

LOVELADY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
AUGUST 31, 2009

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2009

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CERTIFICATE OF BOARD

Lovelady Independent School District Houston 113-903
Name of School District County Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved disapproved for the year ended August 31, 2009 at a meeting of the Board of Trustees of such school district on the 19th day of January, 2010.

Signature of Board Secretary

Signature of Board President

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

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION**

Independent Auditor's Report

Board of Trustees
Lovelady Independent School District
P O Box 250
Lovelady, Texas 75851

Members of the Board:

I 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, 2009, 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 administrators. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, I express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lovelady Independent School District as of August 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof, and the respective budgetary comparison for the general fund and the food service fund with legally adopted budgets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and other RSI such as budgetary comparison information if not presented in the Basic Financial Statements are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 19, 2010 on my consideration of the District's internal control over financial reporting and my 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 my 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Lovelady Independent School District's basic financial statements.

Although the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3 (Cash Flow and the Optimum Fund Balance Calculation Schedule) which is marked **UNAUDITED** and on which I express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Jesse L. Stephens, CPA

January 19, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS LOVELADY INDEPENDENT SCHOOL DISTRICT

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities provides information about the activities of the District as a whole and presents a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

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

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator

of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

- 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.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Asset. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Table I
Lovelady Independent School District

NET ASSETS

	Governmental Activities 2009	Governmental Activities 2008
Current and other assets	\$2,347,666	\$2,703,255
Capital assets	<u>4,350,063</u>	<u>3,255,533</u>
Total assets	<u>\$6,697,729</u>	<u>\$5,958,788</u>
Long-term liabilities	26,422	303,713
Other liabilities	<u>93,692</u>	<u>205,365</u>
Total liabilities	120,114	509,078
Net Assets:		
Invested in capital assets net of related debt	4,323,641	3,255,533
Unrestricted	<u>2,253,974</u>	<u>2,194,177</u>
Total net assets	<u>\$6,577,615</u>	<u>\$5,449,710</u>

**Table II
Lovelady
Independent
School District**

**CHANGES IN
NET ASSETS**

	Governmental Activities 2009	Governmental Activities 2008
Revenues:		
Program Revenues:		
Charges for Services	\$154,233	\$169,642
Operating grants and contributions	718,772	638,777
General Revenues:		
Maintenance and operations taxes	2,390,758	1,891,341
Debt service taxes	0	0
State aid - formula grants	2,707,036	
Grants and Contributions not restricted to specific functions	268,023	3,177,714
Investment Earnings	27,691	80,169
Miscellaneous	<u>53,218</u>	<u>100,872</u>
Total Revenue	<u>\$6,319,731</u>	<u>\$6,058,515</u>
Expenses:		
Instruction, curriculum and media services	\$3,161,440	\$3,145,336
Instructional and school leadership	300,162	316,586
Student support services	262,360	327,576
Child nutrition	211,763	210,621
Co-curricular activities	234,804	211,744
General administration	327,866	300,964
Plant maintenance, security & data processing	499,066	622,644
Debt services	12,455	30,866
Other activities	181,910	91,146
Total Expenses	<u>\$5,191,826</u>	<u>\$5,257,483</u>
Special Item-Fixed Asset Adjustment		
Increase in net assets	1,127,905	801,032
Net assets at September 1,	<u>5,449,710</u>	<u>4,648,678</u>
Net assets at August 31,	<u>\$6,577,615</u>	<u>\$ 5,449,710</u>

As the District completed the year, its governmental funds reported a combined fund balance higher than last year.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2008). The second category includes changes that the board made during the year to take into account some of the District's staff restructuring efforts. The third category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the District had invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

More detailed information about the District's capital assets is presented in Note F to the financial statements.

Debt

At year-end, the District had \$26,422 in bonds and notes outstanding versus \$303,713 last year—a decrease of \$277,291. The District's general obligation bond rating has been the highest possible since 1993, according to national rating agencies.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2009 budget and tax rates. The main factor is the economy.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Lovelady Independent School District, P. O. Box 250, Lovelady, Texas.

