

ANNUAL FINANCIAL REPORT

of the

**LOVELADY
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended
August 31, 2010

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LOVELADY INDEPENDENT SCHOOL DISTRICT

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**LOVELADY
INDEPENDENT SCHOOL DISTRICT**

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Lovelady
Independent School District

Name of School District

Houston

County

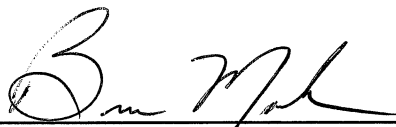
113903

Co. Dist. Number

We, the undersigned, clarify 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, 2010, at a meeting of the Board of Trustees of such school district on the 24 day of January, 2011.



Signature of Board Secretary



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)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Lovelady Independent School District:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of (the "District") as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated on January 24, 2011 our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Generally accepted accounting principles in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information 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

Providing Governmental & Nonprofit Audits Sealed with Excellence

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Governmental
Audit Quality Center

responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and schedule 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 any assurance on them.

The logo features the firm's name in a stylized, cursive font. The letters 'B', 'H', and 'P' are significantly larger and more ornate than the other letters, which are in a smaller, simpler font. The full name 'BELT HARRIS PECHACEK, LLP' is written in all caps.

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
January 24, 2011

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
For the Year Ended August 31, 2010

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, 2010. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets at August 31, 2010 were \$6,213,376.
- For the fiscal year ended August 31, 2010, the District's general fund reported a total fund balance of \$1,445,019, all of which is undesignated.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds) reported combined ending fund balances of \$1,446,695.

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 Supplemental 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.

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 Assets 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 assets and how they have changed. Net assets are the difference between the District's assets and liabilities and are 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, 2010

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base, 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 detail 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 explain the relationship (or differences) between them.
- *Proprietary funds* – The District reports the activities for which it charges users in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The internal service funds report activities that provide supplies and services for the District's other programs and activities.
- *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 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 assets and a statement of changes in fiduciary net assets. We exclude these activities from

LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended August 31, 2010

the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were \$6,213,376 at August 31, 2010. *Table 1* focuses on the net assets while *Table 2* shows the revenues and expenses that changed the net asset balance during the fiscal year ended August 31, 2010. Table 1 indicates the overall condition of the District decreased, which was the result of the District expending additional funds in payments to shared service arrangements. Table 2 reflects the District reporting a decrease in overall revenues and an increase in expenses, as compared to the prior year, resulting from additional expenses in instruction; guidance, counseling, and evaluation services; student transportation; and shared service arrangement payments during the year.

Table 1
Net Assets

<u>Description</u>	<u>Governmental Activities</u>		<u>Total Change</u>
	<u>2010</u>	<u>2009</u>	<u>2010-2009</u>
Current assets	\$ 1,900,084	\$ 2,347,666	\$ (447,582)
Capital assets	4,810,514	4,350,063	460,451
Total Assets	<u>6,710,598</u>	<u>6,697,729</u>	<u>12,869</u>
Current liabilities	334,064	26,422	307,642
Long-term liabilities	163,158	93,692	69,466
Total Liabilities	<u>497,222</u>	<u>120,114</u>	<u>377,108</u>
Net Assets:			
Invested in capital assets, net of related debt	4,647,356	4,323,641	323,715
Unrestricted	1,566,020	2,253,974	(687,954)
Total Net Assets	<u>\$ 6,213,376</u>	<u>\$ 6,577,615</u>	<u>\$ (364,239)</u>

LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended August 31, 2010

Table 2
Changes in Net Assets

	Governmental Activities		Total Change
	2010	2009	2010-2009
Revenues			
Program revenues:			
Charges for services	\$ 92,853	\$ 154,233	\$ (61,380)
Operating grants and contributions	356,058	718,772	(362,714)
General revenues:			
Property taxes	2,260,485	2,390,758	(130,273)
State aid - formula grants	2,236,745	2,707,036	(470,291)
Grants and contributions not restricted	353,634	268,023	85,611
Investment earnings	4,496	27,691	(23,195)
Miscellaneous	36,468	53,218	(16,750)
Total Revenue	<u>5,340,739</u>	<u>6,319,731</u>	<u>(978,992)</u>
Expenses			
Instruction	3,382,500	3,161,440	221,060
Instructional resources and media services	127,905	-	127,905
Curriculum and staff development	7,117	-	7,117
School leadership	275,077	300,162	(25,085)
Guidance, counseling and evaluation services	52,893	-	52,893
Social work/health services	39,430	262,360	(222,930)
Student (pupil) transportation	306,637	-	306,637
Food services	240,307	211,763	28,544
Co-curricular/extracurricular activities	270,482	234,804	35,678
General administration	334,701	327,866	6,835
Plant maintenance and operations	394,241	499,066	(104,825)
Data processing services	13,744	-	13,744
Interest on long-term debt	19,058	12,455	6,603
Payments related to shared service arrangements	222,951	-	222,951
Other intergovernmental charges	17,935	181,910	(163,975)
Total Expenses	<u>5,704,978</u>	<u>5,191,826</u>	<u>513,152</u>
Change in Net Assets	<u>(364,239)</u>	<u>1,127,905</u>	<u>(1,492,144)</u>
Beginning Net Assets	6,577,615	5,449,710	1,127,905
Ending Net Assets	<u>\$ 6,213,376</u>	<u>\$ 6,577,615</u>	<u>\$ (364,239)</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2010, the District combined governmental funds reported a combined fund balance of \$1,446,695. This compares to a combined fund balance of \$1,963,650 at August 31, 2009. The fund balance in the general fund decreased due to capital outlay.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
For the Year Ended August 31, 2010

