

**LORENA INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE  
YEAR ENDED**

**AUGUST 31, 2010**

**LORENA INDEPENDENT SCHOOL DISTRICT**  
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**Year Ended August 31, 2010**

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**CERTIFICATE OF THE BOARD**

Lorena Independent School District

McLennan

161-907

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, 2010, at a meeting of the board of trustees of such school district on the  22nd  day of  November , 2010.

Signed copy on file.

Signed copy on file.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

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

# KIRK & RICHARDSON, P. C.

Members of the American Institute of Certified Public Accountants

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## Independent Auditor's Report

Board of Trustees  
Lorena Independent School District  
Lorena, Texas

Members of the Board of Trustees:

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 6 through 11 and budgetary comparison information on page 39 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

The 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 on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Signed copy on file.

Kirk & Richardson, P.C.  
October 22, 2010

**LORENA INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED AUGUST 31, 2010  
UNAUDITED**

Our discussion and analysis of Lorena Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2010. Please read it in conjunction with the District's financial statements, which begin on page 14.

**FINANCIAL HIGHLIGHTS**

- The Assets of the District exceeded its liabilities at the close of the most recent year by \$8,562,273 (net assets). Of this amount, \$2,649,771 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net assets decreased by \$722,271.
- As of the close of the current year, the District's governmental funds reported combined ending fund balances of \$3,637,084. This amount includes a \$859,737 decrease from current year operations offset by increases of \$34,087 and \$47,186 in Debt Service Fund and Other Funds respectively. \$1,898,156 is available for spending at the District's discretion (unreserved and undesignated fund balance).
- At the end of the current year, unreserved fund balance for the General Fund was \$1,776,507, or 15.7% of total General Fund expenditures.

**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 (on pages 14 and 15). These provide information about the activities of the District as a whole and present a long-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 (starting on page 16) 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.

The fiduciary statements provide financial information about activities for which the District acts solely as trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by the Texas Education Agency. The section labeled "Texas Education Agency Required Schedules" contains data used by monitoring of 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 begins on page 14. 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 same basis of accounting which is the basis used by most 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 outside the District and grants provided by the U.S. Department of Education to assist students with disabilities or from disadvantaged backgrounds (program revenues), and general revenue provided by the taxpayers or by Texas Education Agency 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 reports the following activities:

Governmental activities – Most of the District's basic services are reported here, including 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 begin on page 15 and 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 has only governmental funds that are accounted for as follows:

**Governmental funds** – Most of the District's basic services are reported in governmental funds. These use the 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 they 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.

## **The District as Trustee**

### ***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in the separate Statements of Fiduciary Net Assets on page 20. 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**

The following analysis focuses on the net assets (Table 1) and the changes in net assets (Table 2) of the District's governmental activities.

Net assets of the District's governmental activities decreased from \$9,284,544 to \$8,562,273. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$2,649,771 at August 31, 2010 as compared to \$3,213,675 last year.

This decrease in governmental net assets was primarily the result of receiving less State Aid – Formula Grants and Grants and Contributions not Restricted. General increased operating costs also contributed to this decrease in governmental net assets.

**Table 1**  
**Lorena Independent School District**  
**Net Assets**

Governmental Activities	2010	2009
<b>ASSETS:</b>		
Current and other assets:	\$ 4,618,943	\$ 5,678,352
Capital assets	17,483,622	17,839,716
Total assets	22,102,565	23,518,068
<b>LIABILITIES:</b>		
Long-term liabilities:	12,665,568	13,318,558
Other liabilities	874,724	914,966
Total liabilities	13,540,292	14,233,524
<b>NET ASSETS:</b>		
Invested in capital assets, net of related debt	4,752,951	4,980,705
Restricted	1,159,551	1,090,164
Unrestricted	2,649,771	3,213,675
Total net assets	\$ 8,562,273	\$9,284,544

As indicated in Table 2 below, property tax revenue increased \$87,375 over the prior year. This was primarily due to appraised property values within the District increasing by approximately 3.7% over the previous year.

**Table 2**  
**Lorena Independent School District**  
**Changes in Net Assets**

Governmental Activities	2010	2009
<b>Revenues:</b>		
Program revenues:		
Charges for services	\$ 905,270	\$ 937,812
Operating grants and contributions	1,558,689	1,053,732
General revenues:		
Maintenance and operations taxes	3,705,896	3,633,291
Debt service taxes	739,219	724,449
State Aid – Formula Grants	5,811,660	6,460,315
Grants and contributions not restricted	569,631	830,651
Investment earnings	22,263	45,633
Miscellaneous local and intermediate	78,317	47,937
Total revenues	13,390,945	13,733,820
<b>Expenses:</b>		
Instruction	7,119,139	6,975,360
Instructional resources and media services	250,478	239,777
Curriculum and staff development	142,901	157,879
School leadership	814,790	702,357
Guidance, counseling and evaluation services	242,377	223,592
Health Services	139,116	131,664
Student (pupil) transportation	245,855	208,852
Food services	681,960	643,613
Extracurricular activities	915,278	928,144
General Administration	690,113	633,244
Plant maintenance and operations	1,388,565	1,331,149
Data processing services	249,169	134,706
Debt service - interest on long-term debt, issuance costs and Fees	570,933	595,745
Payments to fiscal agent/member districts of SSA	605,110	458,649
Other Intergovernmental Charges	57,432	58,616
Total Expenses	14,113,216	13,423,347
<b>Increase/(Decrease) in Net Assets</b>	(722,271)	310,473
<b>Net Assets Beginning</b>	9,284,544	8,883,208
<b>Prior Period Adjustment</b>	0	90,863
<b>Net Assets Ending</b>	\$8,562,273	\$9,284,544

## THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$3,637,084, which is \$778,464 less than last year's total of \$4,415,548.

Over the course of the year, the Board of Trustees amended the budget several times during the year. Most of the amendments were for unanticipated expenditures and movement of funds

between functions. The District over-expended their General Fund budget in several areas, the most significant in Facilities Maintenance and Operations. The District's Child Nutrition Program was also over-expended in their Food Services.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At August 31, 2010, the District had approximately \$24,303,325 invested in a board range of capital assets, including instructional facilities and equipment,, transportation facilities and equipment, athletic facilities, administrative and maintenance buildings and equipment. See the notes to the financial statement for additional information.

