

**LOVEJOY
INDEPENDENT SCHOOL DISTRICT**

Financial Report For The Year Ended

August 31, 2005

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Financial Report

For the Year Ended August 31, 2005

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LOVEJOY INDEPENDENT SCHOOL DISTRICT
Financial Report
For the Year Ended August 31, 2005
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FINANCIAL SECTION

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

Independent Auditor's Report

Board of School Trustees
Lovejoy Independent School District
259 Country Club Road
Lovejoy, Texas 75002

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lovejoy Independent School District, Lovejoy, Texas (the District) as of and for the year ended August 31, 2005, 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 governmental activities, each major fund, and the aggregate remaining fund information of Lovejoy Independent School District as of August 31, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 3 through 7 and the budgetary comparison information on pages 34 and 46 through 47 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2005, 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 grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lovejoy Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and the T.E.A. required schedules listed in the table of contents are presented for additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the T.E.A. required schedules (except for Exhibit F-3, the Fund Balance and Cash Flow Calculation Worksheet, which is marked UNAUDITED and on which we express no opinion) 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.

September 27, 2005

LOVEJOY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2005

In this section of the Annual Financial and Compliance report, we the administrators, of Lovejoy Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2005. Please read it in conjunction with the independent auditor's report on page 1, and the District's Basic Financial Statements which begin on page 10.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$ 1,259,413 as a result of this year's operations. Net assets as of August 31, 2005 were \$ 12,010,990. The District's unrestricted net assets as of August 31, 2005, were \$ 9,897,091.
- During the year, the District had net expenses (after charges for services & operating grants) of \$ 16,065,310 that were \$ 1,259,413 less than the \$ 17,324,723 generated in tax, state foundation, investment, and other revenues for governmental programs.
- The General Fund ended this fiscal year with a fund balance of \$ 10,018,049 compared to \$ 9,706,028 last fiscal year.
- The resources available for appropriation were \$ 312,021 more than budgeted for the General Fund.

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 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) 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 notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

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

- Governmental activities-All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, 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 12 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 ESEA Title 1 Part C 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. The District uses only governmental funds.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District is presenting government-wide financial analysis in the form of current year data and prior year data and the changes in these accounts. Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental activities.

Net assets of the District's governmental activities increased from \$ 10,751,577 last year to \$ 12,010,990 on August 31, 2005. 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- decreased from \$ 9,897,793 last year to \$ 9,897,091 on August 31, 2005. Changes in net assets of the District's governmental activities was a \$1,505,335 increase last year compared to a \$ 1,259,413 increase as of August 31, 2005.

Table I
Lovejoy Independent School District
NET ASSETS

	Governmental Activities 8/31/2005	Governmental Activities 8/31/2004	Net Change
Current and other assets	27,532,784	19,435,830	8,096,954
Capital assets	31,107,143	13,035,662	18,071,481
Total assets	58,639,927	32,471,492	26,168,435
Current and other liabilities	2,883,937	524,915	2,359,022
Long-term liabilities	43,745,000	21,195,000	22,550,000
Total liabilities	46,628,937	21,719,915	24,909,022
Net Assets:			
Invested in capital assets net of related debt	(12,358,563)	(437,001)	(11,921,562)
Restricted	14,472,462	1,290,785	13,181,677
Unrestricted	9,897,091	9,897,793	(702)
Total net assets	12,010,990	10,751,577	1,259,413

Table II
Lovejoy Independent School District
CHANGES IN NET ASSETS

	Governmental Activities Yr Ended 8/31/2005	Governmental Activities Yr Ended 8/31/2004	Net change
Revenues:			
Program Revenues:			
Charges for Services	345,433	328,102	17,331
Operating grants and contributions	537,781	513,547	24,234
General Revenues:			
Maintenance and operations taxes	13,041,428	11,741,179	1,300,249
Debt service taxes	2,812,924	1,588,952	1,223,972
State aid – formula grants	513,426	462,362	51,064
Grants & Contributions not restricted to specific functions	535	4,398	(3863)
Investment Earnings	713,759	215,590	498,169
Miscellaneous	242,651	162,180	80,471
Total Revenue	18,207,937	15,016,310	3,191,627
Expenses:			
Instruction, curriculum and media services	5,432,395	5,106,093	326,302
Instructional and school leadership	517,500	446,098	71,402
Student support services	520,671	439,497	81,174
Child nutrition	360,610	357,359	3,251
Co curricular activities	12,401	5,186	7,215
General administration	676,657	672,721	3,936
Plant maintenance, security & data processing	960,057	850,452	109,605
Debt services	1,888,324	1,181,221	707,103
Facilities Acquisition & Construction	0	1,458,022	(1,458,022)
Payments to fiscal Agents & Other School Districts	6,579,909	2,994,326	3,585,583
Total Expenses	16,948,524	13,510,975	3,437,549
Increase in net assets before transfers and special items	1,259,413	1,505,335	(245,922)
Net assets at Beginning of Fiscal Year	10,751,577	9,246,242	1,505,335
Net assets at End of Fiscal Year	12,010,990	10,751,577	1,259,413

