

ANNUAL FINANCIAL REPORT

of the

**LOVELADY
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended
August 31, 2011

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
TABLE OF CONTENTS
August 31, 2011

	<u>Page</u>	<u>Exhibit</u>
<u>INTRODUCTORY SECTION</u>		
Certificate of Board	3	
<u>FINANCIAL SECTION</u>		
Independent Auditors' Report	7	
Management's Discussion and Analysis	11	
<u>BASIC FINANCIAL STATEMENTS</u>		
Government-Wide Financial Statements		
Statement of Net Assets	19	A-1
Statement of Activities	21	B-1
Fund Financial Statements		
Governmental Funds Financial Statements		
Balance Sheet – Governmental Funds	23	C-1
Reconciliation of the Governmental Balance Sheet to the Statement of Net Assets	25	C-1R
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	27	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	29	C-3
Proprietary Fund Financial Statements		
Statement of Net Assets – Proprietary Fund	31	D-1
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Fund	33	D-2
Statement of Cash Flows – Proprietary Fund	35	D-3
Fiduciary Fund Financial Statements		
Statement of Fiduciary Net Assets – Fiduciary Funds	37	E-1
Statement of Changes in Fiduciary Net Assets	39	E-2
Notes to the Financial Statements	41	
<u>REQUIRED SUPPLEMENTARY INFORMATION</u>		
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	57	G-1

LOVELADY INDEPENDENT SCHOOL DISTRICT

TABLE OF CONTENTS (Continued)

August 31, 2011

OTHER SUPPLEMENTARY INFORMATION

Combining Balance Sheet – Nonmajor Governmental Funds	60	H-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	64	H-2
Schedule of Delinquent Taxes Receivable	68	J-1
Schedule of Expenditures for Computation of Indirect Costs	70	J-2
Fund Balance and Cash Flow Calculation Schedule (Unaudited) – General Fund	73	J-3
Budgetary Comparison Schedule – National School Breakfast and Lunch Program	75	J-4

COMPLIANCE SECTION

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 <i>Government Auditing Standards</i>	79	
Independent Auditors' Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	81	
Summary Schedule of Prior Year Audit Findings	83	
Schedule of Findings and Questioned Costs	85	
Schedule of Expenditures of Federal Awards	87	K-1
Notes to Schedule of Expenditures of Federal Awards	89	
Schedule of Required Responses to Selected School First Indicators	91	L-1

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, clarify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2011, at a meeting of the Board of Trustees of such school district on the 14th day of November, 2011.

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)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lovelady Independent School District (the "District") as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Generally accepted accounting principles in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section and schedule labeled unaudited have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
November 4, 2011

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

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LOVELADY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2011

This discussion and analysis of Lovelady Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the year ended August 31, 2011. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets at year end were \$5,868,908.
- For the year, the District's general fund reported a total fund balance of \$1,224,442, of which \$1,500 is restricted for donated items, and \$1,222,942 is unassigned.
- At the end of the year, the District's governmental funds (the general fund plus all state and federal grant funds) reported combined ending fund balances of \$1,274,463.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2011

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

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

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

FUND FINANCIAL STATEMENTS

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

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

The District has the following kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary Funds* – The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The internal service funds report activities that provide supplies and services for the District's other programs and activities such as the District's self-insurance program.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2011

- *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 and are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's net assets were \$5,868,908 at year end. *Table 1* focuses on the net assets while *Table 2* shows the revenues and expenses that changed the net asset balance during the year. The District reported a decrease of \$177,265 in net assets from the prior year. Decreasing grants and contributions revenue along with increasing instructional, curriculum development and instructional staff development, extracurricular activities, and data processing services expenses contributed to the decrease in combined net assets.

Table 1

Net Assets

Description	Governmental Activities		Total Change
	2011	2010	2011-2010
Current assets	\$ 1,958,150	\$ 1,900,084	\$ 58,066
Capital assets	4,547,550	4,643,311	(95,761)
Total assets	6,505,700	6,543,395	(37,695)
Current liabilities	553,398	334,064	219,334
Long-term liabilities	83,394	163,158	(79,764)
Total liabilities	636,792	497,222	139,570
Net Assets:			
Invested in capital assets	4,464,156	4,480,153	(15,997)
Restricted	-	-	-
Unrestricted	1,404,752	1,566,020	(161,268)
Total net assets	\$ 5,868,908	\$ 6,046,173	\$ (177,265)

LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2011

Table 2 Changes in Net Assets	Governmental Activities		Total Change
	2011	2010	2011-2010
Revenues:			
Program revenues:			
Charges for services	\$ 108,936	\$ 92,853	\$ 16,083
Operating grants and contributions	621,466	356,058	265,408
General revenues:			
Property taxes	2,493,341	2,260,485	232,856
Grants and contributions not restricted for specific programs	2,466,263	2,590,379	(124,116)
Investment earnings	2,962	4,496	(1,534)
Transfer	38,765	-	38,765
Other revenue	131,648	36,468	95,180
Total Revenue	5,863,381	5,340,739	427,462
Expenses:			
Instruction	3,474,880	3,382,500	92,380
Instructional resources and media services	83,576	127,905	(44,329)
Curriculum/instructional staff development	130,847	7,117	123,730
School leadership	211,036	275,077	(64,041)
Guidance, counseling, evaluation services	57,563	52,893	4,670
Health services	41,400	39,430	1,970
Student (pupil) transportation	276,242	306,637	(30,395)
Food services	265,178	240,307	24,871
Extracurricular activities	354,588	270,482	84,106
General administration	347,884	334,701	13,183
Plant maintenance and operations	429,003	561,444	(132,441)
Data processing services	86,570	13,744	72,826
Debt service - interest on long term debt	4,402	19,058	(14,656)
Payments to fiscal agent/member districts of SSA	251,783	222,951	28,832
Other intergovernment charges	25,694	17,935	7,759
Total Expenses	6,040,646	5,872,181	168,465
Change in Net Assets	(177,265)	(531,442)	354,177
Beginning net assets	6,046,173	6,577,615	(531,442)
Ending Net Assets	\$ 5,868,908	\$ 6,046,173	\$ (177,265)

LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2011

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The fund balance in the general fund decreased due to the purchase of a greenhouse.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally cover multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget. The general fund's budgeted revenues exceeded actual revenues by \$164,827 and the actual expenditures exceeded budgeted expenditures by \$8,955.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the year, 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 year end, the District had a total of \$8,093,671 invested in capital assets (net of depreciation) such as land, construction in progress, buildings, and District equipment. This total includes \$177,928 invested during the year.

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 \$83,394 in capital leases outstanding versus \$163,158 last year.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's budgeted expenditures for the 2011-2012 school year total \$5,025,797 and the District's Board of Trustees adopted an tax rate of \$1.04.

Lovelady ISD experienced a rapid decline in enrollment during the 2010-2011 school year. The District experienced a 10% decline in enrollment during the period. It appears that during the 2011-2012 school year, the decline in enrollment will level off.

Due to state budget cuts and the increased costs of new testing, the District will continue to rely upon existing Fund Balance to fund major projects. The District expects to repair and renovate the school running track during the 2011-2012 school year.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2011

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS - EXHIBIT A-1
August 31, 2011

Data Control Codes		1 Governmental Activities
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 381,895
1120	Investments	1,328,147
1225	Property taxes receivable (net)	132,812
1240	Due from other governments	115,296
		<u>1,958,150</u>
	Capital assets:	
1510	Land	193,735
1520	Buildings and improvements, net	3,810,594
1530	Equipment and vehicles, net	543,221
		<u>4,547,550</u>
1000	Total Assets	<u><u>6,505,700</u></u>
	<u>Liabilities</u>	
2140	Interest payable	3,160
2165	Accrued liabilities	126,555
2300	Unearned revenue	-
		<u>553,398</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within	
2501	one year	83,394
2000	Total Liabilities	<u><u>636,792</u></u>
	<u>Net Assets</u>	
3200	Invested in capital assets, net	
3200	of related debt	4,464,156
3900	Unrestricted	1,404,752
3000	Total Net Assets	<u><u>\$ 5,868,908</u></u>

See Notes to Financial Statements.

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LOVELADY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2011

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense) 6 Primary Gov. Governmental Activities
			3 Charges for Services	4 Operating Grants and Contributions	
	Primary Government				
	Governmental Activities				
11	Instruction	\$ 3,474,880	\$ 113	\$ 349,774	\$ (3,124,993)
12	Instructional resources				
12	and media services	83,576	-	-	(83,576)
13	Curriculum/instructional				
13	staff development	130,847	-	-	(130,847)
23	School leadership	211,036	-	-	(211,036)
31	Guidance, counseling,				
31	evaluation services	57,563	-	-	(57,563)
33	Health services	41,400	-	-	(41,400)
34	Student (pupil) transportation	276,242	-	-	(276,242)
35	Food services	265,178	83,372	162,649	(19,157)
36	Extracurricular activities	354,588	25,451	109,043	(220,094)
41	General administration	347,884	-	-	(347,884)
51	Plant maintenance and operations	429,003	-	-	(429,003)
53	Data processing services	86,570	-	-	(86,570)
72	Debt service - interest on				
72	long term debt	4,402	-	-	(4,402)
93	Payments to fiscal agent/member				
93	districts of SSA	251,783	-	-	(251,783)
99	Other intergovernment charges	25,694	-	-	(25,694)
TP	Total Primary Government	<u>\$ 6,040,646</u>	<u>\$ 108,936</u>	<u>\$ 621,466</u>	<u>(5,310,244)</u>
	General Revenues				
MT	Property taxes, levied for general purposes				2,493,341
GC	Grants and contributions not restricted				
GC	for specific programs				2,466,263
IE	Investment earnings				2,962
	Transfer				38,765
MI	Miscellaneous local and intermediate revenue				131,648
TR	Total General Revenues				<u>5,132,979</u>
CN	Change in Net Assets				<u>(177,265)</u>
NB	Beginning Net Assets				<u>6,046,173</u>
NE	Ending Net Assets				<u>\$ 5,868,908</u>

See Notes to Financial Statements.