Proprietary Funds – The District's proprietary fund (internal service fund) provides the same type of information found in the government-wide financial statements, but in more detail.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund and the child nutrition 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, 2010, 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 budgeted revenues exceeded actual revenues by \$181,815 and the budgeted expenditures exceeded actual expenditures by \$3,175.

CAPITAL ASSETS AND DEBT ADMINISTRATION

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, 2010, 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, 2010, the District had a total of \$8,082,946 invested in capital assets such as land, buildings, and District equipment. This total includes \$747,900 invested during the fiscal year ended August 31, 2010.

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 \$163,158 in capital leases versus \$26,422 last year. The increase is due to the capital lease made this year.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's budgeted expenditures for the 2010-2011 school year total \$5,306,104 and the District's Board of Trustees adopted an M & O tax rate of \$1.040.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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LOVELADY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS - EXHIBIT A-1

August 31, 2010

1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 44,537
1120	Current investments	1,626,916
1220	Property taxes - delinquent	219,438
1230	Allowance for uncollectible taxes	(94,177)
1240	Due from other governments	103,370
		<u>1,900,084</u>
	Capital assets:	
1510	Land	167,203
1520	Buildings, net	3,905,934
1530	Furniture and equipment, net	516,056
1540	Vehicles, net	221,321
		<u>4,810,514</u>
1000	Total Assets	<u>6,710,598</u>
	<u>Liabilities</u>	
2140	Interest payable	6,182
2160	Accrued wages payable	109,095
2180	Due to other governments	217,523
2300	Unearned revenues	1,264
		<u>334,064</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within	
2501	one year	79,764
2502	Long-term liabilities due in more	
2502	than one year	83,394
		<u>163,158</u>
2000	Total Liabilities	<u>497,222</u>
	<u>Net Assets</u>	
3200	Invested in capital assets, net	
3200	of related debt	4,647,356
3900	Unrestricted	1,566,020
3000	Total Net Assets	<u>\$ 6,213,376</u>

See Notes to Financial Statements.

LOVELADY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2010

Data Control Codes	Functions/Programs	Program Revenues			Net (Expense)
		1	3	4	Revenue and Changes in Net Assets
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
	Primary Government				
	Governmental Activities				
0011	Instruction	\$ 3,382,500	\$ -	\$ 245,433	\$ (3,137,067)
0012	Instructional resources				
0012	and media services	127,905	-	-	(127,905)
0013	Curriculum/instructional				
0013	staff development	7,117	-	-	(7,117)
0023	School leadership	275,077	-	-	(275,077)
0031	Guidance, counseling				
0031	and evaluation services	52,893	-	-	(52,893)
0033	Health services	39,430	-	-	(39,430)
0034	Student (pupil) transportation	306,637	-	-	(306,637)
0035	Food services	240,307	92,853	110,625	(36,829)
0036	Extracurricular activities	270,482	-	-	(270,482)
0041	General administration	334,701	-	-	(334,701)
0051	Plant maintenance and operations	394,241	-	-	(394,241)
0053	Data processing services	13,744	-	-	(13,744)
0072	Interest and fiscal agent fees	19,058	-	-	(19,058)
0093	Shared services arrangements	222,951	-	-	(222,951)
0099	Other governmental charges	17,935	-	-	(17,935)
	Total Governmental Activities	\$ 5,704,978	\$ 92,853	\$ 356,058	\$ (5,256,067)
TP	Total Primary Government	\$ 5,704,978	\$ 92,853	\$ 356,058	\$ (5,256,067)
General Revenues					
MT	Property taxes, levied for general purposes				2,260,485
SF	State aid - formula grants				2,236,745
GC	Grants and contributions not restricted				353,634
IE	Investment earnings				4,496
MI	Miscellaneous local and intermediate revenue				36,468
TR	Total General Revenues				4,891,828
CN	Change in Net Assets				(364,239)
NB	Beginning Net Assets				6,577,615
NE	Ending Net Assets				\$ 6,213,376

See Notes to Financial Statements.

