

LOVELADY
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2014

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Lovelady Independent School District
Annual Financial Report
For The Year Ended August 31, 2014

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Annual Financial Report
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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, 2014, at a meeting of the board of trustees of such school district on the 20 day of October, 2014.

Chris Starns
Signature of Board Secretary

B. M. L.
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

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Independent Auditors' Report

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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.

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Governmental
Audit Quality Center

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, 2014, 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.

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 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2014 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, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
October 17, 2014

Management's Discussion & Analysis (MD&A)

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2014

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, 2014. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total net position at August 31, 2014 was \$6,131,385.
- For the fiscal year ended August 31, 2014, the District's general fund reported a total fund balance of \$1,746,852, of which \$1,500 was restricted and \$1,745,352 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 \$1,807,959.

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, 2014

- 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, 2014

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$6,131,385 at August 31, 2014. *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, 2014. The overall condition of the District decreased due to a reduction in grants and contributions revenue.

Table 1
Net Position

Description	Governmental Activities		Total Change
	2014	2013	2014-2013
Current assets	\$ 2,108,429	\$ 2,209,904	\$ (101,475)
Capital assets	5,252,568	5,228,427	24,141
Total Assets	7,360,997	7,438,331	(77,334)
Current liabilities	131,886	129,049	2,837
Long-term liabilities	1,097,726	976,091	121,635
Total Liabilities	1,229,612	1,105,140	124,472
Net Position:			
Net investment in capital assets	4,154,842	4,252,336	(97,494)
Restricted for:			
Food service	20,649	35,907	(15,258)
Other restrictions on net position	41,958	1,500	40,458
Unrestricted	1,913,936	2,043,448	(129,512)
Total Net Position	\$ 6,131,385	\$ 6,333,191	\$ (201,806)

Total assets from governmental activities totaled \$7,360,997, which is a decrease of \$77,334 from the 2013 fiscal year. This decrease is due to a decrease in current assets. In total, assets for the year decreased by one percent from the prior year.

Liabilities for governmental activities increased by \$124,472. This increase is due to new capital leases. In total, liabilities for the year increased by ten percent from the prior year.

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

Table 2

Changes in Net Position

	Governmental Activities		Total Change 2014-2013
	2014	2013	
Revenues			
Program revenues:			
Charges for services	\$ 246,937	\$ 151,069	\$ 95,868
Operating grants and contributions	765,534	539,911	225,623
General revenues:			
Property taxes	4,015,846	3,635,356	380,490
Grants and contributions not restricted	622,737	1,639,744	(1,017,007)
Investment earnings	8,469	3,007	5,462
Miscellaneous	60,378	98,105	(37,727)
Total Revenue	5,719,901	6,067,192	(347,291)
Expenses			
Instruction	3,281,332	3,220,546	60,786
Instructional resources and media services	62,852	47,097	15,755
Curriculum and staff development	5,324	76,420	(71,096)
School leadership	291,506	230,808	60,698
Guidance, counseling, and evaluation services	124,194	68,877	55,317
Health services	47,146	42,968	4,178
Student (pupil) transportation	315,320	275,590	39,730
Food services	281,755	287,387	(5,632)
Cocurricular/extracurricular activities	342,030	219,814	122,216
General administration	381,285	346,025	35,260
Plant maintenance and operations	398,857	411,405	(12,548)
Data processing services	131,418	84,981	46,437
Interest on long-term debt	41,660	38,002	3,658
Payments related to shared service arrangements	190,231	186,417	3,814
Other intergovernmental charges	26,797	19,686	7,111
Total Expenses	5,921,707	5,556,023	365,684
Change in Net Position	(201,806)	511,169	(712,975)
Beginning net position	6,333,191	5,822,022	511,169
Ending Net Position	\$ 6,131,385	\$ 6,333,191	\$ (201,806)

Revenues from governmental activities totaled \$5,719,901, which is a decrease of \$347,291 from the 2013 fiscal year. This includes a decrease in grants and contribution revenue of \$1,017,007. In total, revenues for the year decreased by six percent from the prior year.

Expenses from governmental activities totaled \$5,921,707, which is an increase of \$365,684. This includes an increase in extracurricular activities expense of \$122,216. In total, expenses for the year increased six percent from the prior year.

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2014, the District's governmental funds reported a combined fund balance of \$1,807,959. This compares to a combined fund balance of \$1,622,267 at August 31, 2013. 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, 2014, 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 \$321,661 and the budgeted expenditures exceeded actual expenditures by \$53,994.