BASIC FINANCIAL STATEMENTS

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2009

		Primary	Government
Data			
Control			
Codes		Governmental Activities	
ASSETS			
1110	Cash and Cash Equivalents	\$	272,163
1120	Current Investments		1,471,510
1220	Property Taxes Receivable (Delinquent)		290,371
1240	Due from Other Governments		313,622
Capital Assets:			
1510	Land		167,203
1520	Buildings, Net		3,783,502
1530	Furniture and Equipment, Net		399,358
1000	Total Assets		6,697,729
LIABILITIES			
2160	Accrued Wages Payable		93,692
2300	Deferred Revenues		-
Noncurrent Liabilities			
2501	Due Within One Year		26,422
2000	Total Liabilities		120,114
NET ASSETS			
3200	Invested in Capital Assets, Net of Related Debt		4,323,641
3900	Unrestricted Net Assets		2,253,974
3000	Total Net Assets	\$	6,577,615

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	6 Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 3,030,935	\$ 48,309	\$ 351,926	\$ (2,630,700)
12 Instructional Resources and Media Services	123,101	-	6,147	(116,954)
13 Curriculum and Instructional Staff Development	7,404	-	-	(7,404)
23 School Leadership	300,162	-	13,344	(286,818)
31 Guidance, Counseling and Evaluation Services	49,110	-	2,963	(46,147)
33 Health Services	36,925	-	2,356	(34,569)
34 Student (Pupil) Transportation	176,325	-	7,398	(168,927)
35 Food Services	211,763	83,940	118,375	(9,448)
36 Extracurricular Activities	234,804	21,549	3,561	(209,694)
41 General Administration	327,866	435	6,287	(321,144)
51 Plant Maintenance and Operations	485,555	-	14,661	(470,894)
53 Data Processing Services	13,511	-	-	(13,511)
72 Debt Service - Interest on Long Term Debt	8,705	-	-	(8,705)
73 Debt Service - Bond Issuance Cost and Fees	3,750	-	-	(3,750)
81 Facilities Acquisition and Construction	-	-	191,754	191,754
93 Payments to Fiscal Agent/Member Districts of SSA	181,910	-	-	(181,910)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 5,191,826	\$ 154,233	\$ 718,772	(4,318,821)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			2,390,758
SF	State Aid - Formula Grants			2,707,036
GC	Grants and Contributions not Restricted			268,023
IE	Investment Earnings			27,691
MI	Miscellaneous Local and Intermediate Revenue			53,218
TR	Total General Revenues			5,446,726
CN	Change in Net Assets			1,127,905
NB	Net Assets--Beginning			5,449,710
NE	Net Assets--Ending			\$ 6,577,615

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2009

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 484,775	\$ (212,565)	\$ 272,210
1120 Investments - Current	1,471,510	-	1,471,510
1220 Property Taxes - Delinquent	290,371	-	290,371
1240 Due from Other Governments	101,057	212,565	313,622
1000 Total Assets	<u>\$ 2,347,713</u>	<u>\$ -</u>	<u>\$ 2,347,713</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2160 Accrued Wages Payable	\$ 93,692	\$ -	\$ 93,692
2300 Deferred Revenues	290,371	-	290,371
2000 Total Liabilities	<u>384,063</u>	<u>-</u>	<u>384,063</u>
Fund Balances:			
Unreserved and Undesignated:			
3600 Reported in the General Fund	<u>1,963,650</u>	<u>-</u>	<u>1,963,650</u>
3000 Total Fund Balances	<u>1,963,650</u>	<u>-</u>	<u>1,963,650</u>
4000 Total Liabilities and Fund Balances	<u>\$ 2,347,713</u>	<u>\$ -</u>	<u>\$ 2,347,713</u>

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2009

Total Fund Balances - Governmental Funds	\$ 1,963,650
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase(decrease) net assets.	(47)
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$6,044,203 and the accumulated depreciation was \$2,788,670. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.	3,053,918
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.	1,466,036
4 The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(196,313)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	290,371
19 Net Assets of Governmental Activities	\$ 6,577,615

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 2,478,592	\$ 83,940	\$ 2,562,532
5800 State Program Revenues	3,038,127	89,231	3,127,358
5900 Federal Program Revenues	136,409	430,064	566,473
5020 Total Revenues	5,653,128	603,235	6,256,363
EXPENDITURES:			
Current:			
0011 Instruction	2,715,836	213,891	2,929,727
0012 Instructional Resources and Media Services	117,212	-	117,212
0013 Curriculum and Instructional Staff Development	5,441	-	5,441
0023 School Leadership	296,235	-	296,235
0031 Guidance, Counseling and Evaluation Services	49,110	-	49,110
0033 Health Services	36,925	-	36,925
0034 Student (Pupil) Transportation	295,508	-	295,508
0035 Food Services	-	198,022	198,022
0036 Extracurricular Activities	205,357	-	205,357
0041 General Administration	325,903	-	325,903
0051 Facilities Maintenance and Operations	483,592	-	483,592
0053 Data Processing Services	13,511	-	13,511
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	178,943	-	178,943
0072 Debt Service - Interest on Long Term Debt	8,705	-	8,705
Capital Outlay:			
0081 Facilities Acquisition and Construction	940,643	191,754	1,132,397
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	181,910	-	181,910
6030 Total Expenditures	5,854,831	603,667	6,458,498
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(201,703)	(432)	(202,135)
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	432	432
8911 Transfers Out (Use)	(432)	-	(432)
7080 Total Other Financing Sources (Uses)	(432)	432	-
1200 Net Change in Fund Balances	(202,135)	-	(202,135)
0100 Fund Balance - September 1 (Beginning)	2,165,785	-	2,165,785
3000 Fund Balance - August 31 (Ending)	\$ 1,963,650	\$ -	\$ 1,963,650