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LOVELADY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2011

Data Control Codes		10	Other	98
		General	Governmental Funds	Total Governmental Funds
	Assets:			
1110	Cash and cash equivalents	\$ 327,448	\$ 53,810	\$ 381,258
1120	Investments	1,328,147	-	1,328,147
1220	Taxes receivable	227,574	-	227,574
1230	Allowance for uncollectible taxes	(94,762)	-	(94,762)
1240	Due from other governments	98,815	16,481	115,296
1260	Due from other funds	3,300	-	3,300
1000	Total Assets	<u>\$ 1,890,522</u>	<u>\$ 70,291</u>	<u>\$ 1,960,813</u>
	Liabilities:			
2160	Accrued wages payable	\$ 107,647	\$ 15,867	\$ 123,514
2170	Due to other funds	-	3,300	3,300
2180	Due to other governments	423,683	-	423,683
2200	Accrued expenditures	1,938	1,103	3,041
2300	Deferred revenue	132,812	-	132,812
2000	Total Liabilities	<u>666,080</u>	<u>20,270</u>	<u>686,350</u>
	Fund Balances:			
	Restricted:			
3490	Booster donation	1,500	-	1,500
	Assigned, reported in nonmajor:			
3590	Special revenue funds	-	50,021	50,021
3600	Unassigned	1,222,942	-	1,222,942
3000	Total Fund Balances	<u>1,224,442</u>	<u>50,021</u>	<u>1,274,463</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,890,522</u>	<u>\$ 70,291</u>	<u>\$ 1,960,813</u>

See Notes to Financial Statements.

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS - EXHIBIT C-1R
August 31, 2011

Total fund balances for governmental funds	\$ 1,274,463
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

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

Capital assets - non-depreciable	193,735	
Capital assets - depreciable	<u>4,353,815</u>	4,547,550

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

132,812

The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.

637

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

Accrued interest	(3,160)	
Non-current liabilities due in one year	<u>(83,394)</u>	<u>(86,554)</u>

Net Assets of Governmental Activities

\$ 5,868,908

See Notes to Financial Statements.

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - EXHIBIT C-2
For the Year Ended August 31, 2011

Data Control Codes		10	Other Governmental Funds	98 Total Governmental Funds
		General		
	Revenues			
5700	Local, intermediate, and out-of-state	\$ 2,529,509	\$ 199,436	\$ 2,728,945
5800	State program revenues	2,486,852	19,952	2,506,804
5900	Federal program revenues	124,916	456,009	580,925
5020	Total Revenues	<u>5,141,277</u>	<u>675,397</u>	<u>5,816,674</u>
	Expenditures			
0011	Instruction	3,032,007	349,774	3,381,781
0012	Instructional resources/media services	75,366	-	75,366
0013	Curriculum and staff development	128,110	-	128,110
0023	School leadership	205,561	-	205,561
0031	Guidance, counseling, and			
0031	evaluation services	57,563	-	57,563
0033	Health services	41,400	-	41,400
0034	Student (pupil) transportation	221,504	-	221,504
0035	Food service	-	246,021	246,021
0036	Extracurricular activities	204,492	109,043	313,535
0041	General administration	345,147	-	345,147
0051	Plant maintenance and operations	426,266	-	426,266
0053	Data processing services	86,570	-	86,570
	Debt service:			
0071	Principal	79,764	-	79,764
0072	Interest	7,424	-	7,424
	Capital outlay:			
0081	Facilities acquisition and construction	134,182	-	134,182
	Intergovernmental:			
0093	Shared service arrangements	251,783	-	251,783
0099	Other intergovernmental charges	25,694	-	25,694
6030	Total Expenditures	<u>5,322,833</u>	<u>704,838</u>	<u>6,027,671</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(181,556)</u>	<u>(29,441)</u>	<u>(210,997)</u>
	Other Financing Sources (Uses)			
7915	Transfers in	-	77,786	77,786
8911	Transfers (out)	(39,021)	-	(39,021)
7080	Total Other Financing Sources (Uses)	<u>(39,021)</u>	<u>77,786</u>	<u>38,765</u>
1200	Net Change in Fund Balances	(220,577)	48,345	(172,232)
0100	Beginning Fund Balances	1,445,019	1,676	1,446,695
3000	Ending Fund Balances	<u>\$ 1,224,442</u>	<u>\$ 50,021</u>	<u>\$ 1,274,463</u>

See Notes to Financial Statements.

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - EXHIBIT C-3*
For the Year Ended August 31, 2011

Net changes in fund balances - total governmental funds	\$	(172,232)
---	----	-----------

Amounts reported for governmental activities in the Statement of Activities are different because:

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

Depreciation		(273,689)
Capital outlay (net of disposed assets)		177,928

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		7,551
--	--	-------

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal repayments		79,764
Accrued interest		3,022

Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

		391
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Change in Net Assets of Governmental Activities	\$	(177,265)
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See Notes to Financial Statements.

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**LOVELADY
INDEPENDENT SCHOOL DISTRICT**

*STATEMENT OF NET ASSETS
PROPRIETARY FUND - EXHIBIT D-1*

August 31, 2011

	753
	Internal
	Service
	Funds
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 637
Total Assets	<u>637</u>
<u>Net Assets</u>	
Unrestricted	637
Total Net Assets	<u>\$ 637</u>

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND - EXHIBIT D-2
For the Year Ended August 31, 2011

	753 Internal Service Funds
<u>Operating Revenues</u>	
Charges for services	\$ 391
Total Operating Revenues	<u>391</u>
Change in Net Assets	391
Beginning Net Assets	<u>246</u>
Ending Net Assets	<u><u>\$ 637</u></u>

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LOVELADY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS PROPRIETARY FUND - EXHIBIT D-3