LOVELADY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2010

Data Control Codes		10	Nonmajor Governmental Funds	98 Total Governmental Funds
		General		
	<u>Assets</u>			
1110	Cash and cash equivalents	\$ 41,351	\$ 2,940	\$ 44,291
1120	Current investments	1,626,916	-	1,626,916
1220	Property taxes - delinquent	219,438	-	219,438
1230	Allowance for uncollectible taxes	(94,177)	-	(94,177)
1240	Due from other governments	82,276	21,094	103,370
1260	Due from other funds	21,094	-	21,094
1000	Total Assets	<u>\$ 1,896,898</u>	<u>\$ 24,034</u>	<u>\$ 1,920,932</u>
	<u>Liabilities</u>			
2160	Accrued wages payable	109,095	-	109,095
2170	Due to other funds	-	21,094	21,094
2180	Due to other governments	217,523	-	217,523
2300	Deferred revenues	125,261	1,264	126,525
2000	Total Liabilities	<u>451,879</u>	<u>22,358</u>	<u>474,237</u>
	<u>Fund Balances</u>			
	Reserved for:			
3450	Food service operations	-	1,676	1,676
	Unreserved and undesignated, reported in:			
3600	General fund	1,445,019	-	1,445,019
3000	Total Fund Balances	<u>1,445,019</u>	<u>1,676</u>	<u>1,446,695</u>
4000	Total Liabilities			
4000	and Fund Balances	<u>\$ 1,896,898</u>	<u>\$ 24,034</u>	<u>\$ 1,920,932</u>

See Notes to Financial Statements.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - EXHIBIT C-1R

August 31, 2010

Total fund balances for governmental funds	\$	1,446,695
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	167,203		
Capital assets - depreciable	4,643,311		
			4,810,514

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

125,261

Internal services funds are used by management to charge the costs of of certain capital assets to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Assets.

246

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Accrued interest	(6,182)		
Non-current liabilities due in one year	(79,764)		
Non-current liabilities due in more than one year	(83,394)		
			(169,340)

Net Assets of Governmental Activities

\$ 6,213,376

See Notes to Financial Statements.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2

For the Year Ended August 31, 2010

Data Control Codes		General	Nonmajor Governmental Funds	Total Governmental Funds
	<u>Revenues</u>			
5700	Local, intermediate, and out-of-state	\$ 2,466,266	\$ 92,853	\$ 2,559,119
5800	State program revenues	2,458,463	26,753	2,485,216
5900	Federal program revenues	131,916	329,305	461,221
5020	Total Revenues	<u>5,056,645</u>	<u>448,911</u>	<u>5,505,556</u>
	<u>Expenditures</u>			
	Current:			
0011	Instruction	2,993,342	245,433	3,238,775
0012	Instruction resources and media services	119,280	-	119,280
0013	Curriculum/instructional staff development	4,243	-	4,243
0023	School leadership	269,327	-	269,327
0031	Guidance, counseling, evaluation services	52,893	-	52,893
0033	Health services	39,430	-	39,430
0034	Student (pupil) transportation	249,147	-	249,147
0035	Food services	-	220,187	220,187
0036	Extracurricular activities	227,365	-	227,365
0041	General administration	331,827	-	331,827
0051	Plant maintenance and operations	459,755	-	459,755
0053	Data processing services	13,744	-	13,744
	Debt service:			
0071	Principal	104,587	-	104,587
0072	Interest and fiscal charges	12,876	-	12,876
0081	Capital outlay	438,189	-	438,189
	Intergovernmental:			
0093	Shared services arrangements	222,951	-	222,951
0099	Other intergovernmental charges	17,935	-	17,935
6030	Total Expenditures	<u>5,556,891</u>	<u>465,620</u>	<u>6,022,511</u>
1100	Excess (Deficiency) of Revenues			
1100	Over (Under) Expenditures	<u>(500,246)</u>	<u>(16,709)</u>	<u>(516,955)</u>
	<u>Other Financing Sources (Uses)</u>			
7913	Capital lease proceeds	239,451	-	239,451
7915	Transfers in	-	18,385	18,385
8911	Transfers (out)	(18,385)	-	(18,385)
8949	Other uses	(239,451)	-	(239,451)
7080	Total Other Financing Sources (Uses)	<u>(18,385)</u>	<u>18,385</u>	<u>-</u>
1200	Net Change in Fund Balances	(518,631)	1,676	(516,955)
0100	Beginning Fund Balances	1,963,650	-	1,963,650
3000	Ending Fund Balances	<u>\$ 1,445,019</u>	<u>\$ 1,676</u>	<u>\$ 1,446,695</u>

See Notes to Financial Statements.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - EXHIBIT C-3*

For the Year Ended August 31, 2010

Net changes in fund balances - total governmental funds	\$ (516,955)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation	(287,449)
Capital outlay	747,900

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(165,110)
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal repayments	102,715
Accrued interest	(6,182)

Internal service funds are used by management to charge the costs of certain activities, such as workers' compensation insurance, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

	293
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Change in Net Assets of Governmental Activities	\$ (364,239)
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See Notes to Financial Statements.

LOVELADY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS PROPRIETARY FUNDS - EXHIBIT D-1

August 31, 2010

<u>Data Control Codes</u>		<u>Internal Service Fund</u>
	Assets:	
1110	Cash and cash equivalents	\$ 246
	Total Assets	<u>\$ 246</u>
	 <u>Net Assets</u>	
3540	Restricted for debt service	
3600	Unrestricted	246
4000	Total Net Assets	<u>\$ 246</u>
	See Notes to Financial Statements.	