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$ 24,503,164, which is above last year's total of \$ 18,719,150. Included in this year's total change in fund balance is an increase of \$ 312,021 in the District's General Fund.

Other changes in fund balances should also be noted. The District's Special Revenue Funds had a fund balance increase of \$ 48,040, ending the year with \$ 92,709. The District's Debt Service Fund had a fund balance increase of \$389,232 ending the year with \$ 658,766. The District's Capital Projects Fund had a fund balance increase of \$5,034,721 ending the year with \$ 13,733,640.

Over the course of the year, the Board of Trustees revised the District's budget twice. These budget amendments included amendments and supplemental appropriations that were approved during the year and reflect the actual beginning balances (versus the amounts we estimated in August 2004) and amendments moving funds from functions that did not need all the resources originally appropriated to them to functions with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets:

During the year ended August 31, 2005, the District invested \$ 18,715,783 in capital assets, consisting of a special needs vehicle, 2 portable classroom buildings, and construction in progress of the High School facility. Additional information on capital assets is contained in Note 4, Section D of the Notes to the Financial Statements. This year's major additions included:

Construction in progress	\$18,595,818
Buildings & Improvements	92,378
Furniture & Equipment	27,587
Total	<u><u>\$18,715,783</u></u>

Debt:

At year-end August 31, 2005, the District had \$ 43,745,000 in bonds payable compared to \$ 21,195,000 last year. There was a \$23,190,000 new issue in September, 2004, for the high school construction. Additional information on long-term debt is contained in Note 4, Section F of the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2006 budget, and tax rates. Several of those factors were the economy, the District's population growth, and plans for secondary opening. Amounts available for appropriation in the General Fund budget are \$ 10,018,049. The District has included \$455,000 transitional expenditures, in the 2006 budget from designated fund balance. These funds were designated by the board for secondary transition operational expenses.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Lovejoy Independent School District, 259 Country Club Road, Allen, Texas.

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BASIC FINANCIAL STATEMENTS

LOVEJOY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2005

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 27,222,906
1220 Property Taxes Receivable (Delinquent)	231,267
1230 Allowance for Uncollectible Taxes	(2,313)
1240 Due from Other Governments	59,777
1410 Deferred Expenses	21,147
1420 Capitalized Bond & Other Debt Issuance Costs	99,167
1430 Premium & Discount on Issuance of Bonds	(378,461)
1510 Land	4,041,213
1520 Buildings, net	8,144,131
1530 Furniture and Equipment, net	56,012
1540 Vehicles, net	549,263
1580 Construction in Progress	18,595,818
1000 Total Assets	58,639,927
LIABILITIES	
2110 Accounts Payable	1,368,822
2140 Interest Payable	83,271
2150 Payroll Deductions & Withholdings	2,139
2160 Accrued Wages Payable	511,586
2200 Accrued Expenses	917,559
2300 Deferred Revenues	560
Long Term Liabilities:	
2501 Due Within One Year	1,215,000
2502 Due in More Than One Year	42,530,000
2000 Total Liabilities	46,628,937
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	(12,358,563)
3820 Restricted for Federal and State Programs	80,056
3850 Restricted for Debt Service	658,766
3860 Restricted for Capital Projects	13,733,640
3900 Unrestricted Net Assets	9,897,091
3000 Total Net Assets	\$ 12,010,990

The accompanying notes are an integral part of this statement.

