2013, employees of the District were covered by a Workers' Compensation Plan (the Plan). The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreements.

The Contract between the District and the third party administrator, Claims Administrative Services ("CAS"), acting on behalf of the self-funded pool, is renewable September 1, 2013, and terms, as well as costs of coverage, are included in the contractual provisions.

In accordance with state statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Midwest Employers Casualty, a commercial insurer licensed or eligible to do business in the State of Texas in accordance with Texas Insurance Code. Reinsurance coverage was in effect for individual claims exceeding \$500,000 and for aggregate claims with a statutory limit of \$3,000,000. According to CAS, the unfunded claim benefit obligation included \$15,335 in claims that were unpaid and \$6,193 in estimated claims incurred, but not reported.

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2013

The claim liability is based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims which have been incurred but not reported based on historical experience. Changes in the claims liability for workers' compensation benefits for the current and prior fiscal year are summarized below.

	Fiscal Year	
	2013	2012
Claims liability at beginning of year	\$ 16,847	\$ 16,217
Current year claims and estimate changes	1,949	3,724
Claims payments	(3,461)	(3,094)
Claims liability at year end	<u>\$ 15,335</u>	<u>\$ 16,847</u>

M. Unemployment Compensation Pool

During the year ended August 31, 2013, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperative Act, Chapter 791 of the Texas Government Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2012, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

N. Commitments and Contingencies

1. Contingencies

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

2. Litigation

No reportable litigation was pending against the District at August 31, 2013.

O. Shared Services Arrangements

The District participates in a shared service agreement (SSA) for resource education services. The District neither has a joint interest in fixed assets purchased by the fiscal agent, Groveton Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA.

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

The District participates in an SSA for the education of career and technical students, funded under Title II, Basic Grant Career and Technology Education program. The District neither has a joint interest in fixed assets purchased by the fiscal agent, Education Service Center - Region VI, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA. Education Service Center - Region VI is reporting \$6,325 as expenditures incurred on behalf of the District.

The District participates in an SSA for the improvement of education of limited English proficient children funded under ESEA, Title III, Part A - English Language Acquisition and Language Enhancement. The District neither has a joint interest in fixed assets purchased by the fiscal agent, Education Service Center - Region VI, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA. Education Service Center - Region VI is reporting \$323 as expenditures incurred on behalf of the District.

P. Prior Period Adjustment

Beginning net position for the internal service fund has been restated to recognize a liability for unpaid claims as of year end related to the District's self insurance coverage for workers' compensation. See below for a reconciliation of changes in beginning net position:

	Governmental Activities	Internal Service Fund
Beginning net position	\$ 5,838,869	\$ -
Accrued liability for unpaid claims	(16,847)	(16,847)
Restated beginning net position	<u>\$ 5,822,022</u>	<u>\$ (16,847)</u>

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

LOVELADY INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT G-1
Page 1 of 2

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 3,398,255	\$ 3,398,255	\$ 3,727,595	\$ 329,340
5800	State Program Revenues	1,606,152	1,606,152	1,525,055	(81,097)
5900	Federal Program Revenues	50,000	50,000	77,577	27,577
5020	Total Revenues	5,054,407	5,054,407	5,330,227	275,820
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	Instruction	2,871,695	2,923,695	2,912,366	11,329
0012	Instructional Resources and Media Services	45,388	37,388	36,340	1,048
0013	Curriculum and Staff Development	88,334	73,334	72,834	500
	Total Instruction & Instr. Related Services	3,005,417	3,034,417	3,021,540	12,877
	Instructional and School Leadership:				
0023	School Leadership	210,443	224,443	223,635	808
	Total Instructional & School Leadership	210,443	224,443	223,635	808
	Support Services - Student (Pupil):				
0031	Guidance, Counseling and Evaluation Services	59,917	69,917	68,877	1,040
0033	Health Services	43,312	43,312	42,968	344
0034	Student (Pupil) Transportation	218,099	472,562	467,407	5,155
0035	Food Services	4,950	--	3,687	*(3,687)
0036	Cocurricular/Extracurricular Activities	158,846	166,846	166,025	821
	Total Support Services - Student (Pupil)	485,124	752,637	748,964	3,673
	Administrative Support Services:				
0041	General Administration	327,474	344,474	342,439	2,035
	Total Administrative Support Services	327,474	344,474	342,439	2,035
	Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	376,835	1,213,834	1,210,568	3,266
0053	Data Processing Services	80,050	85,050	84,981	69
	Total Support Services - Nonstudent Based	456,885	1,298,884	1,295,549	3,335
	Debt Service:				
0071	Principal on Long-Term Debt	126,811	92,526	92,521	5
0072	Interest on Long-Term Debt	--	34,385	34,385	--
	Total Debt Service	126,811	126,911	126,906	5
	Capital Outlay:				
0081	Capital Outlay	282,000	134,000	129,520	4,480
	Total Capital Outlay	282,000	134,000	129,520	4,480
	Intergovernmental Charges:				
0093	Payments to Fiscal Agent/Member Dist.-SSA	147,253	187,253	186,417	836
0099	Other Intergovernmental Charges	13,000	20,000	19,686	314
	Total Intergovernmental Charges	160,253	207,253	206,103	1,150
6030	Total Expenditures	5,054,407	6,123,019	6,094,656	28,363
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	(1,068,612)	(764,429)	304,183