LOVELADY
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS - EXHIBIT D-2

For the Year Ended August 31, 2010

<u>Data Control Codes</u>		<u>Internal Service Fund</u>
	Operating Revenues:	
5700	Local and intermediate sources	\$ 293
5020	Total Operating Revenues	<u>293</u>
1200	Changes in Fund Balance	293
0100	Beginning net assets	<u>(47)</u>
3000	Ending Net Assets	<u><u>\$ 246</u></u>

LOVELADY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUNDS - EXHIBIT D-3

For the Year Ended August 31, 2010

	<u>Governmental Activities Internal Service Fund</u>
<u>Cash Flows from Operating Activities</u>	
Receipts from customers and users	\$ 293
Net Cash Provided (Used) by Operating Activities	<u>293</u>
Net Decrease in Cash and Equivalents	293
Beginning Cash and Cash Equivalents	<u>(47)</u>
Ending Cash and Cash Equivalent	<u>246</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>	
Operating income	\$ 293
Net Cash Provided by Operating Activities	<u><u>\$ 293</u></u>

See Notes to Financial Statements.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - EXHIBIT E-1

August 31, 2010

<u>Data Control Codes</u>		<u>Private Purpose Trust</u>	<u>Agency</u>
	<u>Assets</u>		
1110	Cash and cash equivalents	\$ 11,902	\$ 64,208
1000	Total Assets	<u>\$ 11,902</u>	<u>\$ 64,208</u>
	<u>Liabilities</u>		
	Current liabilities:		
2170	Due to student groups	\$ -	\$ 64,208
2000	Total Liabilities	<u>\$ -</u>	<u>\$ 64,208</u>
	<u>Net Assets</u>		
	Held in trust	<u>\$ 11,902</u>	

See Notes to Financial Statements.

LOVELADY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS

FIDUCIARY FUNDS - EXHIBIT E-2

For the Year Ended August 31, 2010

	Private Purpose Trust Fund
Additions	
Local and intermediate sources	\$ 4,154
Total Additions	<u>4,154</u>
Change in Net Assets	4,154
Beginning Net Assets	<u>7,748</u>
Ending Net Assets	<u><u>\$ 11,902</u></u>

See Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Lovelady Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (“GASB”) and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency’s (“TEA”) *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State of Texas governed by a board elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District’s financial reporting entity. No other entities have been included in the District’s reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District’s financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the District’s financial reporting entity status is that of a primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable, and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

B. Financial Statement Presentation

These financial statements include Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District’s activities.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

- A change in the fund financial statements to focus on the major funds.

Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- **Restricted** – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the District as a whole. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment 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. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds, if applicable, are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The general fund is considered a major fund for reporting purposes.

Special Revenue Funds

The District accounts for resources reserved, or designated, for specific purposes by the District or a grantor in a special revenue fund. Most federal and some state financial assistance is accounted for in a special revenue fund. Sometimes, balances must be returned to the grantor at the close of specified project periods.

Proprietary Fund Types

Proprietary funds are used to account for activities that are similar to those often found in the private sector. All assets, liabilities, equities, revenues, expenses, and transfers relating to the government's business activities are accounted for through proprietary funds. The measurement focus is on determination of net income, financial position, and cash flows. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues include charges for services. Operating expenses include costs of materials, contracts, personnel, and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. Proprietary fund types follow GAAP prescribed by the Governmental Accounting Standards Board (GASB) and all Financial Accounting Standards Board standards issued prior to November 30, 1989. Subsequent to this date, the District accounts for its enterprise funds as presented by GASB.

The proprietary fund types used by the District include the following:

Internal Service Fund

Internal service funds account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. The District's internal service fund is used to account for workers' compensation insurance.

Fiduciary Funds

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District has the following type of fiduciary funds:

Agency Funds

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

D. Measurement Focus and Basis of Accounting

The government-wide Statement of Net Assets and Statement of Activities are accounted for on a flow of economic resources measurement focus – accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The District utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

Property taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on long-term debt, which is recognized when due.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

E. Assets, Liabilities, and Net Assets or Fund Equity

1. Deposits and Investments

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

In accordance with GASB Statement No. 31, “*Accounting and Reporting for Certain Investments and External Investment Pools*,” the District reports all investments at fair value, except for “money market investments” and “2a7-like pools.” Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools’ share price.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the District is authorized to invest in the following:

Direct obligations of the U.S. Government
Fully collateralized certificates of deposit and money market accounts
Statewide investment pools and commercial paper

2. Receivables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either “interfund receivables/payables” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds” in the fund financial statement.

Advances between funds are offset by a fund balance reserve account in an applicable governmental fund to indicate that they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.

Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

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

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20 to 40 years
Vehicles	10 years
Equipment	8 to 20 years

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. The long-term debt consists primarily of capital leases.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments and compensated absences paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year to the general fund.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

7. Estimates

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

8. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires funds on deposit at the depository bank to be collateralized. As of August 31, 2010, checking and time deposits were entirely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's investments are held in external investment pools which are not subject to custodial credit risk. At year end, the District had \$1,642,909 invested.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	1,642,121	0.13
Lone Star investment pool	788	0.00
Total Fair Value	<u><u>\$ 1,642,909</u></u>	
Portfolio Weighted Average Maturity		0.13

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

	Beginning Balances	Increases	(Decreases)	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 167,203	\$ -	\$ -	\$ 167,203
Total capital assets not being depreciated	167,203	-	-	167,203
Other capital assets:				
Buildings and improvements	5,774,551	320,050	-	6,094,601
Furniture and equipment	1,393,292	142,959	-	1,536,251
Vehicles	-	284,891	-	284,891
Total other capital assets	7,167,843	747,900	-	7,915,743
Less accumulated depreciation for:				
Buildings and improvements	(1,991,049)	(197,618)	-	(2,188,667)
Furniture and equipment	(993,934)	(26,261)	-	(1,020,195)
Vehicles	-	(63,570)	-	(63,570)
Total accumulated depreciation	(2,984,983)	(287,449)	-	(3,272,432)
Other capital assets, net	4,182,860	460,451	-	4,643,311
Totals	\$ 4,350,063	\$ 460,451	\$ -	\$ 4,810,514

Depreciation was charged to governmental functions as follows:

11	Instruction	\$ 143,725
12	Instructional resources and media services	8,625
13	Curriculum and instructional staff development	2,874
23	School leadership	5,750
34	Student (pupil) transportation	57,490
35	Food service	20,120
36	Co-curricular/extracurricular activities	43,117
41	General administration	2,874
51	Plant maintenance and operations	2,874
	Total Depreciation Expense	<u>\$ 287,449</u>

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the general fund to liquidate governmental long-term liabilities.

Governmental Activities:	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Bonds, notes and other payables:						
Capital Leases	\$ 239,451	\$ -	\$ 239,451	\$ (76,293)	\$ 163,158	\$ 79,764
Building Note - 7.00%	210,000	26,422	-	(26,422)	-	-
	<u>449,451</u>	<u>26,422</u>	<u>239,451</u>	<u>(102,715)</u>	<u>163,158</u>	<u>79,764</u>
Total Governmental Activities	<u>\$ 449,451</u>	<u>\$ 26,422</u>	<u>\$ 239,451</u>	<u>\$ (102,715)</u>	<u>\$ 163,158</u>	<u>\$ 79,764</u>
Long-term liabilities due in more than one year					<u>\$ 83,394</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The annual requirements to amortize debt issues outstanding at year end were as follows:

Capital Leases

Year Ended August 31	Principal	Interest	Total Requirements
2011	\$ 79,764	\$ 7,424	\$ 87,188
2012	83,394	3,794	87,188
	<u>\$ 163,158</u>	<u>\$ 11,218</u>	<u>\$ 174,376</u>

D. Interfund Transactions

The interfund balances and transfers were as follows:

	Due From Other Funds	Transfers Out
General fund		
Special revenue funds	\$ 21,094	\$ 18,385
Trust and agency fund	64,208	-
Total General Fund	<u>\$ 85,302</u>	<u>\$ 18,385</u>

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. Although the District does not anticipate that it will have any arbitrage liability, it periodically engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Pension Plan

Teacher Retirement System

Plan Description

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that includes financial statements and Required Supplementary Information for the

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4 percent of their annual covered salary and the State of Texas contributes an amount equal to 6.58 percent of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2010, 2009, and 2008 were \$210,685, \$189,483, and \$208,320, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2010, 2009, 2008 were \$25,537, \$13,333, and \$14,230, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$226,444 for the year ending August 31, 2010.

D. Retiree Health Care Plan

Plan Description

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

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0 percent and 0.65 percent of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55 percent for fiscal years 2010, 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2010, 2009, and 2008, the State's contributions to TRS-Care were \$1,144, \$1,009 and \$979, respectively, the active member contributions were \$21,398, \$20,445, and \$19,534, respectively, and the District's contributions were \$18,106, \$17,299, and \$15,528, respectively, which equaled the required contributions each year.

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

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2010, 2009, and 2008, the subsidy payments received by TRS-Care on behalf of the District were \$8,292, \$7,078, and \$7,117, respectively.

E. Employee Health Care Coverage

During the year ended August 31, 2010, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$150 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependants. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2010 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation Insurance

During the year ended August 31, 2010, the District was protected against worker compensation claims through the Texas Education Insurance Association. The third party administrator is Claims Administrative Services, Inc.

G. Unemployment Compensation

During the year ended August 31, 2010, 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 Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's unemployment compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued 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 plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2009, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

H. Shared Services Arrangements

The District participates in a shared services arrangement ("SSA") for resource education services. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Groveton Independent School District, nor does the District have a new 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 FINANCIAL STATEMENTS, Continued
For the Year Ended August 31, 2010

The District participates in an SSA for the improvement of the education of limited English proficient children, funded under ESEA Title II, Part A, English Language Acquisition and Language Enhancement. The District participated in the fiscal year 2010 grant with thirty-seven (37) other districts, three (3) charter schools and the Education Service Center, Region VI. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new 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.

The District participates in an SSA to be used to develop age-appropriate comprehensive violence and drug/alcohol education prevention programs. The SSA is funded under ESEA, Title IV Safe and Drug-Free School and Communities Act. The District participated with thirty-nine (39) other districts, one charter school and the Education Service Center, Region VI in the fiscal year 2010 grant. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new 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.