For the Year Ended August 31, 2011

	753 Internal Service Funds
<u>Cash Flows from Operating Activities</u>	
Cash received from customers	\$ 391
Net Cash Provided by Operating Activities	<u>391</u>
 Net Increase in Cash and Cash Equivalents	 391
 Beginning Cash and Cash Equivalents	 <u>246</u>
Ending Cash and Cash Equivalents	<u><u>\$ 637</u></u>
 Reconciliation of Operating Income to	
Net Cash Provided by Operating Activities:	
Operating income	\$ 391
Net Cash Provided by Operating Activities	<u><u>\$ 391</u></u>

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

August 31, 2011

	Private-Purpose Trust Fund	Agency Fund
	T.P. White Scholarship	Student Activity
<u>Assets</u>		
Cash and cash equivalents	\$ 12,118	\$ 13,184
Total Assets	<u>12,118</u>	<u>13,184</u>
<u>Liabilities</u>		
Due to student groups	-	13,184
Total Liabilities	<u>-</u>	<u>13,184</u>
<u>Net Assets</u>		
Held in trust	12,118	-
Total Net Assets	<u>\$ 12,118</u>	<u>\$ -</u>

See Notes to Financial Statements.

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS - EXHIBIT E-2
For the Year Ended August 31, 2011

	<u>Private-Purpose Trust Fund</u>
	<u>T.P. White Scholarship</u>
<u>Additions</u>	
Investment earnings:	
Interest	\$ 216
Total Additions	<u>216</u>
Change in Net Assets	216
Beginning Net Assets	<u>11,902</u>
Ending Net Assets	<u><u>\$ 12,118</u></u>

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LOVELADY

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The District is an independent political subdivision of the State of Texas governed by the Board of Trustees, a seven member group, elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District's financial reporting entity. No other entities have been included in the District's reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity, which is in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as revised by GASB Statement No. 39.

B. Financial Statement Presentation

These financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain requirements of the statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District's activities.
- A change in the fund financial statements to focus on the major funds.

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

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

- **Restricted** – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

C. Government-Wide and Fund Financial Statements

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

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

Governmental Funds

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

General Fund

The general fund is used to account for and report all financial resources not accounted for and reported in another fund. The general fund is considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue fund is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects. The restricted or committed proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance are accounted for in a special revenue fund.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

Proprietary Funds

The proprietary funds account for services that are generally fully supported by user fees. Proprietary funds are presented on a total economic resources basis. Proprietary fund statements, like government-wide statements, provide both short and long-term information. The District has the following types of proprietary funds:

Internal Service Funds

The internal service 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.

Fiduciary Funds

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

Private-Purpose Trust Funds

Private-purpose trust 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

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

D. Measurement Focus and Basis of Accounting

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

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

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

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

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

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

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

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

1. Deposits and Investments

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

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

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

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

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

2. Receivables

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

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

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

Property Taxes

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

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

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Capital Assets

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

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

LOVELADY

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2011

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

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

5. Long-Term Obligations

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

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

6. Fund Balances – Governmental Funds

In the fund financial statements, fund balances in governmental funds are classified as follows:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact (such as principal of a permanent fund).

Restricted – Represents amounts that are constrained by external parties, constitutional provisions, or enabling legislation.

Committed – Represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees (the "Board"). Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of formal action. Commitments are approved through the adoption and amendment of the District's budget or a formal resolution stating the commitment. The commitment must be made prior to year end.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

Assigned – 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 or by an official or body to which the Board delegates the authority. The Board has retained this 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. Assignments can be made at any time.

Unassigned – 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.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed, then assigned funds, and finally unassigned funds.

7. Estimates

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

8. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget.

LOVELADY

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2011

1. Finance- Related Legal and Contractual Provisions

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

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

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the District's investments were as follows:

<u>Investments</u>	<u>Amount</u>	<u>Rating</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of deposit	\$ 1,328,036		0.13
Lone Star Investment Pool	111	AAA	
	<u>\$ 1,328,147</u>		

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

B. Capital Assets

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

Governmental Activities:	Beginning Balances	Increases	(Decreases)	Ending Balances
Capital assets not being depreciated:				
Land	\$ 167,203	\$ 26,532	\$ -	\$ 193,735
Total capital assets not being depreciated	<u>167,203</u>	<u>26,532</u>	<u>-</u>	<u>193,735</u>
Other capital assets:				
Buildings and improvements	6,094,611	107,650	-	6,202,261
Equipment and vehicles	1,653,929	43,746	-	1,697,675
Total other capital assets	<u>7,748,540</u>	<u>151,396</u>	<u>-</u>	<u>7,899,936</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,188,667)	(203,000)	-	(2,391,667)
Equipment and vehicles	(1,083,765)	(70,689)	-	(1,154,454)
Total accumulated depreciation	<u>(3,272,432)</u>	<u>(273,689)</u>	<u>-</u>	<u>(3,546,121)</u>
Other capital assets, net	4,476,108	(122,293)	-	4,353,815
Totals	<u>\$ 4,643,311</u>	<u>\$ (95,761)</u>	<u>\$ -</u>	<u>\$ 4,547,550</u>

Depreciation was charged to governmental functions as follows:

	Governmental Activities
11 Instruction	\$ 136,845
12 Instructional resources/media services	8,210
13 Curriculum and staff development	2,737
23 School leadership	5,475
34 Student (pupil) transportation	54,738
35 Food service	19,157
36 Extracurricular activities	41,053
41 General administration	2,737
51 Plant maintenance and operations	2,737
Total Depreciation Expense	<u>\$ 273,689</u>

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

C. Long-Term Debt

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

Governmental Activities:	Beginning Balance	Additions	(Reductions)	Ending Balance	Amounts Due within One Year
Capital Leases	\$ 163,158	\$ -	\$ (79,764)	\$ 83,394	\$ 83,394
Total Governmental Activities	<u>\$ 163,158</u>	<u>\$ -</u>	<u>\$ (79,764)</u>	<u>\$ 83,394</u>	<u>\$ 83,394</u>

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

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

Year Ended August 31	Principal	Interest	Total Requirements
2012	\$ 83,394	\$ 3,794	\$ 87,188
	<u>\$ 83,394</u>	<u>\$ 3,794</u>	<u>\$ 87,188</u>

D. Interfund Transactions

The interfund balances and transfers were as follows:

	Due From Other Funds	Due To Other Funds	Transfers In	Transfers Out
General fund				
Other governmental funds	\$ 3,300	\$ -	\$ -	\$ 39,021
Total General Fund	<u>3,300</u>	<u>-</u>	<u>-</u>	<u>39,021</u>
Other governmental funds				
General fund	-	3,300	39,021	-
Student Activity			38,765	
Total Other Governmental Funds	<u>-</u>	<u>3,300</u>	<u>77,786</u>	<u>-</u>
Total	<u>\$ 3,300</u>	<u>\$ 3,300</u>	<u>\$ 77,786</u>	<u>\$ 39,021</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

IV. OTHER INFORMATION

A. Risk Management

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

B. Contingent Liabilities

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

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

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

C. Pension Plan

Teacher Retirement System

Plan Description

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. The System issues a publicly available financial report that includes financial statements and Required Supplementary Information for the District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4 percent of their annual covered salary and the State of Texas contributes an amount equal to 6.58 percent of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2011, 2010 and 2009 were \$223,861, \$210,685 and \$189,483, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2011, 2010, and 2009 were \$31,881, \$25,537 and \$13,333, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$221,468 during the year.

D. Retiree Health Care Plan

Plan Description

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

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0 percent and 0.65 percent of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55 percent for fiscal years 2011, 2010, and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$729, \$1,144, and \$1,009, respectively, the active member contributions were \$22,736, \$21,398 and \$20,445, respectively, and the District's contributions were \$19,238, \$18,106 and \$17,299, respectively, which equaled the required contributions each year.

LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2011

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, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$8,076, \$8,292, and \$7,078, respectively.

E. Employee Health Care Coverage

During the year, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependants. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2011 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation Insurance

During the year ended August 31, 2011, the District met its statutory workers' compensation obligations through participation in the Texas Education Insurance Association. The third party administrator is Claims Administrative Services, Inc. According to the latest information the District had a total of \$16,217 in unpaid claims and \$6,473 in claims incurred but not reported at August 31, 2011.

G. Unemployment Compensation

During the year, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2010, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

LOVELADY

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2011

H. Shared Services Arrangements

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

The District participates in an SSA for the improvement of the education of limited English proficient children, funded under ESEA Title II, Part A, English Language Acquisition and Language Enhancement. The District participated in the fiscal year 2010 grant with thirty-seven (37) other districts, three (3) charter schools and the Education Service Center, Region VI. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA.

The District participates in an SSA to be used to develop age-appropriate comprehensive violence and drug/alcohol education prevention programs. The SSA is funded under ESEA, Title IV Safe and Drug-Free School and Communities Act. The District participated with thirty-nine (39) other districts, one charter school and the Education Service Center, Region VI in the fiscal year 2010 grant. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA.

The District participates in an SSA for the education of career and technology students, funded under Title II, Basic Grant Career and Technology Education program. The District participated in the fiscal year 2010 grant with twenty-nine (29) other districts and the Education Service Center, Region VI. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA.

I. Restatement

The District has restated the beginning net assets for governmental activities to correct for the reporting of capital assets in the prior year. The restatement of beginning net assets is as follows:

	Governmental Activities
Prior year ending net assets, as reported	\$ 6,213,376
Adjustment to capital assets being depreciated	(167,203)
Restated beginning net assets	<u>\$ 6,046,173</u>

REQUIRED SUPPLEMENTARY INFORMATION

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL - GENERAL FUND - EXHIBIT G-1