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, 2014, 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, 2014, the District had a total of \$5,252,568 invested in capital assets such as land, buildings, and District equipment. This total includes \$443,575 invested during the fiscal year ended August 31, 2014.

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 \$1,097,726 in capital lease debt.

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

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGET AND RATES

The following factors were considered in establishing the District's budget for 2014-2015:

- The District budgeted revenues of \$5,464,280 and expenditures of \$5,464,280 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.

LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

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, 2014

1

Data Control Codes		Governmental Activities
	ASSETS:	
1110	Cash and Cash Equivalents	\$ 267,412
1120	Current Investments	1,262,207
1220	Property Taxes Receivable	287,420
1230	Allowance for Uncollectible Taxes	(83,654)
1240	Due from Other Governments	375,044
	Capital Assets:	
1510	Land	193,735
1520	Buildings and Improvements, Net	4,169,816
1530	Furniture and Equipment, Net	889,017
1000	Total Assets	<u>7,360,997</u>
	LIABILITIES:	
2140	Interest Payable	12,426
2165	Accrued Liabilities	119,460
	Noncurrent Liabilities:	
2501	Due Within One Year	166,936
2502	Due In More Than One Year	930,790
2000	Total Liabilities	<u>1,229,612</u>
	NET POSITION	
3200	Net Investment in Capital Assets	4,154,842
	Restricted for:	
3820	Food Service	20,649
3890	Other Restrictions on Net Position	41,958
3900	Unrestricted	1,913,936
3000	Total Net Position	<u>\$ 6,131,385</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

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	\$ 3,281,332	\$ --	\$ 307,172	\$ (2,974,160)
12	Instructional Resources and Media Services	62,852	--	1,942	(60,910)
13	Curriculum and Staff Development	5,324	--	44	(5,280)
23	School Leadership	291,506	--	10,935	(280,571)
31	Guidance, Counseling, & Evaluation Services	124,194	--	4,797	(119,397)
33	Health Services	47,146	--	1,821	(45,325)
34	Student Transportation	315,320	--	8,939	(306,381)
35	Food Service	281,755	134,593	132,789	(14,373)
36	Cocurricular/Extracurricular Activities	342,030	112,344	7,261	(222,425)
41	General Administration	381,285	--	14,565	(366,720)
51	Facilities Maintenance and Operations	398,857	--	262,845	(136,012)
53	Data Processing Services	131,418	--	5,076	(126,342)
72	Interest on Long-term Debt	41,660	--	--	(41,660)
93	Payments Related to Shared Service Arrangements	190,231	--	7,348	(182,883)
99	Other Intergovernmental Charges	26,797	--	--	(26,797)
TG	Total Governmental Activities	<u>5,921,707</u>	<u>246,937</u>	<u>765,534</u>	<u>(4,909,236)</u>
TP	Total Primary Government	<u>\$ 5,921,707</u>	<u>\$ 246,937</u>	<u>\$ 765,534</u>	<u>(4,909,236)</u>
General Revenues:					
MT	Property Taxes, Levied for General Purposes				4,015,846
IE	Investment Earnings				8,469
GC	Grants and Contributions Not Restricted to Specific Programs				622,737
MI	Miscellaneous				60,378
TR	Total General Revenues				<u>4,707,430</u>
CN	Change in Net Position				(201,806)
NB	Net Position - Beginning				6,333,191
NE	Net Position - Ending				<u>\$ 6,131,385</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:			
1110 Cash and Cash Equivalents	\$ 202,280	\$ 64,704	\$ 266,984
1120 Current Investments	1,262,207	--	1,262,207
1220 Property Taxes Receivable	287,420	--	287,420
1230 Allowance for Uncollectible Taxes	(83,654)	--	(83,654)
1240 Due from Other Governments	369,059	5,985	375,044
1260 Due from Other Funds	5,985	--	5,985
1000 Total Assets	<u>2,043,297</u>	<u>70,689</u>	<u>2,113,986</u>
LIABILITIES:			
Current Liabilities:			
2150 Payroll Deductions & Withholdings	\$ 2,248	\$ --	\$ 2,248
2160 Accrued Wages Payable	88,774	3,528	92,302
2170 Due to Other Funds	--	5,985	5,985
2200 Accrued Expenditures	1,657	69	1,726
2000 Total Liabilities	<u>92,679</u>	<u>9,582</u>	<u>102,261</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenue - Property Taxes	203,766	--	203,766
2600 Total Deferred Inflows of Resources	<u>203,766</u>	<u>--</u>	<u>203,766</u>
FUND BALANCES:			
Restricted Fund Balances:			
3450 Federal/State Funds Grant Restrictions	--	20,649	20,649
3490 Other Restrictions of Fund Balance	1,500	40,458	41,958
3600 Unassigned	1,745,352	--	1,745,352
3000 Total Fund Balances	<u>1,746,852</u>	<u>61,107</u>	<u>1,807,959</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 2,043,297</u>	<u>\$ 70,689</u>	<u>\$ 2,113,986</u>