The District participates in an SSA for the education of career and technology students, funded under Title II, Basic Grant Career and Technology Education program. The District participated in the fiscal year 2010 grant with twenty-nine (29) other districts and the Education Service Center, Region VI. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new 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.

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REQUIRED SUPPLEMENTARY INFORMATION

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND - EXHIBIT G-1
For the Year Ended August 31, 2010

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Total local and intermediate sources	\$ 2,322,039	\$ 2,322,039	\$ 2,466,266	\$ 144,227
5800	State program revenues	2,816,421	2,816,421	2,458,463	(357,958)
5900	Federal program revenues	100,000	100,000	131,916	31,916
5020	Total Revenues	<u>5,238,460</u>	<u>5,238,460</u>	<u>5,056,645</u>	<u>(181,815)</u>
	Expenditures				
	Current:				
0011	Instruction	2,959,356	2,993,342	2,993,342	-
0012	Instructional resources				
0012	and media services	144,093	119,360	119,280	80
0013	Curriculum and instructional				
0013	staff development	3,500	4,244	4,243	1
0023	School leadership	313,804	269,334	269,327	7
0031	Guidance, counseling				
0031	and evaluation services	52,207	52,893	52,893	-
0033	Health services	39,432	39,485	39,430	55
0034	Student (pupil) transportation	249,176	249,148	249,147	1
0036	Extracurricular activities	235,000	227,020	227,365	(345)
0041	General administration	328,883	331,736	331,827	(91)
0051	Plant maintenance and operations	466,729	459,756	459,755	1
0053	Data processing services	23,000	13,744	13,744	-
	Debt service:				
0071	Principal	118,280	104,587	104,587	-
0072	Interest and fiscal charges	-	12,876	12,876	-
	Capital outlay:				
0081	Facilities acquisition and construction	80,000	441,654	438,189	3,465
	Intergovernmental:				
0093	Shared service arrangements	225,000	222,952	222,951	1
0099	Other intergovernmental charges	-	17,935	17,935	-
6030	Total Expenditures	<u>5,238,460</u>	<u>5,560,066</u>	<u>5,556,891</u>	<u>3,175</u>
1100	Excess (Deficiency) of Revenues				
1100	Over (Under) Expenditures	<u>-</u>	<u>(321,606)</u>	<u>(500,246)</u>	<u>(178,640)</u>
	Other Financing Sources (Uses)				
7913	Capital lease proceeds	-	-	239,451	239,451
8911	Transfers (out)	-	(21,000)	(18,385)	2,615
8949	Other uses			(239,451)	(239,451)
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>(21,000)</u>	<u>(18,385)</u>	<u>2,615</u>
1200	Net Change in Fund Balance	<u>-</u>	<u>(342,606)</u>	<u>(518,631)</u>	<u>(176,025)</u>
0100	Beginning Fund Balance	1,963,650	1,963,650	1,963,650	-
3000	Ending Fund Balance	<u>\$ 1,963,650</u>	<u>\$ 1,621,044</u>	<u>\$ 1,445,019</u>	<u>\$ (176,025)</u>

Notes to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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***OTHER SUPPLEMENTARY
INFORMATION***

LOVELADY
INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-1
August 31, 2010

		211	224	240	255
Data					
Control		ESEA Title 1	IDEA B	Child	ESEA Title II
Codes		Part A	Formula	Nutrition	Part A
<u>Assets</u>					
1110	Cash and cash equivalents	\$ -	\$ 712	\$ 1,676	\$ -
1240	Due from other governments	-	-	-	45
1000	Total Assets	<u>\$ -</u>	<u>\$ 712</u>	<u>\$ 1,676</u>	<u>\$ 45</u>
<u>Liabilities</u>					
2170	Due to other funds	-	-	-	45
2300	Deferred revenue	-	712	-	-
2000	Total Liabilities	<u>-</u>	<u>712</u>	<u>-</u>	<u>45</u>
<u>Fund Balances</u>					
Reserved for:					
3450	Food service operations	-	-	1,676	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,676</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 712</u>	<u>\$ 1,676</u>	<u>\$ 45</u>

262 Title II Part D Enhancing Education	279 Title II Part D Subpart 1 Enhancing Education	283 IDEA Part B Formula ARRA	285 ESEA Title I, Part A Improving Basic Program	288 Rural Education Achievement Program	404 Student Success Initiative
\$ -	\$ -	\$ -	\$ -	\$ 552	\$ -
-	624	3,263	12,516	-	4,646
<u>\$ -</u>	<u>\$ 624</u>	<u>\$ 3,263</u>	<u>\$ 12,516</u>	<u>\$ 552</u>	<u>\$ 4,646</u>
-	624	3,263	12,516	-	4,646
-	-	-	-	552	-
<u>-</u>	<u>624</u>	<u>3,263</u>	<u>12,516</u>	<u>552</u>	<u>4,646</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 624</u>	<u>\$ 3,263</u>	<u>\$ 12,516</u>	<u>\$ 552</u>	<u>\$ 4,646</u>