LOVELADY INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT G-1
Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
	Other Financing Sources (Uses):				
7913	<i>Issuance of Capital Leases</i>	--	1,068,612	1,068,612	--
8911	<i>Transfers Out</i>	--	35,000	(7,474)	(42,474)
7080	Total Other Financing Sources and (Uses)	--	1,103,612	1,061,138	(42,474)
1200	Net Change in Fund Balance	--	35,000	296,709	261,709
0100	Fund Balance - Beginning	1,289,651	1,289,651	1,289,651	--
3000	Fund Balance - Ending	\$ 1,289,651	\$ 1,324,651	\$ 1,586,360	\$ 261,709

Notes to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. *Expenditures exceeded appropriations at the legal level of control.

*Combining Statements
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

LOVELADY INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2013

Data Control Codes		211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula	240 National School Breakfast/Lunch Program	255 ESEA Title II Training & Recruiting
ASSETS:					
1110	Cash and Cash Equivalents	\$ --	\$ --	\$ 7,474	\$ --
1240	Due from Other Governments	2,873	--	--	--
1000	Total Assets	<u>\$ 2,873</u>	<u>\$ --</u>	<u>\$ 7,474</u>	<u>\$ --</u>
LIABILITIES:					
Current Liabilities:					
2160	Accrued Wages Payable	\$ --	\$ --	\$ 3,280	\$ --
2170	Due to Other Funds	2,873	--	4,134	--
2200	Accrued Expenditures	--	--	60	--
2000	Total Liabilities	<u>2,873</u>	<u>--</u>	<u>7,474</u>	<u>--</u>
FUND BALANCES:					
Restricted Fund Balances:					
3490	Other Restrictions of Fund Balance	--	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 2,873</u>	<u>\$ --</u>	<u>\$ 7,474</u>	<u>\$ --</u>

EXHIBIT H-1

289 Small, Rural Achievement Program	404 Student Success Initiative	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ --	\$ --	\$ 381	\$ 35,526	\$ 43,381
--	229	--	--	3,102
<u>\$ --</u>	<u>\$ 229</u>	<u>\$ 381</u>	<u>\$ 35,526</u>	<u>\$ 46,483</u>
\$ --	\$ --	\$ --	\$ --	\$ 3,280
--	229	--	--	7,236
--	--	--	--	60
<u>--</u>	<u>229</u>	<u>--</u>	<u>--</u>	<u>10,576</u>
--	--	381	35,526	35,907
--	--	381	35,526	35,907
<u>\$ --</u>	<u>\$ 229</u>	<u>\$ 381</u>	<u>\$ 35,526</u>	<u>\$ 46,483</u>