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

Total fund balances - governmental funds balance sheet	\$ 1,807,959
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.	5,252,568
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	203,766
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	(22,755)
Payables for capital leases which are not due in the current period are not reported in the funds.	(1,097,726)
Payables for bond interest which are not due in the current period are not reported in the funds.	(12,427)
Net position of governmental activities - Statement of Net Position	\$ <u>6,131,385</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, 2014

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 4,065,576	\$ 230,278	\$ 4,295,854
5800 <i>State Program Revenues</i>	1,218,274	36,778	1,255,052
5900 <i>Federal Program Revenues</i>	153,100	289,449	442,549
5020 <i>Total Revenues</i>	<u>5,436,950</u>	<u>556,505</u>	<u>5,993,455</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	3,174,232	193,666	3,367,898
0012 <i>Instructional Resources and Media Services</i>	50,270	--	50,270
0013 <i>Curriculum and Staff Development</i>	1,130	--	1,130
0023 <i>School Leadership</i>	283,116	--	283,116
0031 <i>Guidance, Counseling, & Evaluation Services</i>	124,194	--	124,194
0033 <i>Health Services</i>	47,146	--	47,146
0034 <i>Student Transportation</i>	231,432	--	231,432
0035 <i>Food Service</i>	5,892	246,505	252,397
0036 <i>Cocurricular/Extracurricular Activities</i>	187,981	91,134	279,115
0041 <i>General Administration</i>	377,091	--	377,091
0051 <i>Facilities Maintenance and Operations</i>	394,663	--	394,663
0053 <i>Data Processing Services</i>	131,418	--	131,418
0071 <i>Principal on Long-term Debt</i>	170,765	--	170,765
0072 <i>Interest on Long-term Debt</i>	32,850	--	32,850
0081 <i>Capital Outlay</i>	139,650	--	139,650
0093 <i>Payments to Shared Service Arrangements</i>	190,231	--	190,231
0099 <i>Other Intergovernmental Charges</i>	26,797	--	26,797
6030 <i>Total Expenditures</i>	<u>5,568,858</u>	<u>531,305</u>	<u>6,100,163</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>(131,908)</u>	<u>25,200</u>	<u>(106,708)</u>
Other Financing Sources and (Uses):			
7914 <i>Issuance of Non-Current Debt</i>	292,400	--	292,400
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>292,400</u>	<u>--</u>	<u>292,400</u>
1200 <i>Net Change in Fund Balances</i>	160,492	25,200	185,692
0100 <i>Fund Balances - Beginning</i>	1,586,360	35,907	1,622,267
3000 <i>Fund Balances - Ending</i>	<u>\$ 1,746,852</u>	<u>\$ 61,107</u>	<u>\$ 1,807,959</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, 2014

Net change in fund balances - total governmental funds	\$ 185,692
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	443,575
The depreciation of capital assets used in governmental activities is not reported in the funds.	(419,434)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	35,777
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(309,330)
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	170,765
(Increase) decrease in accrued interest from beginning of period to end of period.	(8,811)
The net revenue (expense) of internal service funds is reported with governmental activities.	(7,640)
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(292,400)
Change in net position of governmental activities - Statement of Activities	\$ <u>(201,806)</u>

The accompanying notes are an integral part of this statement.