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-1
August 31, 2010

411

<u>Data Control Codes</u>		<u>Technology</u>	<u>Total Nonmajor Governmental Funds</u>
	<u>Assets</u>		
1110	Cash and cash equivalents	\$ -	\$ 2,940
1240	Due from other governments	-	21,094
1000	Total Assets	<u>\$ -</u>	<u>\$ 24,034</u>
	<u>Liabilities</u>		
2170	Due to other funds	-	21,094
2300	Deferred revenue	-	1,264
2000	Total Liabilities	<u>-</u>	<u>22,358</u>
	<u>Fund Balances</u>		
	Reserved for:		
3450	Food service operations	-	1,676
3000	Total Fund Balances	<u>-</u>	<u>1,676</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 24,034</u>

LOVELADY
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-2
For the Year Ended August 31, 2010

		211	224	240	255
Data					
Control					
Codes		ESEA Title I	IDEA B	Child	ESEA Title II
		Part A	Formula	Nutrition	Part A
<u>Revenues</u>					
5700	Local and intermediate sources	\$ -	\$ -	\$ 92,853	\$ -
5800	State program revenues	-	-	6,652	-
5900	Federal program revenues	68,815	12,788	103,973	22,913
5020	Total Revenues	<u>68,815</u>	<u>12,788</u>	<u>203,478</u>	<u>22,913</u>
<u>Expenditures</u>					
Current:					
0011	Instruction	68,815	12,788	-	22,913
0035	Food services	-	-	220,187	-
6030	Total Expenditures	<u>68,815</u>	<u>12,788</u>	<u>220,187</u>	<u>22,913</u>
7915	Transfers in	-	-	18,385	-
1200	Net Change in Fund Balances	-	-	1,676	-
0100	Beginning Fund Balances	-	-	-	-
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,676</u>	<u>\$ -</u>

262 Title II Part D Enhancing Education	279 Title II Part D Subpart 1 Enhancing Education	283 IDEA Part B Formula ARRA	285 ESEA Title I, Part A Improving Basic Program	288 Rural Education Achievement Program	404 Student Success Initiative
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	4,646
1,205	624	63,940	19,817	35,230	-
1,205	624	63,940	19,817	35,230	4,646
1,205	624	63,940	19,817	35,230	4,646
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-2
For the Year Ended August 31, 2010

		411	
Data Control Codes		Technology	Total Nonmajor Governmental Funds
	<u>Revenues</u>		
5700	Local and intermediate sources	\$ -	\$ 92,853
5800	State program revenues	15,455	26,753
5900	Federal program revenues	-	329,305
5020	Total Revenues	15,455	448,911
	<u>Expenditures</u>		
	Current:		
0011	Instruction	15,455	245,433
0035	Food services	-	220,187
6030	Total Expenditures	15,455	465,620
7915	Transfers in	-	18,385
1200	Net Change in Fund Balances	-	1,676
0100	Beginning Fund Balances	-	-
3000	Ending Fund Balances	\$ -	\$ 1,676

LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1
For the Year Ended August 31, 2010

	1	3	10
	Tax Rates	Net Assessed/ Appraised	Beginning
<u>Last Ten Years</u>	<u>Maintenance</u>	<u>Value For School Tax Purposes</u>	<u>Balance 8/31/09</u>
2001 and prior	\$ Various	\$ Various	\$ 69,436
2002	\$ 1.33000	\$ 121,367,067	9,091
2003	\$ 1.40000	\$ 120,305,857	9,980
2004	\$ 1.40000	\$ 120,438,286	9,763
2005	\$ 1.41500	\$ 127,424,594	13,535
2006	\$ 1.41500	\$ 147,409,329	16,794
2007	\$ 1.29468	\$ 162,508,214	15,968
2008	\$ 1.04000	\$ 173,900,780	23,563
2009	\$ 1.04000	\$ 232,732,790	122,241
2010	\$ 1.04000	\$ 226,958,654	-
1000 Totals			<u><u>\$ 290,371</u></u>

20	30	40	50
Current Year's Total Levy	Maintenance Total Collected	Entire Year's Adjustments	Ending Balance 8/31/10
\$ -	\$ 5,334	\$ (5,763)	\$ 60,359
-	700	(35)	8,044
-	787	(49)	8,900
-	1,050	(50)	8,419
-	2,414	(66)	10,836
-	2,994	(76)	13,576
-	3,426	(73)	11,952
-	5,570	(55)	16,929
-	84,846	(811)	24,107
<u>2,360,371</u>	<u>2,305,979</u>	<u>173</u>	<u>56,316</u>
<u>\$ 2,360,371</u>	<u>\$ 2,413,100</u>	<u>\$ (6,805)</u>	<u>\$ 219,438</u>

LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2010-2011
GENERAL AND SPECIAL REVENUE FUNDS - EXHIBIT J-2
For the Year Ended August 31, 2010

Account Number		(1) 702	(2) 703	(3) 701
		School Board	Tax Collection	Superintendent's Office
611X-6146	Payroll costs	\$ -	\$ -	\$ 195,325
6211	Legal services	8,109	-	-
6212	Audit services	-	-	-
6213	Tax appraisal/collection	-	49,741	-
621X	Other professional services	-	-	21,073
6230	Education service centers	-	-	-
6240	Maintenance and repairs	-	-	4,743
63XX	Other supplies	-	-	5,330
6410	Travel, subsistence, and stipends	8,249	-	5,691
6430	Election expense	4,738	-	-
6490	Miscellaneous operating	-	-	10,027
Totals		<u>\$ 21,096</u>	<u>\$ 49,741</u>	<u>\$ 242,189</u>