There were no major additions to capital assets this year.

### **Debt**

At year-end, the District had \$12,655,568 in bonds and notes outstanding versus \$13,318,557 in the prior year. The decrease in the debt resulted from principal payments. In addition, the District's general obligation bond rating continues to carry the highest rating possible, a rating that has been assigned by national rating agencies.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's elected officials considered many factors before calling for a second tax ratification election (TRE) September 2, 2010. The TRE passed by a 75% margin and, therefore, the 2010 tax rate will be \$1.17 M/O and \$.10 I/S. The district will receive an additional estimated \$950,000 from tax revenue and state revenue.

The district's general fund balance is expected to increase by the close of 2011 in spite of increased expenses and unfunded mandates.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

The financial report is designed to provide our citizens and taxpayers 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 information, contact the District's Administration office at (254) 857-3616.

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## BASIC FINANCIAL STATEMENTS

LORENA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2010

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 2,669,860
1120 Current Investments	1,260,088
1220 Property Taxes Receivable (Delinquent)	171,082
1230 Allowance for Uncollectible Taxes	(1,711)
1240 Due from Other Governments	305,703
1250 Accrued Interest	2,474
1300 Inventories	12,929
1420 Capitalized Bond and Other Debt Issuance Costs	198,518
Capital Assets:	
1510 Land	457,855
1520 Buildings, Net	16,731,761
1530 Furniture and Equipment, Net	54,006
1990 Other Assets	240,000
1000 Total Assets	22,102,565
<b>LIABILITIES</b>	
2110 Accounts Payable	108,418
2140 Interest Payable	20,754
2150 Payroll Deductions & Withholdings	79,570
2160 Accrued Wages Payable	352,567
2200 Accrued Expenses	6,547
2300 Deferred Revenues	306,868
Noncurrent Liabilities	
2501 Due Within One Year	750,542
2502 Due in More Than One Year	11,915,026
2000 Total Liabilities	13,540,292
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	4,752,951
3820 Restricted for Federal and State Programs	67,547
3850 Restricted for Debt Service	1,092,004
3900 Unrestricted Net Assets	2,649,771
3000 Total Net Assets	\$ 8,562,273

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

LORENA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2010

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Expenses	3	4	6	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 7,119,139	\$ 103,849	\$ 690,485	\$ (6,324,805)
12 Instructional Resources and Media Services	250,478	-	12,892	(237,586)
13 Curriculum and Staff Development	142,901	-	4,303	(138,598)
23 School Leadership	814,790	-	44,365	(770,425)
31 Guidance, Counseling and Evaluation Services	242,377	-	9,568	(232,809)
33 Health Services	139,116	-	8,280	(130,836)
34 Student (Pupil) Transportation	245,855	-	-	(245,855)
35 Food Services	681,960	414,566	297,175	29,781
36 Extracurricular Activities	915,278	386,855	17,365	(511,058)
41 General Administration	690,113	-	20,504	(669,609)
51 Plant Maintenance and Operations	1,388,565	-	33,513	(1,355,052)
53 Data Processing Services	249,169	-	15,927	(233,242)
72 Debt Service - Interest on Long Term Debt	555,929	-	-	(555,929)
73 Debt Service - Bond Issuance Cost and Fees	15,004	-	-	(15,004)
93 Payments related to Shared Services Arrangements	605,110	-	404,312	(200,798)
99 Other Intergovernmental Charges	57,432	-	-	(57,432)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 14,113,216	\$ 905,270	\$ 1,558,689	(11,649,257)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			3,705,896
DT	Property Taxes, Levied for Debt Service			739,219
SF	State Aid - Formula Grants			5,811,660
GC	Grants and Contributions not Restricted			569,631
IE	Investment Earnings			22,263
MI	Miscellaneous Local and Intermediate Revenue			78,317
TR	Total General Revenues			10,926,986
CN	Change in Net Assets			(722,271)
NB	Net Assets--Beginning			9,284,544
NE	Net Assets--Ending			\$ 8,562,273

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

LORENA INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 1,902,106	\$ 611,811	\$ 155,943	\$ 2,669,860
1120 Investments - Current	671,494	466,945	121,649	1,260,088
1220 Property Taxes - Delinquent	144,493	26,589	-	171,082
1230 Allowance for Uncollectible Taxes (Credit)	(1,445)	(266)	-	(1,711)
1240 Receivables from Other Governments	228,196	12,606	64,901	305,703
1250 Accrued Interest	1,832	642	-	2,474
1300 Inventories	-	-	12,929	12,929
1900 Other Assets	240,000	-	-	240,000
1000 Total Assets	<u>\$ 3,186,676</u>	<u>\$ 1,118,327</u>	<u>\$ 355,422</u>	<u>\$ 4,660,425</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110 Accounts Payable and Bank Overdrafts	\$ 52,487	\$ -	\$ 55,931	\$ 108,418
2150 Payroll Deductions and Withholdings Payable	79,570	-	-	79,570
2160 Accrued Wages Payable	335,726	-	16,841	352,567
2200 Accrued Expenditures	6,007	-	540	6,547
2300 Deferred Revenues	436,379	26,323	13,537	476,239
2000 Total Liabilities	<u>910,169</u>	<u>26,323</u>	<u>86,849</u>	<u>1,023,341</u>
Fund Balances:				
Reserved For:				
3410 Investments in Inventory	-	-	12,929	12,929
3420 Retirement of Long Term Debt	-	1,092,004	-	1,092,004
3450 Food Service/Federal or State Funds	-	-	54,618	54,618
Unreserved Designated For:				
3510 Construction	500,000	-	-	500,000
3590 Other Purposes	-	-	79,377	79,377
Unreserved and Undesignated:				
3600 Reported in the General Fund	1,776,507	-	-	1,776,507
3620 Reported in Capital Projects Funds	-	-	121,649	121,649
3000 Total Fund Balances	<u>2,276,507</u>	<u>1,092,004</u>	<u>268,573</u>	<u>3,637,084</u>
4000 Total Liabilities and Fund Balances	<u>\$ 3,186,676</u>	<u>\$ 1,118,327</u>	<u>\$ 355,422</u>	<u>\$ 4,660,425</u>