LOVELADY INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET POSITION****INTERNAL SERVICE FUND****AUGUST 31, 2014**Data
Control
CodesNonmajor
Internal Service
FundInsurance
Fund**ASSETS:**

Current Assets:

1110 *Cash and Cash Equivalents*

\$ 429

Total Current Assets

429

1000 Total Assets

429

LIABILITIES:

Current Liabilities:

2200 *Accrued Expenses*

\$ 23,184

Total Current Liabilities

23,184

2000 Total Liabilities

23,184

NET POSITION:3900 *Unrestricted*

(22,755)

3000 Total Net Position

\$ (22,755)

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, 2014

Data Control Codes		Nonmajor Internal Service Fund
		Insurance Fund
OPERATING REVENUES:		
5700	Local and Intermediate Sources	\$ 4,501
5020	Total Revenues	<u>4,501</u>
OPERATING EXPENSES:		
6100	Payroll Costs	12,141
6030	Total Expenses	<u>12,141</u>
1300	Change in Net Position	(7,640)
0100	Total Net Position - Beginning	(15,115)
3300	Total Net Position - Ending	<u><u>\$ (22,755)</u></u>

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, 2014**

	Internal Service Funds
Cash Flows from Operating Activities:	
<i>Cash Receipts (Payments) for Quasi-external</i>	
<i>Operating Transactions with Other Funds</i>	\$ 4,501
<i>Claims Paid</i>	<u>(4,292)</u>
Net Cash Provided (Used) by Operating Activities	<u>209</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 209
Cash and Cash Equivalents at Beginning of Year	220
Cash and Cash Equivalents at End of Year	<u><u>\$ 429</u></u>
 Reconciliation of Operating Income (Loss) to Net Cash	
Provided (Used) by Operating Activities:	
Operating Income (Loss)	\$ (7,640)
Change in Assets and Liabilities:	
<i>Increase (Decrease) in Accrued Expenses</i>	<u>7,849</u>
Total Adjustments	<u>7,849</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 209</u></u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes		Private-purpose Trust Fund	Agency Fund
		Private-Purpose Trust Fund	Student Activity
ASSETS:			
1110	Cash and Cash Equivalents	\$ 3,999	\$ 39,306
1120	Current Investments	8,487	8,262
1000	Total Assets	<u>12,486</u>	<u>47,568</u>
LIABILITIES:			
Current Liabilities:			
2190	Due to Student Groups	\$ --	\$ 47,568
2000	Total Liabilities	<u>--</u>	<u>47,568</u>
NET POSITION:			
3800	Held in Trust	12,486	--
3000	Total Net Position	<u>\$ 12,486</u>	<u>\$ --</u>

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, 2014

	Private- Purpose Trusts
Additions:	
Investment Income	\$ 93
Total Additions	<u>93</u>
Change in Net Position	93
Net Position-Beginning of the Year	12,393
Net Position-End of the Year	<u><u>\$ 12,486</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, 2014

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, 2014

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 the 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, 2014

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. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

d. 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.

e. 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>
Buildings and Improvements	20 to 50 years
Vehicles	8 to 10 years
Equipment	5 to 20 years

f. 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.

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2014

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.

g. 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.

h. 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.

i. Use of Estimates

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

j. 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.

k. 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.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

I. 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.

m. 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>
None reported	Not applicable

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2014

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

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, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,589,560 and the bank balance was \$1,687,086. The District's cash deposits at August 31, 2014, and during the year ended August 31, 2014, were entirely covered by FDIC insurance or by 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, 2014 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	\$ 1,278,844	N/A	0.14
Lone Star Investment Pool	112		
Total Investments	<u>\$ 1,278,956</u>		

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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.

At August 31, 2014, 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.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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.

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, 2014, 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	<u>193,735</u>	<u>--</u>	<u>--</u>	<u>193,735</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	7,075,847	139,650	--	7,215,497
Vehicles and Equipment	2,184,545	303,925	--	2,488,470
Total capital assets being depreciated	<u>9,260,392</u>	<u>443,575</u>	<u>--</u>	<u>9,703,967</u>
Less accumulated depreciation for:				
Buildings and Improvements	(2,806,283)	(239,398)	--	(3,045,681)
Vehicles and Equipment	(1,419,417)	(180,036)	--	(1,599,453)
Total accumulated depreciation	<u>(4,225,700)</u>	<u>(419,434)</u>	<u>--</u>	<u>(4,645,134)</u>
Total capital assets being depreciated, net	<u>5,034,692</u>	<u>24,141</u>	<u>--</u>	<u>5,058,833</u>
Governmental activities capital assets, net	<u>\$ 5,228,427</u>	<u>\$ 24,141</u>	<u>\$ --</u>	<u>\$ 5,252,568</u>