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2009

Total Net Change in Fund Balances - Governmental Funds	\$ (202,135)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.	(47)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase (decrease) net assets.	1,466,036
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(196,313)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.	60,364
Change in Net Assets of Governmental Activities	<u>\$ 1,127,905</u>

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 2,344,000	\$ 2,472,912	\$ 2,478,592	\$ 5,680
5800	State Program Revenues	2,964,653	2,879,653	3,038,127	158,474
5900	Federal Program Revenues	20,000	120,000	136,409	16,409
5020	Total Revenues	5,328,653	5,472,565	5,653,128	180,563
EXPENDITURES:					
Current:					
0011	Instruction	2,913,577	2,774,477	2,715,836	58,641
0012	Instructional Resources and Media Services	124,291	117,291	117,212	79
0013	Curriculum and Instructional Staff Development	3,600	5,600	5,441	159
0023	School Leadership	296,925	296,925	296,235	690
0031	Guidance, Counseling and Evaluation Services	49,958	49,958	49,110	848
0033	Health Services	37,726	37,726	36,925	801
0034	Student (Pupil) Transportation	337,639	295,639	295,508	131
0036	Extracurricular Activities	187,658	207,658	205,357	2,301
0041	General Administration	320,809	325,809	325,903	(94)
0051	Facilities Maintenance and Operations	437,593	459,593	483,592	(23,999)
0053	Data Processing Services	13,500	13,600	13,511	89
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	185,877	182,377	178,943	3,434
0072	Debt Service - Interest on Long Term Debt	-	5,500	8,705	(3,205)
Capital Outlay:					
0081	Facilities Acquisition and Construction	113,000	1,132,397	940,643	191,754
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	306,500	206,500	181,910	24,590
6030	Total Expenditures	5,328,653	6,111,050	5,854,831	256,219
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(638,485)	(201,703)	436,782
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	-	(432)	(432)
7080	Total Other Financing Sources (Uses)	-	-	(432)	(432)
1200	Net Change in Fund Balances	-	(638,485)	(202,135)	436,350
0100	Fund Balance - September 1 (Beginning)	2,165,785	2,165,785	2,165,785	-
3000	Fund Balance - August 31 (Ending)	\$ 2,165,785	\$ 1,527,300	\$ 1,963,650	\$ 436,350

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2009

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ (47)
Total Assets	(47)
NET ASSETS	
Unrestricted Net Assets	(47)
Total Net Assets	\$ (47)

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 3,004
Total Operating Revenues	3,004
OPERATING EXPENSES:	
Professional and Contracted Services	3,051
Total Operating Expenses	3,051
Operating Income (Loss)	(47)
Total Net Assets - September 1 (Beginning)	-
Total Net Assets - August 31 (Ending)	\$ (47)

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Payments for Insurance Claims	\$ 3,051
Net Decrease in Cash and Cash Equivalents	(947)
Cash and Cash Equivalents at Beginning of the Year:	900
Cash and Cash Equivalents at the End of the Year:	\$ (47)
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (47)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(900)
Net Cash Used for Operating Activities	\$ (947)
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ (47)
	\$

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2009

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 7,558	\$ 73,916
Total Assets	<u>7,558</u>	<u><u>73,916</u></u>
LIABILITIES		
Due to Student Groups	-	\$ 73,916
Deferred Revenues	<u>7,558</u>	<u>-</u>
Total Liabilities	<u>7,558</u>	<u><u>73,916</u></u>

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

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

	Private Purpose Trust Fund
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 191
Total Additions	<u>191</u>
Change in Net Assets	191
 Total Net Assets - September 1 (Beginning)	 <u>7,558</u>
 Total Net Assets - August 31 (Ending)	 <u><u>\$ 7,748</u></u>

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

LOVELADY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2009

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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 *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Lovelady Independent School District non-fiduciary activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

Inter-fund activities between governmental funds and between governmental funds and proprietary funds, if present, appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Assets. All inter-fund transactions between governmental funds are eliminated on the government-wide statements. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Additionally, the District reports the following fund types:

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Internal Service Funds**-Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund for insurance.