For the Year Ended August 31, 2011

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
	<u>Revenues</u>				
5700	Local, intermediate, and out-of-state	\$ 2,513,500	\$ 2,513,500	\$ 2,529,509	\$ 16,009
5800	State program revenues	2,672,604	2,672,604	2,486,852	(185,752)
5900	Federal program revenues	120,000	120,000	124,916	4,916
5020	Total Revenues	<u>5,306,104</u>	<u>5,306,104</u>	<u>5,141,277</u>	<u>(164,827)</u>
	<u>Expenditures</u>				
0011	Instruction	3,095,422	3,033,833	3,032,007	1,826
0012	Instructional resources/media services	65,729	75,429	75,366	63
0013	Curriculum and staff development	132,941	128,141	128,110	31
0023	School leadership	208,174	206,174	205,561	613
0031	Guidance, counseling, and				
0031	evaluation services	53,510	57,710	57,563	147
0033	Health services	41,823	41,823	41,400	423
0034	Student (pupil) transportation	268,660	222,660	221,504	1,156
0036	Extracurricular activities	242,367	205,867	204,492	1,375
0041	General administration	351,928	346,928	345,147	1,781
0051	Plant maintenance and operations	378,575	427,332	426,266	1,066
0053	Data processing services	84,443	87,043	86,570	473
	Debt service:				
0071	Principal	83,394	79,764	79,764	-
0072	Interest	3,794	7,424	7,424	-
	Capital outlay:				
0081	Facilities acquisition and construction	75,000	134,182	134,182	-
	Intergovernmental:				
0093	Shared service arrangements	220,344	251,784	251,783	1
0099	Other intergovernmental charges	-	25,694	25,694	-
6030	Total Expenditures	<u>5,306,104</u>	<u>5,331,788</u>	<u>5,322,833</u>	<u>8,955</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(25,684)</u>	<u>(181,556)</u>	<u>(155,872)</u>
	<u>Other Financing Sources (Uses)</u>				
8911	Transfers (out)	-	(39,021)	(39,021)	-
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>(39,021)</u>	<u>(39,021)</u>	<u>-</u>
1200	Net Change in Fund Balances	<u>-</u>	<u>(64,705)</u>	<u>(220,577)</u>	<u>\$ (155,872)</u>
0100	Beginning Fund Balances	1,445,019	1,445,019	1,445,019	
3000	Ending Fund Balances	<u>\$ 1,445,019</u>	<u>\$ 1,380,314</u>	<u>\$ 1,224,442</u>	

See Notes to Financial Statements.

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***OTHER SUPPLEMENTARY
INFORMATION***

LOVELADY
INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1 (Page 1 of 2)
August 31, 2011

Data Control Codes		211	224	240	255
		ESEA Title I Part A	IDEA-B Formula	Nutritional Breakfast and Lunch Program	ESEA Title II Part A
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ -	\$ -	\$ 8,024	\$ -
1240	Due from other governments	3,254	-	-	1,172
1000	Total Assets	<u>\$ 3,254</u>	<u>\$ -</u>	<u>\$ 8,024</u>	<u>\$ 1,172</u>
	<u>Liabilities</u>				
2160	Accrued wages payable	2,990	-	3,720	1,078
2170	Due to other funds	-	-	-	-
2200	Accrued expenditures	264	-	69	94
2000	Total Liabilities	<u>3,254</u>	<u>-</u>	<u>3,789</u>	<u>1,172</u>
	<u>Fund Balances</u>				
	Assigned, reported in nonmajor:				
3590	Special revenue funds	-	-	4,235	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>4,235</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3,254</u>	<u>\$ -</u>	<u>\$ 8,024</u>	<u>\$ 1,172</u>

266	270	283	287	404	411
ARRA Title XIV SFSF	ESEA Title VI Part B Subpart 2	ARRA IDEA-B Formula	Education Jobs Fund	Student Success Initiative	Technology Allotment
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	8,755	3,300	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,755</u>	<u>\$ 3,300</u>	<u>\$ -</u>
-	-	-	8,079	-	-
-	-	-	-	3,300	-
-	-	-	676	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>8,755</u>	<u>3,300</u>	<u>-</u>
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,755</u>	<u>\$ 3,300</u>	<u>\$ -</u>

LOVELADY
INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1 (Page 2 of 2)
August 31, 2011

Data Control Codes		461	
		Campus Activity	Total Nonmajor Governmental Funds
	<u>Assets</u>		
1110	Cash and cash equivalents	\$ 45,786	\$ 53,810
1240	Due from other governments	-	16,481
1000	Total Assets	<u>\$ 45,786</u>	<u>\$ 70,291</u>
	<u>Liabilities</u>		
2160	Accrued wages payable	-	15,867
2170	Due to other funds	-	3,300
2200	Accrued expenditures	-	1,103
2000	Total Liabilities	<u>-</u>	<u>20,270</u>
	<u>Fund Balances</u>		
	Assigned, reported in nonmajor:		
3590	Special revenue funds	45,786	50,021
3000	Total Fund Balances	<u>45,786</u>	<u>50,021</u>
4000	Total Liabilities and Fund Balances	<u>\$ 45,786</u>	<u>\$ 70,291</u>

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2 (Page 1 of 2)
For the Year Ended August 31, 2011

Data Control Codes		211	224	240	255
		ESEA Title I Part A	IDEA-B Formula	Nutritional Breakfast and Lunch Program	ESEA Title II Part A
	<u>Revenues</u>				
5700	Local, intermediate, and out-of-state	\$ -	\$ -	\$ 83,372	\$ -
5800	State program revenues	-	-	1,689	-
5900	Federal program revenues	61,747	12,744	124,498	23,404
5020	Total Revenues	<u>61,747</u>	<u>12,744</u>	<u>209,559</u>	<u>23,404</u>
	<u>Expenditures</u>				
0011	Instruction	61,747	12,744	-	23,404
0035	Food service	-	-	246,021	-
0036	Extracurricular activities	-	-	-	-
6030	Total Expenditures	<u>61,747</u>	<u>12,744</u>	<u>246,021</u>	<u>23,404</u>
	<u>Other Financing Sources (Uses)</u>				
7915	Transfers in	-	-	39,021	-
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>39,021</u>	<u>-</u>
1200	Net Change in Fund Balances	-	-	2,559	-
0100	Beginning Fund Balances	-	-	1,676	-
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,235</u>	<u>\$ -</u>