LOVEJOY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2005

EXHIBIT B-1

Net (Expense)
Revenue and
Changes in Net
Assets

Primary Gov.
Governmental
Activities

Data Control Codes	1	Program Revenues		6
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 4,982,497	\$ -	\$ 352,579	\$ (4,629,918)
12 Instructional Resources & Media Services	232,482	-	14,658	(217,824)
13 Curriculum and Staff Development	217,416	-	22,625	(194,791)
23 School Leadership	517,500	-	21,787	(495,713)
31 Guidance, Counseling & Evaluation Services	176,076	-	7,094	(168,982)
33 Health Services	107,332	-	6,618	(100,714)
34 Student (Pupil) Transportation	237,263	-	9,955	(227,308)
35 Food Services	360,610	310,111	54,835	4,336
36 Cocurricular/Extracurricular Activities	12,401	22,937	-	10,536
41 General Administration	676,657	-	19,938	(656,719)
51 Plant Maintenance and Operations	839,259	12,385	23,242	(803,632)
53 Data Processing Services	120,798	-	4,450	(116,348)
72 Debt Service - Interest on Long Term Debt	1,885,427	-	-	(1,885,427)
73 Debt Service - Bond Issuance Cost & Fees	2,897	-	-	(2,897)
91 Contracted Instructional Services Between Schools	6,519,926	-	-	(6,519,926)
93 Payments to Fiscal Agent/Member Districts of SSA	59,983	-	-	(59,983)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 16,948,524</u>	<u>\$ 345,433</u>	<u>\$ 537,781</u>	<u>(16,065,310)</u>

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		13,041,428
DT	Property Taxes, Levied for Debt Service		2,812,924
SF	State Aid - Formula Grants		513,426
GC	Grants & Contributions not Restricted		535
IE	Investment Earnings		713,759
MI	Miscellaneous Local and Intermediate Revenue		242,651
TR	Total General Revenues		<u>17,324,723</u>
CN	Change in Net Assets		1,259,413
NB	Net Assets--Beginning		<u>10,751,577</u>
NE	Net Assets--Ending		<u>\$ 12,010,990</u>

The accompanying notes are an integral part of this statement.

LOVEJOY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2005

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 10,793,211	\$ 658,766	\$ 15,680,487
1220 Property Taxes - Delinquent	192,741	38,526	-
1230 Allowance for Uncollectible Taxes (credit)	(1,928)	(385)	-
1240 Due from Other Governments	42,408	-	-
1410 Deferred Expenditures	21,147	-	-
1000 Total Assets	<u>\$ 11,047,579</u>	<u>\$ 696,907</u>	<u>\$ 15,680,487</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 329,596	\$ -	\$ 1,039,226
2150 Payroll Deductions and Withholdings Payable	2,139	-	-
2160 Accrued Wages Payable	497,450	-	-
2200 Accrued Expenditures	9,532	-	907,621
2300 Deferred Revenues	190,813	38,141	-
2000 Total Liabilities	<u>\$ 1,029,530</u>	<u>\$ 38,141</u>	<u>\$ 1,946,847</u>
Fund Balances:			
Reserved For:			
3420 Retirement of Long-Term Debt	\$ -	\$ 658,766	\$ -
3430 Prepaid Items	21,147	-	-
3450 Food Service	-	-	-
Unreserved Designated For:			
3510 Construction	-	-	13,733,640
3590 Other Purposes	3,387,021	-	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	6,609,881	-	-
3610 Reported in Special Revenue Funds	-	-	-
3000 Total Fund Balances	<u>\$ 10,018,049</u>	<u>\$ 658,766</u>	<u>\$ 13,733,640</u>
4000 Total Liabilities and Fund Balances	<u>\$ 11,047,579</u>	<u>\$ 696,907</u>	<u>\$ 15,680,487</u>

The accompanying notes are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 90,442	\$ 27,222,906
-	231,267
-	(2,313)
17,369	59,777
-	21,147
<u>\$ 107,811</u>	<u>\$ 27,532,784</u>
\$ -	\$ 1,368,822
-	2,139
14,136	511,586
406	917,559
560	229,514
<u>\$ 15,102</u>	<u>\$ 3,029,620</u>
\$ -	\$ 658,766
-	21,147
80,056	80,056
-	13,733,640
-	3,387,021
-	6,609,881
12,653	12,653
<u>\$ 92,709</u>	<u>\$ 24,503,164</u>
<u>\$ 107,811</u>	<u>\$ 27,532,784</u>

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LOVEJOY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2005

Total Fund Balances - Governmental Funds	\$	24,503,164
1 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 \$16,053,953 and the accumulated depreciation was \$3,018,291. In addition, long-term liabilities, including bonds payable of \$21,195,000, 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 decrease net assets.		(8,159,338)
2 Current year capital outlays of \$18,715,783 and long-term debt principal payments of \$640,000 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 current year capital outlays and debt principal payments is to increase net assets.		19,355,783
3 Accrued interest payable on long-term debt is not included in the fund financial statements, but is shown on the government-wide financial statements. The effect of including accrued interest payable is to decrease net assets.		(83,271)
4 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(365,008)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets.		(23,240,340)
19 Net Assets of Governmental Activities	<u>\$</u>	<u>12,010,990</u>

The accompanying notes are an integral part of this statement.