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2014

Depreciation was charged to functions as follows:

Instruction	\$	209,719
Instructional Resources and Media Services		12,582
Curriculum and Staff Development		4,194
School Leadership		8,390
Student Transportation		83,888
Food Services		29,358
Extracurricular Activities		62,915
General Administration		4,194
Plant Maintenance and Operations		4,194
	\$	<u>419,434</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2014 consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Special Revenue Fund	\$ 5,985	Short-term loans
	Total	<u>\$ 5,985</u>	

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

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, 2014 are as follows:

	Original Balance	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	\$ 121,635	\$ 1,097,726	\$ 166,936
Total governmental activities	<u>\$ 1,068,612</u>	<u>\$ 976,091</u>	<u>\$ 121,635</u>	<u>\$ 1,097,726</u>	<u>\$ 166,936</u>
Long-term liabilities due in more than one year				<u>\$ 930,790</u>	
Debt associated with capital assets				<u>\$ 1,097,726</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 Debt Service Fund. Interest expense was \$32,850 for the year ended August 31, 2014. The interest rate on the capital leases range between 3% to 4%.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

2. Capital Leases

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

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 166,936	\$ 36,679	\$ 203,615
2016	172,669	30,946	203,615
2017	178,599	25,017	203,615
2018	108,023	18,883	126,906
2019	111,827	15,079	126,906
2020-2024	359,671	21,046	380,717
Totals	<u>\$ 1,097,725</u>	<u>\$ 147,649</u>	<u>\$ 1,245,375</u>

G. Commitments Under Noncapitalized Leases

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

Rental Expenditures in 2014 \$ 44,826

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 2014, 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.

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.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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 2014, 2013 and 2012, and a state contribution rate of 6.0% for fiscal years 2014, 2013 and 2012. 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, 2014, 2013 and 2012 were \$205,554, \$201,764 and \$206,705, respectively. The District paid additional state contributions for the years ending August 31, 2014, 2013 and 2012 in the amount of \$26,678, \$24,070 and \$34,369, 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 \$251,093 for the year ended August 31, 2014.

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.

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 2014, 2013 and 2012. For the years ended August 31, 2014, 2013, and 2012, the State's contributions to TRS-Care were \$524, \$495, and \$2,008, respectively; the active member contributions were \$20,877, \$20,492, and \$21,052, respectively; and the District's contributions were \$17,665, \$17,339, and \$17,813, respectively; which equaled the required contributions each year.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$8,643, \$8,409, and \$8,409, respectively.

K. Employee Health Care Coverage

During the year ended August 31, 2014, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$275 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, 2014, and terms of coverage and premium costs are included in the contractual provisions.

L. Unemployment Compensation Pool

During the year ended August 31, 2014, 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, 2013 are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

M. Workers' Compensation

During the year ended August 31, 2014, 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, 2014, 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 \$23,184 in claims that were unpaid and \$9,245 in estimated claims incurred, but not reported.

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2014

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	
	2014	2013
Claims liability at beginning of year	\$ 15,335	\$ 16,847
Current year claims and estimate changes	12,029	1,949
Claims payments	(4,180)	(3,461)
Claims liability at year end	<u>\$ 23,184</u>	<u>\$ 15,335</u>

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, 2014.

O. Shared Service Arrangements

The District participates in a shared service arrangement ("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.

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 \$3,228 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 \$360 as expenditures incurred on behalf of the District.