Fiduciary Funds:

1. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is:

T P White Scholarship Fund

2. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is:

Student Activity Fund

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. Food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as revenue and expenditures when received.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	50
Infrastructure	20
Vehicles	5
Office Equipment	5
Computer Equip.	5

6. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
7. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The district has no designations of fund balance.
8. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
9. The general governments reports investments at fair value.
10. The Data Control Codes refer to the account code structure prescribed by TEA in the ***Financial Accountability System Resource Guide***. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a State wide data base for policy development and funding plans.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets</u> <u>at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in Net</u> <u>Assets</u>
Land	167,203		167,203	
Buildings	4,642,154	(1,850,656)	2,791,498	
Furniture & Equipment	1,234,846	(938,014)	296,832	
Bond Issuance Cost	3,750		3,750	
	<u>6,047,953</u>	<u>(2,788,670)</u>	<u>3,259,283</u>	
Change in Net Assets				<u>\$3,259,283</u>
<u>Long-term Liabilities</u> <u>at the Beginning of the year</u>			<u>Payable at the</u> <u>Beginning of the</u> <u>Year</u>	
Building Note			54,365	
Series 2005E			151,000	
Change in Net Assets				<u>(205,365)</u>
Net Adjustment to Net Assets				<u>\$3,053,918</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Improvements	\$1,290,843		
Total Capital Outlay	<u>\$1,290,843</u>		<u>\$1,290,843</u>
<u>Debt Principal Payments</u>			
Building Note	27,943		
Series 2005E	151,000		
Total Principal Payments	<u>178,943</u>		<u>178,943</u>
Total Adjustment to Net Assets			<u>\$ 1,466,036</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Net change in deferred taxes	\$60,364		\$60,364
Total	<u>\$60,364</u>		<u>\$60,364</u>

C. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other report is Exhibit J4.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. **DEPOSITS AND INVESTMENTS**

District Policies and Legal and Contractual Provisions Governing Deposits

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

Foreign Currency Risk The District has no investments in foreign currency.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

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

As of August 31, 2009, Lovelady Independent School District had the following investments.

<u>Investment Type</u>	Investment Maturities (in years)				
	Fair Value	Less than 1	1-5	6-10	More Than 10
Certificates of Deposit	\$ 1,471,462	\$ 1,471,462			
Lone Star	48	48			
Total	<u>\$ 1,471,510</u>	<u>\$ 1,471,510</u>			

Additional policies and contractual provisions governing deposits and investments for Lovelady Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in secured deposits.

Custodial Credit Risk for Investments To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district. All of the securities are in the District's name and held by the District.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires the investment portfolio to have maturities of less than one year on a weighted average maturity basis”).

Foreign Currency Risk for Investments The District has no foreign investments.

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are reported in the maintenance fund.

D. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2009, were as follows:

	<u>Property</u> <u>Taxes</u>	<u>Other</u> <u>Governments</u>	<u>Total</u> <u>Receivables</u>
Governmental Activities:			
General Fund	\$ 290,371	\$ 101,057	\$ 391,428
Food Service		2,868	2,868
Non-major Governmental Funds	0	209,697	209,697
Internal Service Funds			
	<u>0</u>	<u>0</u>	
Total - Governmental Activities	<u>\$ 290,371</u>	<u>\$ 313,622</u>	<u>603,993</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 0</u>	<u>\$ 0</u>	<u>0</u>

Payables at August 31, 2009, were as follows:

	<u>Accounts Payable</u>	<u>Loans, Leases and Bonds Payable - Current Year</u>	<u>Salaries and Benefits</u>	<u>Total Payables</u>
Governmental Activities:				
General Fund	\$	\$ 26,422	\$ 93,692	\$ 121,965
Total - Gov. Activities		<u>26,422</u>	<u>\$ 93,692</u>	<u>\$ 121,965</u>
Amounts not scheduled for payment during the subsequent year		<u>0</u>	<u>0</u>	

E. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2009, was as follows:

	<u>Primary Government</u>		
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Ending Balance</u>
Governmental Activities:			
Land	\$ 167,203		\$ 167,203
Buildings and Improvements	4,642,154	1,132,397	5,774,551
Furniture and Equipment	1,234,846	158,446	1,393,292
Bond Issuance Cost	3,750		0
Totals at Historic Cost	6,047,953	1,290,843	7,335,046
Less Accumulated Depreciation for:			
Buildings and Improvements	(1,850,656)	(140,393)	(1,991,049)
Furniture and Equipment	(938,014)	(55,920)	(993,934)
Total Accumulated Depreciation	(2,788,670)	(196,313)	(2,984,983)
Governmental Activities Capital Assets, Net	\$3,259,283	\$1,094,530	\$(3,750)
			\$4,350,063

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 98,157
Instructional Resources and Media Services	5,889
Curriculum Development and Instructional Staff Development	1,963
School Leadership	3,927
Student (Pupil) Transportation	39,263
Food Services	13,741
Co-curricular/Extracurricular Activities	29,447
General Administration	1,963
Plant Maintenance and Operations	1,963
Total Depreciation Expense	196,313
Bond Issuance Cost and Fees	\$3,750

F. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the General Fund. Current requirements for principal and interest expenditures are accounted for in the General Fund.