LOVEJOY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2005

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 13,564,555	\$ 2,845,922	\$ 374,510
5800 State Program Revenues	830,326	-	-
5900 Federal Program Revenues	535	-	-
5020 Total Revenues	<u>14,395,416</u>	<u>2,845,922</u>	<u>374,510</u>
EXPENDITURES:			
Current:			
0011 Instruction	4,523,434	-	-
0012 Instructional Resources & Media Services	213,004	-	-
0013 Curriculum & Instructional Staff Development	185,372	-	-
0023 School Leadership	482,372	-	-
0031 Guidance, Counseling & Evaluation Services	169,322	-	-
0033 Health Services	103,455	-	-
0034 Student (Pupil) Transportation	182,257	-	-
0035 Food Services	-	-	-
0036 Cocurricular/Extracurricular Activities	5,985	-	-
0041 General Administration	640,628	-	-
0051 Plant Maintenance and Operations	803,981	-	-
0053 Data Processing Services	117,296	-	-
Debt Service:			
0071 Debt Service - Principal on long-term debt	-	640,000	-
0072 Debt Service - Interest on long-term debt	-	1,813,793	-
0073 Debt Service - Bond Issuance Cost and Fees	-	2,897	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	76,380	-	18,820,720
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	6,519,926	-	-
0093 Payments to Fiscal Agent/Member Districts of SSA	59,983	-	-
6030 Total Expenditures	<u>14,083,395</u>	<u>2,456,690</u>	<u>18,820,720</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>312,021</u>	<u>389,232</u>	<u>(18,446,210)</u>
OTHER FINANCING SOURCES (USES):			
7911 Capital-related Debt Issued (Regular Bonds)	-	-	23,480,931
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>23,480,931</u>
1200 Net Change in Fund Balances	312,021	389,232	5,034,721
0100 Fund Balance - September 1 (Beginning)	<u>9,706,028</u>	<u>269,534</u>	<u>8,698,919</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 10,018,049</u>	<u>\$ 658,766</u>	<u>\$ 13,733,640</u>

The accompanying notes are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ 334,019	\$ 17,119,006
116,757	947,083
<u>104,124</u>	<u>104,659</u>
554,900	18,170,748
134,483	4,657,917
3,498	216,502
16,190	201,562
1,917	484,289
1,000	170,322
1,000	104,455
1,292	183,549
334,397	334,397
6,416	12,401
2,000	642,628
4,042	808,023
625	117,921
-	640,000
-	1,813,793
-	2,897
-	18,897,100
-	6,519,926
-	<u>59,983</u>
<u>506,860</u>	<u>35,867,665</u>
<u>48,040</u>	<u>(17,696,917)</u>
-	<u>23,480,931</u>
-	<u>23,480,931</u>
48,040	5,784,014
<u>44,669</u>	<u>18,719,150</u>
<u>\$ 92,709</u>	<u>\$ 24,503,164</u>

LOVEJOY 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, 2005

Total Net Change in Fund Balances - Governmental Funds	\$	5,784,014
Current year capital outlays of \$18,715,783 and long-term debt principal payments of \$640,000 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 current year capital outlays and debt principal payments is to increase net assets.		19,355,783
Accrued interest payable on long-term debt is not included in the fund financial statements, but is shown on the government-wide financial statements. The effect of including accrued interest payable is to decrease net assets.		(83,271)
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.		(365,008)
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 decrease net assets.		(23,432,105)
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>1,259,413</u>

The accompanying notes are an integral part of this statement.

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial

-continued-

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

-continued-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation
(continued)

statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgements 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. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

-continued-

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

-continued-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **General Fund** - The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. **Capital Projects Fund** - 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.

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

Governmental Funds:

1. **Special Revenue Funds** - The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

E. Other Accounting Policies

1. **Deposits and Investments**

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

2. **Due From (To) Other Funds**

Interfund receivables and payables arise from interfund transactions and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations. There were no interfund balances at August 31, 2005.