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, 2014

EXHIBIT G-1
Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 3,949,841	\$ 3,949,841	\$ 4,065,576	\$ 115,735
5800	State Program Revenues	1,012,348	1,012,348	1,218,274	205,926
5900	Federal Program Revenues	--	153,100	153,100	--
5020	Total Revenues	4,962,189	5,115,289	5,436,950	321,661
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	2,882,039	3,196,064	3,174,232	21,832
0012	Instructional Resources and Media Services	46,795	51,795	50,270	1,525
0013	Curriculum and Staff Development	--	2,000	1,130	870
	Total Instruction & Instr. Related Services	2,928,834	3,249,859	3,225,632	24,227
Instructional and School Leadership:					
0023	School Leadership	287,463	287,463	283,116	4,347
	Total Instructional & School Leadership	287,463	287,463	283,116	4,347
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	124,662	124,662	124,194	468
0033	Health Services	47,891	47,891	47,146	745
0034	Student (Pupil) Transportation	210,357	235,357	231,432	3,925
0035	Food Services	5,582	5,582	5,892	(310)
0036	Cocurricular/Extracurricular Activities	158,557	193,557	187,981	5,576
	Total Support Services - Student (Pupil)	547,049	607,049	596,645	10,404
Administrative Support Services:					
0041	General Administration	344,961	379,961	377,091	2,870
	Total Administrative Support Services	344,961	379,961	377,091	2,870
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	393,328	403,328	394,663	8,665
0053	Data Processing Services	126,456	131,456	131,418	38
	Total Support Services - Nonstudent Based	519,784	534,784	526,081	8,703
Debt Service:					
0071	Principal on Long-Term Debt	126,906	170,766	170,765	1
0072	Interest on Long-Term Debt	--	32,850	32,850	--
	Total Debt Service	126,906	203,616	203,615	1
Capital Outlay:					
0081	Capital Outlay	--	139,650	139,650	--
	Total Capital Outlay	--	139,650	139,650	--
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	168,120	193,120	190,231	2,889
0099	Other Intergovernmental Charges	26,350	27,350	26,797	553
	Total Intergovernmental Charges	194,470	220,470	217,028	3,442
6030	Total Expenditures	4,949,468	5,622,852	5,568,858	53,994
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	12,721	(507,563)	(131,908)	375,655

LOVELADY INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Other Financing Sources (Uses):				
7914	Issuance of Non-Current Debt	--	292,400	292,400	--
8911	Transfers Out	(12,721)	(12,721)	--	12,721
7080	Total Other Financing Sources and (Uses)	(12,721)	279,679	292,400	12,721
1200	Net Change in Fund Balance	--	(227,884)	160,492	388,376
0100	Fund Balance - Beginning	1,586,360	1,586,359	1,586,360	1
3000	Fund Balance - Ending	<u>\$ 1,586,360</u>	<u>\$ 1,358,475</u>	<u>\$ 1,746,852</u>	<u>\$ 388,377</u>

Notes to Required Supplementary Information:

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

*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, 2014

Data Control Codes		211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
ASSETS:					
1110	Cash and Cash Equivalents	\$ --	\$ --	\$ 24,246	\$ --
1240	Due from Other Governments	4,584	--	--	--
1000	Total Assets	<u>\$ 4,584</u>	<u>\$ --</u>	<u>\$ 24,246</u>	<u>\$ --</u>
LIABILITIES:					
Current Liabilities:					
2160	Accrued Wages Payable	\$ --	\$ --	\$ 3,528	\$ --
2170	Due to Other Funds	4,584	--	--	--
2200	Accrued Expenditures	--	--	69	--
2000	Total Liabilities	<u>4,584</u>	<u>--</u>	<u>3,597</u>	<u>--</u>
FUND BALANCES:					
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	20,649	--
3490	Other Restrictions of Fund Balance	--	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>--</u>	<u>20,649</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 4,584</u>	<u>\$ --</u>	<u>\$ 24,246</u>	<u>\$ --</u>

EXHIBIT H-1

255 ESEA Title II Training & Recruiting	289 Small, Rural Achievement Program	410 State Textbook	461 Campus Activity	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ --	\$ --	\$ 381	\$ 40,077	\$ 64,704
1,401	--	--	--	5,985
<u>\$ 1,401</u>	<u>\$ --</u>	<u>\$ 381</u>	<u>\$ 40,077</u>	<u>\$ 70,689</u>
\$ --	\$ --	\$ --	\$ --	\$ 3,528
1,401	--	--	--	5,985
--	--	--	--	69
<u>1,401</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>9,582</u>
--	--	--	--	20,649
--	--	381	40,077	40,458
--	--	381	40,077	61,107
<u>\$ 1,401</u>	<u>\$ --</u>	<u>\$ 381</u>	<u>\$ 40,077</u>	<u>\$ 70,689</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, 2014

Data Control Codes	211 ESEA Title I Improving Basic Programs	224 IDEA-B Formula	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ 134,593	\$ --
5800 <i>State Program Revenues</i>	--	--	6,544	--
5900 <i>Federal Program Revenues</i>	108,814	4,000	126,017	2,559
5020 <i>Total Revenues</i>	<u>108,814</u>	<u>4,000</u>	<u>267,154</u>	<u>2,559</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	108,814	4,000	--	2,559
0035 <i>Food Service</i>	--	--	246,505	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--	--
6030 <i>Total Expenditures</i>	<u>108,814</u>	<u>4,000</u>	<u>246,505</u>	<u>2,559</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	--	--	20,649	--
1200 <i>Net Change in Fund Balances</i>	<u>--</u>	<u>--</u>	<u>20,649</u>	<u>--</u>
0100 <i>Fund Balances - Beginning</i>	--	--	--	--
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 20,649</u>	<u>\$ --</u>