LOVELADY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula	240 National School Breakfast/Lunch Program	255 ESEA Title II Training & Recruiting
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ 21,715	\$ 125,683	\$ --
5800 <i>State Program Revenues</i>	--	--	5,922	--
5900 <i>Federal Program Revenues</i>	81,486	--	107,231	16,798
5020 <i>Total Revenues</i>	<u>81,486</u>	<u>21,715</u>	<u>238,836</u>	<u>16,798</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	81,105	21,715	--	16,798
0034 <i>Student Transportation</i>	381	--	--	--
0035 <i>Food Service</i>	--	--	258,600	--
6030 <i>Total Expenditures</i>	<u>81,486</u>	<u>21,715</u>	<u>258,600</u>	<u>16,798</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	--	--	(19,764)	--
Other Financing Sources and (Uses):				
7915 <i>Transfers In</i>	--	--	7,474	--
7080 <i>Total Other Financing Sources and (Uses)</i>	--	--	7,474	--
1200 <i>Net Change in Fund Balances</i>	--	--	(12,290)	--
0100 <i>Fund Balances - Beginning</i>	--	--	12,290	--
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

EXHIBIT H-2

289 Small, Rural Achievement Program	404 Student Success Initiative	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ 2,286	\$ --	\$ --	\$ 149,684
--	--	19,917	--	25,839
36,338	--	--	--	241,853
<u>36,338</u>	<u>2,286</u>	<u>19,917</u>	<u>--</u>	<u>417,376</u>
36,338	2,286	19,536	--	177,778
--	--	--	1,946	2,327
--	--	--	--	258,600
<u>36,338</u>	<u>2,286</u>	<u>19,536</u>	<u>1,946</u>	<u>438,705</u>
--	--	381	(1,946)	(21,329)
--	--	--	--	7,474
--	--	--	--	7,474
--	--	381	(1,946)	(13,855)
--	--	--	37,472	49,762
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 381</u>	<u>\$ 35,526</u>	<u>\$ 35,907</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

LOVELADY INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2013*

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2004 and Prior Years	\$	Various	\$	Various	\$	Various
2005		1.415		--		127,424,594
2006		1.415		--		147,409,329
2007		1.2947		--		162,508,214
2008		1.04		--		173,900,780
2009		1.04		--		232,732,790
2010		1.04		--		226,958,654
2011		1.04		--		236,471,398
2012		1.04		--		271,885,488
2013 (School Year Under Audit)		1.0256		--		350,881,045
1000 Totals						

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

EXHIBIT J-1

10 Beginning Balance 9/1/12	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/13
\$ 73,278	\$ --	\$ 6,037	\$ --	\$ (3,189)	\$ 64,052
6,802	--	869	--	--	5,933
8,994	--	1,166	--	--	7,828
7,353	--	1,616	--	--	5,737
9,855	--	1,470	--	--	8,385
11,276	--	6,270	--	--	5,006
18,106	--	6,536	--	3,487	15,058
36,825	--	21,549	--	3,290	18,566
80,937	--	45,454	--	3,114	38,597
--	3,598,636	3,515,302	--	--	83,334
<u>\$ 253,426</u>	<u>\$ 3,598,636</u>	<u>\$ 3,606,270</u>	<u>\$ --</u>	<u>\$ 6,702</u>	<u>\$ 252,494</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

LOVELADY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2014-2015
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT J-2

FUNCTION 41 - GENERAL ADMINISTRATION

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 195,177	\$ --	\$ --	\$ --	\$ 195,177
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	1,758	--	--	--	--	--	1,758
6212	Audit Services	--	--	--	12,750	--	--	12,750
6213	Tax Appraisal and Collection	--	79,666	--	--	--	--	79,666
621X	Other Prof. Services	--	--	9,465	--	--	--	9,465
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	--	--	--	--	--
6240	Contr. Maint. and Repair	--	--	--	--	8,885	--	8,885
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	--	--	--	--
6290	Miscellaneous Contr.	--	--	--	--	--	--	--
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	--	--	--
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	--	--	6,641	--	--	--	6,641
6410	Travel, Subsistence, Stipends	2,581	--	11,275	--	--	--	13,856
6420	Ins. and Bonding Costs	--	--	5,497	--	--	--	5,497
6430	Election Costs	--	--	--	--	--	--	--
6490	Miscellaneous Operating	--	--	8,744	--	--	--	8,744
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 4,339 \$ 79,666 \$ 236,799 \$ 12,750 \$ 8,885 \$ -- \$ 342,439