A summary of changes in general long-term debt for the year ended August 31, 2009 is as follows:

<u>DESCRIPTION</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Interest Current Year</u>	<u>Payable Amounts Outstanding 8/31/08</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 8/31/09</u>
Building Note	7.00%	\$210,000	\$ 3,807	\$ 54,365	0	\$ 27,943	\$ 26,422
Series 2005E	4.88%	570,000	6,499	151,000	0	151,000	0
TOTAL			<u>\$ 10,306</u>	<u>\$ 205,365</u>	<u>\$ 0</u>	<u>\$ 178,943</u>	<u>\$ 26,422</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2009.

G. DEBT SERVICE REQUIREMENTS - BONDS AND CAPITAL LEASES

Debt service requirements for bonds and leases are as follows:

<u>Year Ended August 31,</u>	<u>General Obligations</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2010	26,422	1,981	28,403
Total	<u>26,422</u>	<u>\$1,981</u>	<u>\$28,403</u>

H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

The District does not pay any accrued sick leave and vacation leave.

I. DEFINED BENEFIT PENSION PLAN

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

Funding Policy. State law provides for fiscal years 2009, 2008 and 2007 a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting district is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of Lovelady Independent School District's employees for the years ended August 31, 2009, 2008 and 2007 were \$189,483, \$208,320 and \$178,080, respectively. Lovelady Independent School District paid additional state contributions for the years ended August 31, 2009, 2008, and 2007 in the amount of \$13,333, \$14,230 and \$12,184, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

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, 2009, 2008, and 2007, the subsidy payments received by TRS-Care on behalf of the District were \$7,078, \$7,117, and \$5,985, respectively.

J. HEALTH CARE COVERAGE

The District participates in the State TRS Insurance Plan. Staff member contributions are required for personal coverage and total staff member contributions are required for coverage of dependents. The District obtained excess loss insurance which limited annual claims paid from the Fund for the year ended August 31, 2009 to \$100,000 for any individual participant and an aggregate limit equal to \$500,000. The District contributes \$150 monthly per employee.

Estimates of claims payable and of claims incurred but not reported at August 31, 2009, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

K. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
Building Note	\$ 54,365		\$27,943	\$ 26,422	\$26,422
Series 2005E	151,000		151,000	0	0
Total Bonds and Notes Payable	<u>205,365</u>		<u>178,943</u>	<u>26,422</u>	<u>26,422</u>
Other Liabilities:					
Capital Leases	0		0	0	0
Total Other Liabilities	<u>0</u>		<u>0</u>	<u>0</u>	<u>0</u>
Total Governmental Activities Long-term Liabilities	<u>\$205,365</u>		<u>\$178,943</u>	<u>\$26,422</u>	<u>\$26,422</u>

L. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Net Tax Revenue	\$290,371		\$ 290,371
Total Deferred Revenue	<u>\$290,371</u>		<u>\$ 290,371</u>

M. DUE FROM STATE AND FEDERAL AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2009, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>FUND</u>	<u>LOCAL GOVERNMENTS</u>	<u>STATE ENTITLEMENTS</u>	<u>FEDERAL GRANTS</u>	<u>TOTAL</u>
General	18,736	\$82,321		\$ 101,057
Special Revenue		<u>16,044</u>	<u>196,521</u>	<u>212,565</u>
Total	<u>18,736</u>	<u>\$98,365</u>	<u>\$196,521</u>	<u>\$313,622</u>

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>	<u>Debt</u> <u>Service</u> <u>Fund</u>	<u>Capital</u> <u>Projects</u> <u>Fund</u>	<u>Total</u>
Property Taxes	\$2,330,394				\$2,330,394
Penalties, Interest and Other	52,113				52,113
Tax-related Income					
Investment Income	27,691				27,691
Food Sales		\$83,940			83,940
Co-curricular Student Activities	31,428				31,428
Other	<u>36,966</u>				<u>36,966</u>
Total	<u>\$2,478,592</u>	<u>83,940</u>			<u>\$2,562,532</u>

O. WORKERS' COMPENSATION INSURANCE

During the year ended August 31, 2009, the District was protected against worker compensation claims through the Texas Education Insurance Association. The third party administrator is Claims Administrative Services, Inc.

P. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in the HOUSTON-TRINITY COUNTY SHARED SERVICES which is a shared service arrangement (SSA) for resource education services. This SSA includes seven participating independent school districts with the Groveton ISD acting as fiscal agent for the SSA. Financial transactions of the SSA are accounted for in accordance with Model 3 of the SSA section of the Texas Education Agency Financial Accounting System Resource Guide. This SSA is funded partially through State and Local funds and partially through federal programs. The individual programs and the Lovelady ISD participation in each which were included in this SSA were as follows:

Revenues:		CFDA Number	
	State & Local		\$51,964.56
	State Visual Handicapped		1,095.00
	IDEA-B, Formula	84.027	93,793.66
	IDEA B-Preschool	84.173	<u>3,541.38</u>
			<u>\$150,394.60</u>
Expenditures:			
6100	Payroll Costs		\$ 95,960.06
6200	Contracted Services		41,295.84
6300	Supplies and Materials		7,729.53
6400	Other Operating Costs		5,409.17
6600	Capital Outlay		0
	Total		<u>\$150,394.60</u>

Title III, Part A, English Language Acquisition and Language Enhancement

The District participates in a shared services arrangement 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 FY 2009 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 shared services arrangement.

ESEA, Title IV Safe and Drug-Free School and Communities Act

The District participates in a shared services arrangement to be used to develop age-appropriate comprehensive violence and drug/alcohol education prevention program. The shared services arrangement 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 FY 2009 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 shared services arrangement.

Title II, Basic Grant Career and Technology Education Program

The District participates in a shared services arrangement for the education of career and technology students, funded under Title II, Basic Grant Career and Technology Education program. The District participated in the FY 2009 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 shared services arrangement.

Q. FEDERAL FUNDS

Federal funds reported in the General Fund are funds from the Federal Forest for timber and minerals in the amount of \$136,409.

During the year, the District was awarded stimulus payments in the amount of \$191,754 for reimbursement of construction costs paid by the District. The District elected to retroactively record the money to be received in the Fiscal 2009 year. The revenue is recorded in Fund 266 Title XIV ARRA State Stabilization. As a result of this revenue, the District is subject to A-133 audit requirements for the fiscal year ending August 31, 2009.

COMBINING AND OTHER STATEMENTS

LOVELADY INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2009

Data Control Codes		211	240	243	255
		ESEA I, A Improving Basic Program	National Breakfast and Lunch Program	Vocational Ed Technical Preparation	ESEA II, A Training and Recruiting
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ (2,868)	\$ (1,899)	\$ -
1240	Due from Other Governments	-	2,868	1,899	-
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
4000	Total Liabilities and Fund Equity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

262 Title II, D Education Technology	266 Title XIV ARRA State Stabilization	289 Other Federal Special Revenue Funds	404 Student Success Initiative	411 Technology Allotment	428 High School Allotment	Total Nonmajor Governmental Funds
\$ -	\$ (191,754)	\$ -	\$ (16,044)	\$ -	\$ -	\$ (212,565)
-	191,754	-	16,044	-	-	212,565
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LOVELADY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	243 Vocational Ed Technical Preparation	255 ESEA II, A Training and Recruiting
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ 83,940	\$ -	\$ -
5800	State Program Revenues	-	6,036	-	-
5900	Federal Program Revenues	68,815	107,614	1,899	23,393
5020	Total Revenues	68,815	197,590	1,899	23,393
EXPENDITURES:					
Current:					
0011	Instruction	68,815	-	1,899	23,393
0035	Food Services	-	198,022	-	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	-	-	-
6030	Total Expenditures	68,815	198,022	1,899	23,393
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(432)	-	-
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	432	-	-
7080	Total Other Financing Sources (Uses)	-	432	-	-
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

262 Title II, D Education Technology	266 Title XIV ARRA State Stabilization	289 Other Federal Special Revenue Funds	404 Student Success Initiative	411 Technology Allotment	428 High School Allotment	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,940
-	-	-	16,044	15,668	51,483	89,231
1,260	191,754	35,329	-	-	-	430,064
1,260	191,754	35,329	16,044	15,668	51,483	603,235
1,260	-	35,329	16,044	15,668	51,483	213,891
-	-	-	-	-	-	198,022
-	191,754	-	-	-	-	191,754
1,260	191,754	35,329	16,044	15,668	51,483	603,667
-	-	-	-	-	-	(432)
-	-	-	-	-	-	432
-	-	-	-	-	-	432
-	-	-	-	-	-	-
-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

LOVELADY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2009

	BALANCE SEPTEMBER 1 2008	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2009
CAMPUS ACTIVITY FUND				
Assets:				
Cash and Temporary Investments	\$ 67,455	\$ 247,351	\$ 240,890	\$ 73,916
CAMPUS ACTIVITY FUND				
Liabilities:				
Due to Student Groups	\$ 67,455	\$ 247,351	\$ 240,890	\$ 73,916
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 67,455	\$ 247,351	\$ 240,890	\$ 73,916
Liabilities:				
Due to Student Groups	\$ 67,455	\$ 247,351	\$ 240,890	\$ 73,916

T.E.A. REQUIRED SCHEDULES

LOVELADY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2009

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2000 and prior years	Various	Various	\$ 403,080,866
2001	4.370000	0.000000	109,684,526
2002	1.330000	0.000000	121,367,067
2003	1.400000	0.000000	120,305,857
2004	1.400000	0.000000	120,438,286
2005	1.415000	0.000000	127,424,594
2006	1.415000	0.000000	147,409,329
2007	1.294680	0.000000	162,508,214
2008	1.040000	0.000000	173,900,780
2009 (School year under audit)	1.040000	0.000000	232,732,790
1000 TOTALS			

(10) Beginning Balance 9/1/2008	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2009
\$ 69,292	\$ -	\$ 4,630	\$ -	\$ (3,597)	\$ 61,065
9,458	-	824	-	(263)	8,371
10,166	-	992	-	(83)	9,091
11,972	-	1,835	-	(157)	9,980
13,354	-	3,434	-	(157)	9,763
20,699	-	5,790	-	(1,374)	13,535
25,619	-	8,729	-	(96)	16,794
28,017	-	12,018	-	(31)	15,968
53,594	-	29,617	-	(414)	23,563
-	2,420,267	2,294,661	-	(3,365)	122,241
<u>\$ 242,171</u>	<u>\$ 2,420,267</u>	<u>\$ 2,362,530</u>	<u>\$ -</u>	<u>\$ (9,537)</u>	<u>\$ 290,371</u>

LOVELADY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2010-2011
GENERAL AND SPECIAL REVENUE FUNDS
AUGUST 31, 2009

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 164,490	\$ -	\$ -	\$ -	\$ 164,490
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	19,124	-	-	-	-	-	19,124
6212	Audit Services	-	-	-	11,925	-	-	11,925
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	79,236	-	-	-	-	79,236
621X	Other Professional Services	-	-	17,455	-	-	-	17,455
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	5,509	-	-	-	5,509
6410	Travel, Subsistence, Stipends	5,977	-	3,876	-	-	-	9,853
6420	Ins. and Bonding Costs	-	-	7,563	-	-	-	7,563
6430	Election Costs	4,070	-	-	-	-	-	4,070
6490	Miscellaneous Operating	-	-	6,678	-	-	-	6,678
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 29,171	\$ 79,236	\$ 205,571	\$ 11,925	\$ -	\$ -	\$ 325,903

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 6,458,499

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 80,817
Total Debt & Lease(6500)	(11) 187,649
Plant Maintenance (Function 51, 6100-6400)	(12) 459,280
Food (Function 35, 6341 and 6499)	(13) 88,808
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	11,925

SubTotal:

828,478

Net Allowed Direct Cost

\$ 5,630,021

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 5,774,551
Historical Cost of Building over 50 years old	(16) \$ -
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 1,393,292
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.

No Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

LOVELADY INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND AS OF AUGUST 31, 2009

UNAUDITED

1	Total General Fund Balance as of 8/31/09 (Exhibit C-1 object 3000 for the General Fund Only)	\$ 1,963,650
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ -
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	-
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	300,000
5	Estimate of one month's average cash disbursements during the regular school session (9/1/09-5/31/10).	650,000
6	Estimate of delayed payments from state sources (58xx) including August payment delays	-
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	750,000
8	Estimate of delayed payments from federal sources (59xx)	-
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	<u>1,700,000</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	<u>\$ 263,650</u>

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

The district has already committed major capital improvements in excess of \$600,000

LOVELADY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 73,000	\$ 73,000	\$ 83,940	\$ 10,940
5800 State Program Revenues	9,262	9,262	6,036	(3,226)
5900 Federal Program Revenues	119,788	119,788	107,614	(12,174)
5020 Total Revenues	202,050	202,050	197,590	(4,460)
EXPENDITURES:				
0035 Food Services	202,050	202,050	198,022	4,028
6030 Total Expenditures	202,050	202,050	198,022	4,028
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(432)	(432)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	432	432
7080 Total Other Financing Sources (Uses)	-	-	432	432
1200 Net Change in Fund Balances	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

**REPORTS ON
INTERNAL CONTROLS, COMPLIANCE
AND
FEDERAL AWARDS**

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

Independent Auditor's Report

Board of Trustees
Lovelady Independent School District
P O Box 250
Lovelady, Texas 75851

Members of the Board:

I have audited the 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, 2009. These collectively comprise the District's basic financial statements. I have issued my report on them dated January 19, 2010.

I conducted my 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 my audit, I considered Lovelady Independent School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Lovelady Independent School District's internal control over financial reporting. Accordingly I do not express an opinion on the effectiveness of Lovelady Independent School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

My consideration of 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 internal control that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I considered to be material weaknesses as defined above.

The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the district's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Jesse L Stephens, CPA

January 19, 2010

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

Independent Auditor's Report

Board of Trustees
P O Box 99
Lovelady, Texas 75835

Members of the Board:

Compliance

I have audited the compliance of Lovelady Independent School 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, 2009. The District's major federal programs are identified in the summary of auditor's 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 Lovelady Independent School District's administrators. My responsibility is to express an opinion on the District's compliance based on my audit.

I conducted my 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 I 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 Lovelady Independent School District's compliance with those requirements and performing such other procedures as I consider necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Lovelady Independent School District's compliance with those requirements.

In my opinion, Lovelady Independent School 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, 2009.

Internal Control Over Compliance

The administration of Lovelady Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance, but not for the purpose of

expressing an opinion of the effectiveness of internal control over compliance. Accordingly I do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

My 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. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses as defined above.

This report is intended for the information and use of the District's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Jesse L. Stephens, CPA

January 19, 2010

LOVELADY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2009

I. Summary of the Auditor's Results:

1. The type of report issued on the financial statements of the Lovelady Independent School District was an unqualified opinion.
2. No significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements.
3. The audit disclosed no noncompliance which is material to the financial statements of the auditee.
4. The type of report the auditor issued on compliance for major programs was an unqualified opinion.
5. The audit did not disclose any audit findings which the auditor is required to report under Section __.510(a). These include:
 - a) Significant deficiencies in internal control over major programs.
 - b) Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.
 - c) For a type of compliance requirement for a major program, known questioned costs when likely questioned costs are greater than \$10,000
 - d) Known questioned costs greater than \$10,000 for a Federal program which is not audited as a major program.
6. The major program is the General Fund.
7. The dollar threshold used to distinguish between Type A and Type B programs is \$300,000.
8. The auditee qualified as a low-risk auditee.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards* .

None

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

None

LOVELADY INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2009

(Prepared by the District's Administration)

None

CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2009

None

LOVELADY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2009

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
SCHOOLS AND ROADS - GRANTS TO COUNTIES			
<u>Direct Programs:</u>			
Schools and Roads - Grants to Counties	10.666	113903	\$ 136,409
Total Direct Programs			\$ 136,409
TOTAL SCHOOLS AND ROADS - GRANTS TO COUNTIES			\$ 136,409
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs</u>			
REAP GRANT	84.358A	S358A093306	\$ 35,329
Total Direct Programs			\$ 35,329
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	09610101113903	\$ 68,815
SSA - Career and Technical - Technical Preparation	84.243A	113903	1,899
Title II, Part D - Enhancing Ed. Through Technology	84.318X	09630001113903	1,260
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	09694501113903	23,393
ARRA TTL XIV SFSF	84.394	10557001113903	191,754
Total Passed Through State Department of Education			\$ 287,121
TOTAL DEPARTMENT OF EDUCATION			\$ 322,450
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553	71400901	\$ 21,708
National School Lunch Program - Cash Assistance*	10.555	71300901	73,258
National School Lunch Prog. - Non-Cash Assistance*	10.550	113002A	12,648
Total Passed Through the State Department of Agriculture			\$ 107,614
TOTAL DEPARTMENT OF AGRICULTURE			\$ 107,614
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 566,473

*Clustered Programs as required by Compliance Supplement March, 2009

LOVELADY INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2009

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide* . Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type except for the Federal Forest Reserve which is accounted for in the general fund.
- With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.
- CFDA number 10.550 pertains to food commodities distributed by USDA under the following categorical programs (as applicable): the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (CFDA 10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on Indian Reservations (CFDA 10.567). USDA deleted this number from the CFDA on May 6, 2008. The audit covering Lovelady Independent School District fiscal year beginning September 1 2008, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs under which USDA donated the commodities.

SCHOOLS FIRST QUESTIONNAIRE

Lovelady Independent School District

Fiscal Year 2009

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	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	N/A