EXHIBIT H-2

255 ESEA Title II Training & Recruiting	289 Small, Rural Achievement Program	410 State Textbook	461 Campus Activity	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ --	\$ --	\$ --	\$ 95,685	\$ 230,278
--	--	30,234	--	36,778
20,696	27,363	--	--	289,449
<u>20,696</u>	<u>27,363</u>	<u>30,234</u>	<u>95,685</u>	<u>556,505</u>
20,696	27,363	30,234	--	193,666
--	--	--	--	246,505
--	--	--	91,134	91,134
<u>20,696</u>	<u>27,363</u>	<u>30,234</u>	<u>91,134</u>	<u>531,305</u>
--	--	--	4,551	25,200
--	--	--	4,551	25,200
--	--	381	35,526	35,907
<u>\$ --</u>	<u>\$ --</u>	<u>\$ 381</u>	<u>\$ 40,077</u>	<u>\$ 61,107</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, 2014

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2005 and Prior Years	\$ Various	\$	Various	\$	Various	
2006	1.415		--		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	1.0256		--		350,612,470	
2014 (School Year Under Audit)	1.0256		--		392,875,737	
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 9/1/13	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/14
\$ 69,986	\$ --	\$ 2,130	\$ --	\$ (36)	\$ 67,820
7,827	--	1,440	--	(36)	6,351
5,737	--	1,073	--	--	4,663
8,385	--	2,100	--	--	6,285
8,493	--	1,359	--	91	7,226
14,861	--	4,905	--	213	10,168
18,391	--	5,811	--	208	12,787
38,237	--	14,290	--	201	24,148
80,579	--	34,231	--	47	46,396
--	4,029,334	3,927,759	--	--	101,574
<u>\$ 252,494</u>	<u>\$ 4,029,334</u>	<u>\$ 3,995,096</u>	<u>\$ --</u>	<u>\$ 688</u>	<u>\$ 287,420</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

LOVELADY INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)
GENERAL FUND
AS OF AUGUST 31, 2014

EXHIBIT J-2

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2014 (Exhibit C-1 object 3000 for the General Fund only)	\$ 1,746,852
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)	546,428
7	Estimate of two months' average cash disbursements during the fiscal year	1,032,142
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)	1,580,070
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	\$ 166,782

If Item 13 is a Positive Number

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

The District plans to use the above excess for future construction and technology improvements.

LOVELADY INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT J-3

Data Control Codes	1 Budget	2 Actual	3 Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 131,000	\$ 134,593	\$ 3,593
5800 <i>State Program Revenues</i>	1,500	6,544	5,044
5900 <i>Federal Program Revenues</i>	105,000	126,017	21,017
5020 Total Revenues	<u>237,500</u>	<u>267,154</u>	<u>29,654</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	<u>250,221</u>	<u>246,505</u>	<u>3,716</u>
Total Support Services - Student (Pupil)	<u>250,221</u>	<u>246,505</u>	<u>3,716</u>
6030 Total Expenditures	<u>250,221</u>	<u>246,505</u>	<u>3,716</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(12,721)</u>	<u>20,649</u>	<u>33,370</u>
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	<u>12,721</u>	<u>--</u>	<u>(12,721)</u>
7080 Total Other Financing Sources and (Uses)	<u>12,721</u>	<u>--</u>	<u>(12,721)</u>
1200 Net Change in Fund Balance	<u>--</u>	<u>20,649</u>	<u>20,649</u>
0100 Fund Balance - Beginning	<u>--</u>	<u>--</u>	<u>--</u>
3000 Fund Balance - Ending	<u>\$ --</u>	<u>\$ 20,649</u>	<u>\$ 20,649</u>

Notes to Other Supplementary Information:

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

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

Board of Trustees
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, 2014, 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 October 17, 2014.

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.

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Governmental
Audit Quality Center

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*.

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
October 17, 2014

LOVELADY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2014

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, 2014

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

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LOVELADY INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2014*

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