266	270	283	287	404	411
ARRA Title XIV SFSF	ESEA Title VI Part B Subpart 2	ARRA IDEA-B Formula	Education Jobs Fund	Student Success Initiative	Technology Allotment
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	3,300	14,963
182,501	552	41,808	8,755	-	-
182,501	552	41,808	8,755	3,300	14,963
182,501	552	41,808	8,755	3,300	14,963
-	-	-	-	-	-
-	-	-	-	-	-
182,501	552	41,808	8,755	3,300	14,963
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	0	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

LOVELADY
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2 (Page 2 of 2)
For the Year Ended August 31, 2011

Data Control Codes		461	
		Campus Activity	Total Nonmajor Governmental Funds
	<u>Revenues</u>		
5700	Local, intermediate, and out-of-state	\$ 116,064	\$ 199,436
5800	State program revenues	-	19,952
5900	Federal program revenues	-	456,009
5020	Total Revenues	<u>116,064</u>	<u>675,397</u>
	<u>Expenditures</u>		
0011	Instruction	-	349,774
0035	Food service	-	246,021
0036	Extracurricular activities	109,043	109,043
6030	Total Expenditures	<u>109,043</u>	<u>704,838</u>
	<u>Other Financing Sources (Uses)</u>		
7915	Transfers in	38,765	77,786
7080	Total Other Financing Sources (Uses)	<u>38,765</u>	<u>77,786</u>
1200	Net Change in Fund Balances	45,786	48,345
0100	Beginning Fund Balances	-	1,676
3000	Ending Fund Balances	<u>\$ 45,786</u>	<u>\$ 50,021</u>

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1
For the Year Ended August 31, 2011

	1		3		10	
	Tax Rates		Net Assessed/ Appraised		Beginning	
<u>Last Ten Years</u>	<u>Maintenance</u>		<u>Value For School</u>		<u>Balance</u>	
						<u>8/31/10</u>
2002 and prior	\$	Various	\$	Various	\$	68,401
2003	\$	1.4000	\$	120,305,857		8,900
2004	\$	1.4000	\$	120,438,286		8,419
2005	\$	1.4150	\$	127,424,594		10,836
2006	\$	1.4150	\$	147,409,329		13,576
2007	\$	1.2947	\$	162,508,214		11,952
2008	\$	1.0400	\$	173,900,780		16,929
2009	\$	1.0400	\$	232,732,790		24,107
2010	\$	1.0400	\$	226,958,654		56,316
2011	\$	1.0400	\$	236,471,398		-
1000 Totals					\$	<u>219,438</u>

20	31	40	50
Current Year's Total Levy	Maintenance Total Collected	Entire Year's Adjustments	Ending Balance 8/31/11
\$ -	\$ 3,022	(496)	\$ 64,884
-	839	(48)	8,012
-	1,161	(48)	7,210
-	2,930	(48)	7,858
-	3,536	-	10,041
-	2,905	(89)	8,959
-	5,445	(173)	11,312
-	8,856	(186)	15,065
-	27,605	(960)	27,752
<u>2,459,303</u>	<u>2,389,543</u>	<u>(3,279)</u>	<u>66,481</u>
<u>\$ 2,459,303</u>	<u>\$ 2,445,841</u>	<u>\$ (5,325)</u>	<u>\$ 227,574</u>

LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2012-2013
GENERAL AND SPECIAL REVENUE FUNDS - EXHIBIT J - 2
For the Year Ended August 31, 2011

Account Number		(1) 702	(2) 703	(3) 701
		School Board	Tax Collection	Superintendent's Office
611X-6146	Payroll costs	\$ -	\$ -	\$ 210,320
6211	Legal services	3,315	-	-
6212	Audit services	-	-	-
6213	Tax appraisal/collection	-	56,904	-
621X	Other professional services	-	-	20,765
6240	Maintenance and repairs	-	-	-
63XX	Other supplies	-	-	4,673
6410	Travel, subsistence, and stipends	1,001	-	9,710
6430	Election expense	4,425	-	-
6490	Miscellaneous operating	-	-	13,176
6000	Totals	<u>\$ 8,741</u>	<u>\$ 56,904</u>	<u>\$ 258,644</u>

Other Information:

Total expenditures for general and special revenue funds (Exhibit C-2) (9) \$ 6,027,671

Less: deductions of unallowed costs:

Fiscal Year

Total capital outlay (6600)	(10)	134,182	
Total debt and lease (6500)	(11)	7,424	
Plant maintenance (function 51, 6100-6400)	(12)	426,266	
Food (function 35, 6341 and 6499)	(13)	246,021	
Stipends (6413)	(14)	-	
Column (4) above - total indirect cost		<u>12,200</u>	
Subtotal			826,093
Net Allowable Direct Cost			<u>\$ 5,201,578</u>

Note A: The following expenditures are included in this report on administrative costs:

(8a) Function 53 expenditures 219,635

(4) 750	(5) 720	(6) (Other)	(7)
<u>Indirect Cost</u>	<u>Direct Cost</u>	<u>Miscellaneous</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 210,320
-	-	-	3,315
12,200	-	-	12,200
-	-	-	56,904
-	-	-	20,765
-	8,658	-	8,658
-	-	-	4,673
-	-	-	10,711
-	-	-	4,425
-	-	-	13,176
<u>\$ 12,200</u>	<u>\$ 8,658</u>	<u>\$ -</u>	<u>\$ 345,147</u>

Cumulative

Total cost of buildings before depreciation (1520)	\$ 6,202,261
Historical cost of buildings over 50 years old	\$ -
Amount of federal money in building cost (Net of 16)	\$ -
Total cost of furniture and equipment before depreciation (1530 and 1540)	\$ 1,697,675
Historical cost of furniture and equipment over 16 years old	\$ 5,000
Amount of federal money in furniture and equipment (Net of 19)	\$ -

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND - EXHIBIT J-3
August 31, 2011

1. Total general fund balance at year end (Exhibit C-1, object 3000 for the general fund only)	\$ 1,224,442
2. Total non-spendable fund balance at year end (Exhibit C-1, objects 341x-344x for the general fund only)	-
3. Total restricted fund balance (Exhibit C-1, objects 345x-349x for the general fund only)	1,500
4. Total committed fund balance (Exhibit C-1, objects 351x-354x for the general fund only)	-
5. Total assigned fund balance (Exhibit C-1, objects 355x-359x for the general fund only)	-
6. Estimated amount needed to cover fall cash flow deficits in general fund (net of borrowed funds and funds representing deferred revenues)	541,541
7. Estimate of two month's average cash disbursements during the fiscal year	909,576
8. Estimate of delayed payments from state sources (58XX) including August payment delays	-
9. Estimate of underpayments from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	-
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 (2+3+4+5+6+7+8+9+10+11)	1,452,617
13. Excess or (deficit) unassigned general fund balance (1-12)	\$ (228,175)

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
NATIONAL BREAKFAST AND LUNCH PROGRAM - EXHIBIT J-4
For the Year Ended August 31, 2011

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	<u>Revenues</u>				
5700	Local, intermediate, and out-of-state	\$ 90,000	\$ 90,000	\$ 83,372	\$ (6,628)
5800	State program revenues	5,500	5,500	1,689	(3,811)
5900	Federal program revenues	127,000	127,000	124,498	(2,502)
5020	Total Revenues	<u>222,500</u>	<u>222,500</u>	<u>209,559</u>	<u>(12,941)</u>
	<u>Expenditures</u>				
0035	Food service	222,501	222,501	246,021	(23,520)
6030	Total Expenditures	<u>222,501</u>	<u>222,501</u>	<u>246,021</u>	<u>(23,520)</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1)</u>	<u>(1)</u>	<u>(36,462)</u>	<u>(36,461)</u>
	<u>Other Financing Sources (Uses)</u>				
7915	Transfers in	1	39,021	39,021	-
7080	Total Other Financing Sources (Uses)	<u>1</u>	<u>39,021</u>	<u>39,021</u>	<u>-</u>
1200	Net Change in Fund Balances	-	39,020	2,559	<u>\$ (36,461)</u>
0100	Beginning Fund Balances	1,676	1,676	1,676	
3000	Ending Fund Balances	<u>\$ 1,676</u>	<u>\$ 40,696</u>	<u>\$ 4,235</u>	

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COMPLIANCE SECTION

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

November 4, 2011

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Lovelady Independent School District (the "District"), as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Partners

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Governmental
Audit Quality Center

Compliance and Other Matters

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

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

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

November 4, 2011

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

Compliance

We have audited the compliance of the Lovelady Independent School District (the "District") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2011. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133.

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Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas

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

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2011

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Lovelady Independent School District.
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unqualified opinion.
6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The program included as a major program is:

ARRA, Title XIV, SFSE	84.394
Child Nutrition Cluster	10.553, 10.555, and 10.565
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The District did not qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None Noted

C. FINDINGS – FEDERAL AUDIT AWARDS

None Noted

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1
For the Year Ended August 31, 2011

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor/Program or Cluster Title	FEDERAL CFDA NUMBER	PASS-THROUGH ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
ESEA, Title I, Part A*	84.010	11610101113903	\$ 61,747
IDEA B, Formula*	84.027	116600011139036000	12,744
ESEA, Title II, Part A	84.367	11694501113903	23,404
ESEA, Title VI, Part B	84.358	11696001113903	552
Education Jobs Fund	84.410	11550101113903	8,755
ARRA, IDEA B, Formula*	84.391	10554001113903	41,808
ARRA Title XIV, SFSF	84.394	11557001113903	182,501
TOTAL U.S. DEPARTMENT OF EDUCATION			331,511
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Programs*	10.553	71401101	28,338
National School Lunch*	10.555	71301001	83,589
USDA Commodities	10.565	113903	12,571
Total Passed Through State Department of Education			124,498
Passed Through Houston County Treasurer:			
Federal Forest Fund*	10.666	113903	80,053
TOTAL U.S. DEPARTMENT OF AGRICULTURE			204,551
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 536,062

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

Exhibit K-1	\$ 536,062
General Fund Mineral Rights	44,863
Exhibit C-2 federal awards	<u>\$ 580,925</u>

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2011

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Lovelady Independent School District, and is presented on the accrual basis of accounting.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

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LOVELADY
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO
SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1
For the Year Ended August 31, 2011

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

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