Total Expenditures for General and Special Revenue Funds (9) \$ 6,533,361

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 1,204,750
Total Debt & Lease (6500)	(11)	\$ 126,906
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 405,081
Food (Function 35, 6341 and 6499)	(13)	\$ 146,186
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 12,750

Subtotal

1,895,673

Net Allowed Direct Cost

\$ 4,637,688

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 7,075,847
Historical Cost of Buildings over 50 years old	(16)	--
Amount of Federal Money in Building Cost (Net of #16)	(17)	--
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	2,184,545
Historical Cost of Furniture & Equipment over 16 years old	(19)	344,744
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ --

(8) Note A - No Function 53 expenditures and no Function 99 expenditures are included in this report on administrative costs.

LOVELADY INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)
GENERAL FUND
AS OF AUGUST 31, 2013

EXHIBIT J-3

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2013 (Exhibit C-1 object 3000 for the General Fund only)	\$ 1,593,834
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	--
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	1,500
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	--
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	--
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	496,219
7	Estimate of two months' average cash disbursements during the fiscal year	937,302
8	Estimate of delayed payments from state sources (58XX)	--
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
10	Estimate of delayed payments from federal sources (59XX)	--
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
12	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)	1,435,021
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	\$ 158,813

If Item 11 is a Positive Number

Explanation of need for and/or projected use of net positive
Unassigned General Fund Fund Balance:

The excess General Fund fund balance will be used to stabilize future tax rates and provide resources for the completion of the renovations of District facilities.

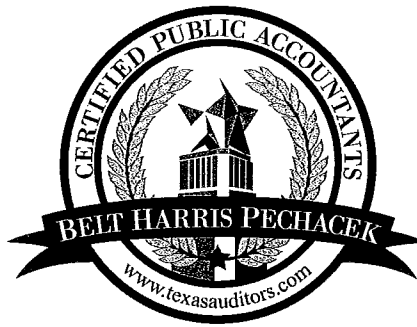
LOVELADY INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT J-4

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
	REVENUES:			
5700	Local and Intermediate Sources	\$ 117,500	\$ 125,683	\$ 8,183
5800	State Program Revenues	1,500	5,922	4,422
5900	Federal Program Revenues	130,000	107,231	(22,769)
5020	Total Revenues	<u>249,000</u>	<u>238,836</u>	<u>(10,164)</u>
	EXPENDITURES:			
	Current:			
	Support Services - Student (Pupil):			
0035	Food Services	249,000	258,600	* (9,600)
	Total Support Services - Student (Pupil)	<u>249,000</u>	<u>258,600</u>	<u>(9,600)</u>
6030	Total Expenditures	<u>249,000</u>	<u>258,600</u>	<u>(9,600)</u>
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	<u>--</u>	<u>(19,764)</u>	<u>(19,764)</u>
	Other Financing Sources (Uses):			
7915	Transfers In	(35,000)	7,474	42,474
7080	Total Other Financing Sources and (Uses)	<u>(35,000)</u>	<u>7,474</u>	<u>42,474</u>
1200	Net Change in Fund Balance	<u>(35,000)</u>	<u>(12,290)</u>	<u>22,710</u>
0100	Fund Balance - Beginning	12,290	12,290	--
3000	Fund Balance - Ending	<u>\$ (22,710)</u>	<u>\$ --</u>	<u>\$ 22,710</u>

Notes to Other Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. *Expenditures exceeded appropriations at the legal level of control.



Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

To the Board of Trustees
Lovelady 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 Lovelady Independent School District, as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise Lovelady Independent School District's basic financial statements, and have issued our report thereon dated December 31, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Lovelady 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 Lovelady Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Lovelady Independent School District's internal control.

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

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

Compliance and Other Matters

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

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Governmental
Audit Quality Center

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.

Respectfully submitted,

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
December 31, 2013

LOVELADY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013

A. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that
are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial
statements noted? Yes X No

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

LOVELADY INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None to report.		

LOVELADY INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2013*

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ --