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

LORENA INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
AUGUST 31, 2010

<b>Total Fund Balances - Governmental Funds</b>	\$	3,637,084
<b>1</b> 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 \$24,283,693 and the accumulated depreciation was \$6,443,977. 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.		4,709,259
<b>2</b> 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 2010 capital outlays and debt principal payments is to increase (decrease) net assets.		669,085
<b>3</b> The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(622,526)
<b>4</b> 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.		169,371
<b>19 Net Assets of Governmental Activities</b>	<u>\$</u>	<u>8,562,273</u>

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

LORENA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 3,938,043	\$ 753,475	\$ 750,529	\$ 5,442,047
5800 State Program Revenues	6,535,760	395,617	93,643	7,025,020
5900 Federal Program Revenues	-	-	914,244	914,244
5020 Total Revenues	<u>10,473,803</u>	<u>1,149,092</u>	<u>1,758,416</u>	<u>13,381,311</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	6,289,936	-	324,740	6,614,676
0012 Instructional Resources and Media Services	250,478	-	-	250,478
0013 Curriculum and Instructional Staff Development	142,901	-	-	142,901
0023 School Leadership	814,790	-	-	814,790
0031 Guidance, Counseling and Evaluation Services	242,377	-	-	242,377
0033 Health Services	139,116	-	-	139,116
0034 Student (Pupil) Transportation	245,855	-	-	245,855
0035 Food Services	-	-	656,910	656,910
0036 Extracurricular Activities	516,572	-	323,502	840,074
0041 General Administration	683,991	-	1,766	685,757
0051 Facilities Maintenance and Operations	1,401,544	-	-	1,401,544
0053 Data Processing Services	249,169	-	-	249,169
<b>Debt Service:</b>				
0071 Debt Service - Principal on Long Term Debt	90,542	625,000	-	715,542
0072 Debt Service - Interest on Long Term Debt	8,039	486,678	-	494,717
0073 Debt Service - Bond Issuance Cost and Fees	-	3,327	-	3,327
<b>Intergovernmental:</b>				
0093 Payments to Fiscal Agent/Member Districts of SSA	200,798	-	404,312	605,110
0099 Other Intergovernmental Charges	57,432	-	-	57,432
6030 Total Expenditures	<u>11,333,540</u>	<u>1,115,005</u>	<u>1,711,230</u>	<u>14,159,775</u>
1200 Net Change in Fund Balances	(859,737)	34,087	47,186	(778,464)
0100 Fund Balance - September 1 (Beginning)	<u>3,136,244</u>	<u>1,057,917</u>	<u>221,387</u>	<u>4,415,548</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,276,507</u>	<u>\$ 1,092,004</u>	<u>\$ 268,573</u>	<u>\$ 3,637,084</u>

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

LORENA 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, 2010

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(778,464)
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 2010 capital outlays and debt principal payments is to increase (decrease) net assets.		669,085
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.		(622,526)
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.		9,634
<b>Change in Net Assets of Governmental Activities</b>	<u>\$</u>	<u>(722,271)</u>

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

LORENA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2010

	Private Purpose Trust Fund	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 2,348	\$ 39,905
Total Assets	<u>2,348</u>	<u>\$ 39,905</u>
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 39,905
Total Liabilities	<u>-</u>	<u>\$ 39,905</u>
<b>NET ASSETS</b>		
Unrestricted Net Assets	<u>2,348</u>	
Total Net Assets	<u>\$ 2,348</u>	

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

LORENA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2010

	Private Purpose Trust Fund
<b>ADDITIONS:</b>	
Local and Intermediate Sources	\$ 2,250
Total Additions	<u>2,250</u>
<b>DEDUCTIONS:</b>	
Other Operating Costs	<u>1,850</u>
Total Deductions	<u>1,850</u>
Change in Net Assets	400
Total Net Assets - September 1 (Beginning)	<u>1,948</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 2,348</u></u>

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

**Lorena Independent School District  
Notes to the Financial Statements  
For the Year ended August 31, 2010**

**I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Lorena Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The District follows the generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of the 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**

Lorena Independent School District is a public educational agency under the applicable laws and regulations of the State of Texas. The District is governed by a seven member Board of Trustees (the "Board") elected by the registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. All powers and duties not specifically delegated by statute to the Texas Education Agency ("Agency") or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity." There are no component units or business-like activities included within the District's financial statements.

**B. Government-Wide and Fund Accounting**

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund 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. Direct costs are those that are clearly identifiable with a specific function. Program revenues of the District include charges for services and operating grants and contributions.

Charges for services consist of charges to customers or applicants 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. Operating grants and contributions include 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 revenue.

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as internal balances on the government-wide Statement of Net Assets.

The fund financial statements provide reports on the financial condition and results of operations for the governmental and fiduciary funds. 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.

### **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, as do the 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 revenue 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 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 unmatured 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. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. 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 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. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. 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 total net assets are segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

#### **D. Fund Accounting**

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, expenditures or expenses.

The District reports the following major governmental funds:

**The General Fund** – The General Fund is used to account for financial resources used for general operations. It is the basic fund of the school system and covers activities for which a special fund has not been established. Any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

**Debt Service Funds** – This fund is used to account for payment of principal and interest on long-term general obligation debt of the District. The main source of revenue for debt service is the apportionment of local property taxes.

Additionally, the District reports the following fund type(s):

Governmental Funds:

**Special Revenue Funds** – These funds are used to account for resources restricted to, or designated for, specific purposes by the District or a grantor. Federal and State financial assistance is generally accounted for in a Special Revenue Fund. Generally unused balances are returned to the grantor at the close of specified project periods.

**Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

**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.

**Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund consists of the Student Activity Funds and other organizational activities requiring clearing accounts.

## **E. Other Accounting Policies**

Cash and cash equivalents include cash and highly liquid investments such as certificates of deposits, money market funds, cash management pools, Treasury bills, and commercial paper.

Except for inventories of food commodities, the District records purchases of supplies and materials as expenditures when purchased. This method is used to avoid administrative costs that are considered excessive to any benefit gained and where expenditures tend to be equalized over a period of years.

Inventories of food commodities are valued at fair market value as supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market is recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of 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 are reported as debt service expenditures.

Capital assets, which include land, buildings and improvements, machinery and equipment are reported in the applicable governmental column in the government-wide financial statements. The District defines capital assets with an initial, individual cost of more than \$5,000 and having an estimated useful life in excess of two years. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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 and improvements and furniture and equipment of the District are depreciated using the straight-line method over the following estimated lives:

Assets	Years
Land	Not depreciated
Buildings and improvements	39
Portable buildings	20
Furniture and equipment	5-10
Vehicles	5

Bond proceeds not spent are restricted for construction.

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

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they are not used.

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (the “Agency”) in their Resource Guide. The Agency requires

school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items within the deferred expenditures (expenses) line item in both government-wide and fund financial statements.

School Districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

In the Fund Balances section of the Governmental Funds Balance Sheet, there are various reservations and designations of fund balances reported. Governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for specific purposes. Designations of fund balances represent tentative management plans that are subject to change.

## **II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.**

Refer to Exhibit C-2 “Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets”, and to Exhibit C-4 “Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities”, for explanations.

## **III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **A. Budgetary Data**

The Board of Trustees adopted an “appropriated budget” for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue 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 G-1 and the other two reports are in Exhibit J-4 and J-5.

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

Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.

A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten day's public notice of the meeting must be given.

Prior to September 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.

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.

	Original Budget Appropriations	Increase (Decrease)	Amended Budget Appropriations
General Fund	\$11,534,630	\$(226,811)	\$11,307,819
Food Service Special Revenue Fund	635,750	0	635,750
Debt Service Fund	1,117,500	0	1,117,500

A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

August 31, 2010 Fund Balance	
Appropriated Budgeted Funds – Food Service Special Revenue Fund	\$ 67,547
Non-appropriated Budgeted Funds	79,377
All Special Revenue Funds	<u>\$146,924</u>

## B. Excess of Expenditures over Appropriations

For the period ended August 31, 2010, the District expenditures exceeded appropriations in the following areas:

General Fund			
Function	Final Budget Amount	Actual Amount	Over-expenditure
0013 – Curriculum and Instructional Staff Development	\$141,950	\$142,901	\$ 951
0023 – School Leadership	814,111	814,790	679
0051 – Facilities Maintenance and Operations	1,362,567	1,401,544	38,977
0053 – Data Processing Services	248,900	249,169	269

Child Nutrition Program

Function	Final Budget Amount	Actual Amount	Over-expenditure
0035 – Food Services	\$635,750	\$656,910	\$21,160

Over-expenditures within the General Fund Functions 13, 23, and 53 and Child Nutrition Program Function 35 were generally the result year-end payroll accruals being more than originally estimated. General Fund Function 51 resulted from year-end accruals for utilities.

**C. Deficit Fund Equity**

There were no deficit fund equities for the year ended August 31, 2010.

**IV. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of August 31, 2010, the District had the following investments:

<u>Investment/Credit Rating</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
General Fund - Certificate of Deposits/NA	\$121,494	\$121,494	On demand
General Fund – Governmental Securities/AAA	550,000	550,000	On demand
Total General Fund	\$671,494	\$671,494	
Debt Service Fund – Certificate of Deposits/NA	\$141,945	\$141,945	On Demand
Debt Service Fund – Governmental Securities/AAA	325,000	325,000	On Demand
Total General Fund	\$466,945	\$466,945	
Capital Projects Fund – Certificate of Deposits/NA	\$121,649	\$121,649	On Demand

The State 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 the District 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 returns, (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 District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposits, (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 District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does address the following risks:

**Custodial Credit Risk – Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is all deposits are covered FDIC insurance and pledged collateral in their entirety. The District had no custodial credit risk for its deposits during the year.

**Custodial Credit Risk – Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of August 31, 2010, the District had no investments exposed to Custodial Credit Risk.

**Interest-rate Risk – Interest-rate risk** occurs when potential purchases of debt securities do not agree to pay face value for those securities if interest rates rise. The District does not have any investments considered as Interest-rate Risk.

**Other Credit Risk Exposure –** The District may invest in a securities lending program if the value of securities loaned is not less than 100 percent collateralized, including accrued income, and the loan allows for termination at any time; the loan is secured; the terms of the loan require that the securities being held as collateral be pledged to the investing entity; and, the loan is placed through a primary government securities dealer or a financial institution doing business in this state. The District does not have any investments in a securities lending program.

**Concentration Risk –** The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District is not exposed to concentration risk.

Defaults and Recovery of Prior-period Losses – The District had no defaults and recovery of prior-period losses.

## **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 delinquent if not paid before February 1 of 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

The tax rates assessed for the year ended August 31, 2010, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04000 and \$0.20745 per \$100 valuation, respectively, for a total of \$1.24745 per \$100 valuation.

Current tax collections for the year ended August 31, 2010 were 98.5% of the year-end adjusted tax levy.

### **C. Delinquent Taxes Receivable**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

### **D. Interfund Receivables, Payables, and Transfers**

As each fund is a separate self-balancing set of accounts, transactions between funds should be recorded properly in each fund affected. Interfund receivables and payables generally arise from interfund loans between different funds with balances being repaid generally within one year. There were no interfund balances as of August 31, 2010.

Other Resources (Uses) and Transfers: There were no Other Resources (Uses) during the year.

There were no Inter-fund transfers during the year.

### **E. Disaggregation of Receivables and Payables**

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

There are no significant receivables which are not scheduled for collection within one year of August 31, 2010.

### **F. Deferred Revenues**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Deferred Revenues at August 31, 2010 were as follows:

	Unavailable	Unearned	Total
Delinquent Property Taxes Receivable – General Fund	\$143,048	\$ 0	\$143,048
Delinquent Property Taxes Receivable – Debt Service Fund	26,323	0	26,323
Prepaid State Revenues – General Fund	0	293,331	293,331
Food Service Commodities	0	12,929	12,929
Prepaid State Revenues – Advanced Placement Incentive	0	608	608
Total Deferred Revenues	\$169,371	\$306,868	\$476,239

## G. Capital Asset Activity

Capital asset activity for the year ended August 31, 2010 is as follows:

	Beginning Balance	Increases/ Adjustments	Decreases/ Adjustments	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 457,855	\$ 0	\$ 0	\$ 457,855
Capital assets, being depreciated:				
Buildings and improvements	23,390,836	20,749	0	23,411,585
Machinery and equipment	435,003	5,682	6,800	433,885
Total capital assets, being Depreciated	23,825,839	26,431	6,800	23,845,470
Accumulated depreciation for:				
Buildings and improvements	6,080,903	598,921	0	6,679,824
Machinery and equipment	363,074	23,605	6,800	379,879
Total accumulated depreciation	6,443,977	622,526	6,800	7,059,703
Total capital assets, being Depreciated, net	17,381,862	(596,095)	0	16,785,767
Governmental activities capital assets, Net	\$17,839,717	\$(596,095)	\$0	\$17,243,622

Depreciation expense was charged to governmental functions of the District as follows:

<b>Governmental activities:</b>	
11 – Instruction	\$504,462
35 – Food Services	25,050
36 – Extracurricular Activities	75,204
41 – General Administration	4,356
51 – Plant Maintenance & Operations	13,453
Total Depreciation Expense	\$622,525

## H. Leases

### Operating Leases

The District leases office equipment under non-cancelable operating leases. Total cost for such leases were \$30,761 for the year ended August 31, 2010. The future minimum lease payments for these leases are as follows:

<u>Year Ending August 31</u>	<u>Amount</u>
2011	\$36,402
2012	19,126
2013	15,566
2014	6,767
2015	2,460
Total	<u>\$80,321</u>

## I. Bonds Payable

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for District activities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a description of the District's bonds outstanding as of August 31, 2010:

Issue/ Maturity Date	Interest Rates Payable	Amounts Original Issue	Amounts Outstanding Beginning	Issued	Retired	Amounts Outstanding Ending	Due Within One Year
1999 Public Facility Corp./ 2012	4.20%	\$ 1,086,500	\$ 222,941	\$ 0	\$ 90,542	\$ 132,399	\$ 90,542
2000 School Bldg./ 2010	4.8% to 7.00%	4,600,000	145,000	0	145,000	0	0
2002 School Bldg./ 2018	3.9% to 4.9%	7,500,000	2,450,000	0	220,000	2,230,000	230,000
2005 Refunding/ 2025	3.0% to 3.8%	6,769,997	5,969,997	0	225,000	5,744,997	390,000
2006 Refunding/ 2027	3.5% to 4.0%	3,889,998	3,749,998	0	35,000	3,714,998	40,000
Sub-total			12,537,936	0	715,542	11,822,394	\$750,542
Loss on 2005 Refunding			(262,071)	0	16,379	(245,692)	
Loss on 2006 Refunding			(162,684)	0	9,038	(153,646)	
Discount on Bonds			237,675	0	(13,204)	224,471	
Sub-total			(187,080)	0	12,213	(174,867)	
Accreted Interest 2005 Refunding			609,694	28,863	0	638,557	
Accreted Interest 2006 Refunding			358,007	21,477	0	379,484	
Sub-total			967,701	50,340	0	1,018,041	
Totals			\$13,318,557	\$50,340	\$703,329	\$12,665,568	

Interest and fees paid on general obligation bonds during the year was \$498,041.

The following is a summary of the District’s future annual debt service requirements to maturity for general obligation bonds.

Year Ended August 31	Principal	Interest	Total Requirements
2011	\$ 750,542	\$ 463,732	\$ 1,214,274
2012	378,499	785,678	1,164,177
2013	333,355	786,695	1,120,050
2014	710,000	411,184	1,121,184
2015	755,000	383,389	1,138,389
2016/2020	3,639,998	2,108,472	5,748,470
2021/2025	4,245,000	663,947	4,908,947
2026/2030	1,010,000	60,800	1,070,800
Totals	\$11,822,394	\$5,663,897	\$17,486,291

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2010.

#### **J. Accumulated Unpaid Vacation and Sick Leave Benefits**

At August 31, 2010, the District had no liability for accrued vacation or sick leave.

#### **K. Defined Benefit Pension Plan**

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

**Funding Policy.** State law provides for fiscal years 2010, 2009, and 2008 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 members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution

reductions if, as a result of a 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 the District's employees for the years ended August 31, 2010, 2009, and 2008 were \$494,470, \$504,478, and \$495,192, respectively. The District paid additional state contributions for the years ended August 31, 2010, 2009, and 2008 in the amounts of \$44,317, \$48,009, and \$43,470, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

## **L. Retiree Health Plan**

**Plan Description.** The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplemental information for TRS-Care. That report may be obtained by visiting the TRS Web site at [www.trs.state.tx.us](http://www.trs.state.tx.us), by writing to the Communication Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78711 or by calling 1-800-223-8778.

**Funding Policy.** Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009, and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2010, 2009, and 2008, the State's contributions to TRS-Care were \$77,261, \$73,635, and \$71,781, respectively, and the District's contributions were \$42,495, \$40,499, and \$39,479, respectively, which equaled the required contributions each year. The District employees contributed \$50,220, \$47,863, and, \$46,658 respectively for the years ended August 31, 2010, 2009, and 2008.

## **M. Retiree Medicare Part D Coverage**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, 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, 2010, 2009, and 2008, these on-behalf payments, in the amounts of \$19,114, \$16,671, and \$16,472, were recognized by the District as revenues and expenditures.

### **N. Health Care Coverage**

During the year ended August 31, 2010, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee and dependents to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2010, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer are available for the year ended December 31, 2009, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

### **O. Revenue from Local and Intermediate Sources**

During the current year, local, intermediate and out-of-state revenues consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Fund Totals
Property Taxes	\$3,698,270	\$ 0	\$737,358	\$ 0	\$4,435,628
Food Sales	0	414,567	0	0	414,567
Investment Income	11,343	716	7,667	3,253	22,979
Penalties, interest & other tax related income	42,959	0	8,450	0	51,409
Extracurricular Student activities	66,247	320,608	0	0	386,855
Other	119,224	11,385	0	0	130,609
Total	<u>\$3,938,043</u>	<u>\$747,276</u>	<u>\$753,475</u>	<u>\$3,253</u>	<u>\$5,442,047</u>

### **P. Litigation**

The District participates in numerous state and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2010 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

## **Q. Risk Management**

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**REQUIRED SUPPLEMENTARY INFORMATION**

LORENA INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 3,831,942	\$ 3,958,733	\$ 3,938,043	\$ (20,690)
5800	State Program Revenues	7,303,835	6,855,378	6,535,760	(319,618)
5020	Total Revenues	11,135,777	10,814,111	10,473,803	(340,308)
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	6,569,115	6,302,963	6,289,936	13,027
0012	Instructional Resources and Media Services	245,272	250,572	250,478	94
0013	Curriculum and Instructional Staff Development	129,450	141,950	142,901	(951)
0023	School Leadership	772,011	814,111	814,790	(679)
0031	Guidance, Counseling and Evaluation Services	238,900	242,500	242,377	123
0033	Health Services	139,700	139,700	139,116	584
0034	Student (Pupil) Transportation	221,962	245,897	245,855	42
0036	Extracurricular Activities	478,105	516,680	516,572	108
0041	General Administration	632,728	685,072	683,991	1,081
0051	Facilities Maintenance and Operations	1,344,950	1,362,567	1,401,544	(38,977)
0053	Data Processing Services	192,900	248,900	249,169	(269)
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	90,500	90,500	90,542	(42)
0072	Debt Service - Interest on Long Term Debt	8,600	8,100	8,039	61
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	400,437	200,807	200,798	9
0099	Other Intergovernmental Charges	70,000	57,500	57,432	68
6030	Total Expenditures	11,534,630	11,307,819	11,333,540	(25,721)
1200	Net Change in Fund Balances	(398,853)	(493,708)	(859,737)	(366,029)
0100	Fund Balance - September 1 (Beginning)	-	3,136,244	3,136,244	-
3000	Fund Balance - August 31 (Ending)	\$ (398,853)	\$ 2,642,536	\$ 2,276,507	\$ (366,029)

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**COMBINING SCHEDULES**

LORENA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2010

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 Title XIV ARRA State Stabilization
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 1,850	\$ 74,108	\$ -	\$ -
1120 Investments - Current	-	-	-	-
1240 Receivables from Other Governments	-	7,120	3,253	47,727
1300 Inventories	-	12,929	-	-
1000 Total Assets	<u>\$ 1,850</u>	<u>\$ 94,157</u>	<u>\$ 3,253</u>	<u>\$ 47,727</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110 Accounts Payable and Bank Overdrafts	\$ -	\$ -	\$ 3,253	\$ 47,727
2160 Accrued Wages Payable	1,688	13,465	-	-
2200 Accrued Expenditures	162	216	-	-
2300 Deferred Revenues	-	12,929	-	-
2000 Total Liabilities	<u>1,850</u>	<u>26,610</u>	<u>3,253</u>	<u>47,727</u>
Fund Balances:				
Reserved For:				
3410 Investments in Inventory	-	12,929	-	-
3450 Food Service/Federal or State Funds Restriction	-	54,618	-	-
Unreserved Designated For:				
3590 Other Purposes	-	-	-	-
Unreserved and Undesignated:				
3620 Reported in Capital Projects Funds	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>67,547</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 1,850</u>	<u>\$ 94,157</u>	<u>\$ 3,253</u>	<u>\$ 47,727</u>

279 Title II, D ARRA - Ed. Technology	285 ESEA I,A Improving Basic Program	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	428 High School Allotment	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ 608	\$ -	\$ -	\$ -	\$ 79,377	\$ 155,943
-	-	-	-	-	-	-	-
-	5,547	-	1,254	-	-	-	64,901
-	-	-	-	-	-	-	12,929
<u>\$ -</u>	<u>\$ 5,547</u>	<u>\$ 608</u>	<u>\$ 1,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,377</u>	<u>\$ 233,773</u>
\$ -	\$ 3,697	\$ -	\$ 1,254	\$ -	\$ -	\$ -	\$ 55,931
-	1,688	-	-	-	-	-	16,841
-	162	-	-	-	-	-	540
-	-	608	-	-	-	-	13,537
<u>-</u>	<u>5,547</u>	<u>608</u>	<u>1,254</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,849</u>
-	-	-	-	-	-	-	12,929
-	-	-	-	-	-	-	54,618
-	-	-	-	-	-	79,377	79,377
<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>	<u>79,377</u>	<u>146,924</u>
<u>\$ -</u>	<u>\$ 5,547</u>	<u>\$ 608</u>	<u>\$ 1,254</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,377</u>	<u>\$ 233,773</u>

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LORENA INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2010

Data Control Codes	697 Capital Projects Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>		
1110 Cash and Cash Equivalents	\$ -	\$ 155,943
1120 Investments - Current	121,649	121,649
1240 Receivables from Other Governments	-	64,901
1300 Inventories	-	12,929
1000 Total Assets	<u>\$ 121,649</u>	<u>\$ 355,422</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
2110 Accounts Payable and Bank Overdrafts	\$ -	\$ 55,931
2160 Accrued Wages Payable	-	16,841
2200 Accrued Expenditures	-	540
2300 Deferred Revenues	-	13,537
2000 Total Liabilities	<u>-</u>	<u>86,849</u>
Fund Balances:		
Reserved For:		
3410 Investments in Inventory	-	12,929
3450 Food Service/Federal or State Funds Restriction	-	54,618
Unreserved Designated For:		
3590 Other Purposes	-	79,377
Unreserved and Undesignated:		
3620 Reported in Capital Projects Funds	121,649	121,649
3000 Total Fund Balances	<u>121,649</u>	<u>268,573</u>
4000 Total Liabilities and Fund Balances	<u>\$ 121,649</u>	<u>\$ 355,422</u>

LORENA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 Title XIV ARRA State Stabilization
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ 415,141	\$ -	\$ -
5800 State Program Revenues	-	24,150	-	-
5900 Federal Program Revenues	107,600	252,919	39,005	477,271
5020 Total Revenues	<u>107,600</u>	<u>692,210</u>	<u>39,005</u>	<u>477,271</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	107,600	-	39,005	72,959
0035 Food Services	-	656,910	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
<b>Intergovernmental:</b>				
0093 Payments to Fiscal Agent/Member Districts of	-	-	-	404,312
6030 Total Expenditures	<u>107,600</u>	<u>656,910</u>	<u>39,005</u>	<u>477,271</u>
1200 Net Change in Fund Balance	-	35,300	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>32,247</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u><u>\$ -</u></u>	<u><u>\$ 67,547</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

279 Title II, D ARRA - Ed. Technology	285 ESEA I,A Improving Basic Program	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	428 High School Allotment	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 332,135	\$ 747,276
-	-	1,069	13,783	44,504	10,137	-	93,643
1,902	35,547	-	-	-	-	-	914,244
<u>1,902</u>	<u>35,547</u>	<u>1,069</u>	<u>13,783</u>	<u>44,504</u>	<u>10,137</u>	<u>332,135</u>	<u>1,755,163</u>
1,902	33,781	1,069	13,783	44,504	10,137	-	324,740
-	-	-	-	-	-	-	656,910
-	-	-	-	-	-	323,502	323,502
-	1,766	-	-	-	-	-	1,766
-	-	-	-	-	-	-	404,312
<u>1,902</u>	<u>35,547</u>	<u>1,069</u>	<u>13,783</u>	<u>44,504</u>	<u>10,137</u>	<u>323,502</u>	<u>1,711,230</u>
-	-	-	-	-	-	8,633	43,933
-	-	-	-	-	-	70,744	102,991
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,377</u>	<u>\$ 146,924</u>

LORENA INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes		697 Capital Projects Fund	Total Nonmajor Governmental Funds
	REVENUES:		
5700	Total Local and Intermediate Sources	\$ 3,253	\$ 750,529
5800	State Program Revenues	-	93,643
5900	Federal Program Revenues	-	914,244
5020	Total Revenues	<u>3,253</u>	<u>1,758,416</u>
	EXPENDITURES:		
	Current:		
0011	Instruction	-	324,740
0035	Food Services	-	656,910
0036	Extracurricular Activities	-	323,502
0041	General Administration	-	1,766
	Intergovernmental:		
0093	Payments to Fiscal Agent/Member Districts of	-	404,312
6030	Total Expenditures	<u>-</u>	<u>1,711,230</u>
1200	Net Change in Fund Balance	3,253	47,186
0100	Fund Balance - September 1 (Beginning)	<u>118,396</u>	<u>221,387</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 121,649</u>	<u>\$ 268,573</u>

**REQUIRED TEXAS EDUCATION AGENCY SCHEDULES**

LORENA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2010

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2001 and prior years	Various	Various	\$ Various
2002	1.402000	0.189000	169,579,344
2003	1.402000	0.289150	190,770,994
2004	1.500000	0.189350	219,559,220
2005	1.500000	0.254570	252,418,903
2006	1.500000	0.200000	271,872,447
2007	1.370000	0.211534	300,456,486
2008	1.040000	0.208410	316,261,305
2009	1.040000	0.207370	344,743,661
2010 (School year under audit)	1.040000	0.207450	357,543,744
1000 TOTALS			

(10) Beginning Balance 9/1/2009	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2010
\$ 9,643	\$ -	\$ 166	\$ 23	\$ (2,079)	\$ 7,375
3,126	-	-	-	-	3,126
4,182	-	745	154	-	3,283
8,323	-	178	23	-	8,122
11,505	-	334	57	-	11,114
9,385	-	599	80	(396)	8,310
13,231	-	2,237	345	(992)	9,657
17,951	-	4,517	905	(1,702)	10,827
84,005	-	35,276	7,034	(9,678)	32,017
-	4,460,179	3,653,950	728,858	(120)	77,251
<u>\$ 161,351</u>	<u>\$ 4,460,179</u>	<u>\$ 3,698,002</u>	<u>\$ 737,479</u>	<u>\$ (14,967)</u>	<u>\$ 171,082</u>

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

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 144,220	\$ 196,009	\$ -	\$ -	\$ 340,229
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	12,066	-	-	-	-	-	12,066
6212	Audit Services	-	-	-	6,400	-	-	6,400
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	11,676	-	-	-	-	11,676
621X	Other Professional Services	-	-	14,143	-	-	-	14,143
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	1,766	-	-	-	1,766
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	25,438	-	-	-	25,438
6410	Travel, Subsistence, Stipends	4,249	-	1,268	-	-	-	5,517
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	13,029	-	-	-	-	-	13,029
6490	Miscellaneous Operating	-	-	255,493	-	-	-	255,493
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<b>\$ 29,344</b>	<b>\$ 11,676</b>	<b>\$ 442,328</b>	<b>\$ 202,409</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 685,757</b>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 13,044,770

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 76,289
Total Debt & Lease(6500)	(11)	98,580
Plant Maintenance (Function 51, 6100-6400)	(12)	1,371,361
Food (Function 35, 6341 and 6499)	(13)	235,851
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		202,409

SubTotal:

1,984,490

Net Allowed Direct Cost

\$ 11,060,280

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 23,411,585
Historical Cost of Building over 50 years old	(16)	\$ 50,000
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 433,885
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 89,503
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.

LORENA INDEPENDENT SCHOOL DISTRICT  
 FUNDBALANCE AND CASH FLOW CALCULATION WORKSHEET  
 GENERAL FUND AS OF AUGUST 31, 2010

**UNAUDITED**

1	Total General Fund Balance as of 8/31/10 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 2,276,507
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)	500,000	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	1,034,934	
5	Estimate of two month's average cash disbursements during the fiscal year.	2,176,077	
6	Estimate of delayed payments from state sources (58xx).	-	
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.	228,196	
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	Adjustment to meet Board Policy	-	
11	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10)		3,939,207
12	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 11)		\$ (1,662,700)

LORENA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 391,200	\$ 391,200	\$ 415,141	\$ 23,941
5800 State Program Revenues	23,500	23,500	24,150	650
5900 Federal Program Revenues	222,500	222,500	252,919	30,419
5020 Total Revenues	<u>637,200</u>	<u>637,200</u>	<u>692,210</u>	<u>55,010</u>
<b>EXPENDITURES:</b>				
0035 Food Services	<u>635,750</u>	<u>635,750</u>	<u>656,910</u>	<u>(21,160)</u>
6030 Total Expenditures	<u>635,750</u>	<u>635,750</u>	<u>656,910</u>	<u>(21,160)</u>
1200 Net Change in Fund Balances	1,450	1,450	35,300	33,850
0100 Fund Balance - September 1 (Beginning)	-	32,247	32,247	-
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,450</u>	<u>\$ 33,697</u>	<u>\$ 67,547</u>	<u>\$ 33,850</u>

LORENA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 742,000	\$ 753,000	\$ 753,475	\$ 475
5800	State Program Revenues	378,310	378,310	395,617	17,307
5020	Total Revenues	1,120,310	1,131,310	1,149,092	17,782
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	625,000	625,000	625,000	-
0072	Debt Service - Interest on Long Term Debt	487,000	487,000	486,678	322
0073	Debt Service - Bond Issuance Cost and Fees	5,500	5,500	3,327	2,173
6030	Total Expenditures	1,117,500	1,117,500	1,115,005	2,495
1200	Net Change in Fund Balances	2,810	13,810	34,087	20,277
0100	Fund Balance - September 1 (Beginning)	-	1,057,917	1,057,917	-
3000	Fund Balance - August 31 (Ending)	\$ 2,810	\$ 1,071,727	\$ 1,092,004	\$ 20,277

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REPORT ON INTERNAL CONTROLS, COMPLIANCE AND  
FEDERAL AWARDS

# KIRK & RICHARDSON, P. C.

Members of the American Institute of Certified Public Accountants

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Tom Kirk, CPA	Don Richardson, CPA	Cindy Poole, CPA
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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Board of Trustees  
Lorena Independent School District  
Lorena, Texas

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lorena Independent School District (the "District") as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

## Internal Control Over Financial Reports

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

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

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

#### Compliance and Other Matters

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

We noted certain matters that we reported to management of the District in a separate letter dated October 22, 2010.

This report is intended solely for the information and use of the District's Board, the administration, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than those specified parties.

Signed copy on file.

Kirk & Richardson, P.C.  
October 22, 2010

# KIRK & RICHARDSON, P. C.

Members of the American Institute of Certified Public Accountants

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

Board of Trustees  
Lorena Independent School District  
Lorena, Texas

### Compliance

We have audited the compliance of Lorena Independent School District (the "District"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2010. 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 the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2010.

## Internal Control Over Compliance

Management of the District, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

Signed copy on file.

Kirk & Richardson, P.C.  
Fort Worth, Texas  
October 22, 2010

LORENA INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED AUGUST 31, 2010

**Section I - Summary of Auditor's Results**

*Financial Statements*

Type of auditor's report issued: Unqualified.

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes \_\_\_x\_\_\_ no
- Significant deficiencies identified that are not considered to be material weakness? \_\_\_\_\_ yes \_\_\_x\_\_\_ none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes \_\_\_x\_\_\_  
no

*Federal Awards*

Internal control over major programs:

- Material weaknesses identified? \_\_\_\_\_ yes \_\_\_x\_\_\_ no
- Significant deficiencies identified that are not considered to be material weakness? \_\_\_\_\_ yes \_\_\_x\_\_\_ none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? \_\_\_\_\_ yes \_\_\_x\_\_\_ no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.394	Title XIV, State Fiscal Stabilization Fund - ARRA

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.

Auditee qualified as low risk auditee?: Yes

**Section II – Financial Statement Findings**

N/A – None.

**Section III – Federal Award Findings and Questioned Costs**

N/A – None.

LORENA INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2010

PRIOR YEAR'S FINDING/NONCOMPLIANCE:

N/A – None

STATUS OF PRIOR YEAR'S FINDINGS/NONCOMPLIANCE:

N/A – None required.

LORENA INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2010

Contact Person: Jeff Linnstaedter, Business Manager

CORRECTIVE ACTION PLAN: N/A – None required.

LORENA INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2010

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	10610101161907	\$ 107,600
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	10694501161907	39,005
Title II D Enhancing Ed. Through Technology - ARRA	84.386	10553001161907	1,902
ESEA, Title I, A - ARRA - Improving Basic Programs	84.389	10551001161907	35,547
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10557001161907	477,271
Total Passed Through State Department of Education			\$ 661,325
<b>TOTAL DEPARTMENT OF EDUCATION</b>			\$ 661,325
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553	71401001	\$ 36,035
National School Lunch Program - Cash Assistance*	10.555	71301001	182,032
National School Lunch Prog. - Non-Cash Assistance*	10.555	161907	34,852
Total CFDA Number 10.555			216,884
Total Passed Through the State Department of Agriculture			\$ 252,919
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			\$ 252,919
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			\$ 914,244

\*Clustered Programs as required by Compliance Supplement March, 2010

**LORENA INDEPENDENT SCHOOL DISTRICT  
NOTES TO SCHEDULE OF EXPENDITURES  
OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2010**

1. 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 is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds, if any, are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. 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, the Expendable Trust Funds, if any, and Agency Funds. 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 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 expenditures until earned.

3. 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 of Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement – Provisional 6/97.
4. The District participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2010, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.

SCHOOLS FIRST QUESTIONNAIRE

Lorena Independent School District

Fiscal Year 2010

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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.	1018041