Other Information:

Total expenditures for general and special revenue funds (Exhibit C-3) (9) \$ 6,022,511

Less: deductions of unallowed costs:

Fiscal Year

Total capital outlay (6600)	(10)	438,189	
Total debt and lease (6500)	(11)	12,876	
Plant maintenance (function 51, 6100-6400)	(12)	459,755	
Food (function 35, 6341 and 6499)	(13)	220,187	
Stipends (6413)	(14)	-	
Column (4) above - total indirect cost		18,800	
Subtotal			1,149,807
Net Allowable Direct Cost			<u>\$ 4,872,704</u>

(8) Note A: Expenditures included in this report for administrative costs.

Function 53	\$ 13,744
Function 99	\$ 17,935

(4) 750	(5) 720	(6) (Other)	(7)
Indirect Cost	Direct Cost	Miscellaneous	Total
\$ -	\$ -	\$ -	\$ 195,325
-	-	-	8,109
18,800	-	-	18,800
-	-	17,936	67,677
-	-	-	21,073
-	-	13,744	13,744
-	-	-	4,743
-	-	-	5,330
-	-	-	13,940
-	-	-	4,738
-	-	-	10,027
<u>\$ 18,800</u>	<u>\$ -</u>	<u>\$ 31,680</u>	<u>\$ 363,506</u>

Cumulative

Total cost of buildings before depreciation (1520)	(15) \$	6,094,601
Historical cost of buildings over 50 years old	(16) \$	-
Amount of federal money in building cost (Net of 16)	(17) \$	-
Total cost of furniture and equipment before depreciation (1530 and 1540)	(18) \$	1,821,142
Historical cost of furniture and equipment over 16 years old	(19) \$	-
Amount of federal money in furniture and equipment (Net of 19)	(20) \$	-

LOVELADY
INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND - EXHIBIT J-3
August 31, 2010

1. Total general fund fund balance at year end (Exhibit C-1 object 3000 for the general fund only)	\$ 1,445,019
2. Total reserved fund balance at year end (Exhibit C-1 object 3400 for the general fund only)	-
3. Total designated fund balance (Exhibit C-1 object 3500 for the general fund only)	-
4. Estimated amount needed to cover fall cash flow deficits in general fund (net of borrowed funds and funds representing deferred revenues)	622,110
5. Estimate of one month average cash disbursements during the regular school session (9-1-09 to 5-31-10)	501,132
6. Estimate of delayed payments from state sources (58XX) including August payment delays	-
7. Estimate of underpayments from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	-
8. Estimate of delayed payments from federal sources (59XX)	-
9. 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)	-
10. General fund optimum fund balance and cash flow (2+3+4+5+6+7+8+9)	1,123,242
11. Excess or (deficit) undesignated unreserved general fund fund balance (1-10)	\$ 321,777

The District's administration will continue to monitor the fund balance in the general fund in the following budgetary cycles to maintain a fund balance level within District policy and State guidelines.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND - EXHIBIT J-4
For the Year Ended August 31, 2010

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<u>Revenues</u>				
5700	Total local and intermediate sources	\$ 81,302	\$ 81,302	\$ 92,853	\$ 11,551
5800	State program revenues	8,500	8,500	6,652	(1,848)
5900	Federal program revenues	112,000	112,000	103,973	(8,027)
5020	Total Revenues	201,802	201,802	203,478	1,676
	<u>Expenditures</u>				
	Current:				
0035	Food services	201,802	235,173	220,187	14,986
6030	Total Expenditures	201,802	235,173	220,187	14,986
1100	Excess (Deficiency) of Revenues				
1100	Over (Under) Expenditures	-	(33,371)	(16,709)	16,662
	<u>Other Financing Sources (Uses)</u>				
7915	Transfers in	-	21,000	18,385	(2,615)
7080	Total Other Financing Sources	-	21,000	18,385	(2,615)
1200	Net Change in Fund Balance	-	(12,371)	1,676	14,047
0100	Beginning Fund Balance	-	-	-	-
3000	Ending Fund Balance	\$ -	\$ (12,371)	\$ 1,676	\$ 14,047

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COMPLIANCE SECTION

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

January 24, 2011

To the Board of Trustees of the
Lovelady Independent School District:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lovelady Independent School District (the "District"), as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Providing Governmental & Nonprofit Audits Sealed with Excellence

Compliance and Other Matters

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

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

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas

LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2010

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Lovelady Independent School District.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None Noted

C. FINDINGS – FEDERAL AUDIT AWARDS

None Noted

LOVELADY
INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended August 31, 2010

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO
SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1
For the year ended August 31, 2010

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the annual financial report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the District receive a clean audit? - Was there an unqualified opinion in the annual financial report?	Yes
SF5	Did the annual financial report disclose any 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?	\$ -