3. **Capital Assets**

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

-continued-

LOVEJOY INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
at and for the
Year ended August 31, 2005
-continued-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Other Accounting Policies (continued)

3. Capital Assets (continued)

Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	39
Building improvements	39
Vehicles	5
Buses	15
Other equipment	3-7

4. Vacation and Sick Leave

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying basic financial statements.

5. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

-continued-

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Other Accounting Policies (continued)

5. **Long-term Obligations** (continued)

debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. As of August 31, 2005, Reserved Fund Balance includes \$21,147 for prepaid items in the General Fund. Debt Service Fund reserves total \$658,766 for retirement of funded indebtedness, and a total of \$13,733,640 has been designated for authorized construction programs in the Capital Projects Fund, as of August 31, 2005. The Special Revenue Fund reserves total \$80,056 for Food Service. Unreserved Designated Fund Balance includes \$3,387,021 for future operating costs of the planned new high school campus.

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

8. **Data Control Codes**

The Data Control Codes refer to the account code structure prescribed by T.E.A. in the *Financial Accountability System Resources Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

9. 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.

NOTE 2 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

Exhibit C-2 provides a reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation

-continued-

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

-continued-

NOTE 2 RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets (continued)

explains that “various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this \$(23,240,340) adjustment are as follows:

Long-term debt:	
Issuance of bonds payable	\$ (23,190,000)
Premium and issuance costs on bonds	<u>(279,294)</u>
	<u>(23,469,294)</u>
Deferred revenue:	
To remove the current year uncollected tax levy from deferred revenue	194,033
To remove prior year collectible delinquent tax levy receivable from deferred revenue	<u>34,921</u>
	<u>228,954</u>
Net adjustment to decrease fund balance - total governmental funds to arrive at net assets - governmental activities	\$ <u>(23,240,340)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that “various other reclassifications are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this \$(23,432,105) adjustment are as follows:

Long-term debt:	
Issuance of bonds payable	\$ (23,190,000)
Premium and issuance costs on bonds	<u>(279,294)</u>
	<u>(23,469,294)</u>
Taxes:	
To move the current period uncollected tax levy to revenue	194,033
To remove the prior period tax collection from current period revenue	<u>(156,844)</u>
	<u>37,189</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	\$ <u>(23,432,105)</u>

-continued-

LOVEJOY INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
at and for the
Year ended August 31, 2005
-continued-

NOTE 3 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Data

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

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal period beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to 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. The budget was properly amended throughout the year by the Board of Trustees.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

<u>August 31, 2005 Fund Balance</u>	
Appropriated budget funds - Food Service	\$ 80,056
Nonappropriated budget funds	<u>12,653</u>
All Special Revenue Funds	<u>\$ 92,709</u>

B. Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment or Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at year end.

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

-continued-

NOTE 4 DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2005, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,007,108 and the bank balance was \$3,486,754. The District's cash deposits at August 31, 2005, and during the period ended August 31, 2005, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Name of bank American National Bank of Texas, Allen, Texas.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$8,371,074.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$3,486,754 and occurred during the month of August.
- d. Total amount of FDIC coverage at the time of highest combined balance was \$100,000.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires 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 return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. 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 deposit; (3) certain municipal securities; (4) money market savings account; (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Fund; (8) Investment pools; (9) guaranteed investment contracts; and (10) 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.

-continued-

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
at and for the
Year ended August 31, 2005
-continued-

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

A. Deposits and Investments (continued)

The District's temporary investments at August 31, 2005, were as follows:

<u>Investment type:</u>	<u>Fair Value</u>
U. S. Government Securities	\$ 15,445,609
State Treasurer's investment pool	<u>9,769,889</u>
Total	\$ <u>25,215,498</u>

B. Property Taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the period following the October 1 levy date. The assessed value of the property tax roll on August 1, 2004, upon which the levy for the 2004-05 fiscal period was based, was \$884,626,490. The roll was subsequently increased to a period end assessed value of \$886,499,226. Taxes are delinquent if not paid by January 31. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs after June 30.

The tax rates assessed for the year ended August 31, 2005, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.50 and \$0.3234 per \$100 valuation, respectively, for the total of \$1.8234 per \$100 valuation.

Total tax collections for the year ended August 31, 2005 were 99.7% of the year end adjusted tax levy. 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 taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real personal property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2005, property taxes receivable, net of estimated uncollectible taxes, totaled \$190,813 and \$38,141 for the General and Debt Service Funds, respectively.

C. Due From Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2005, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

-continued-

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

C. Due From Other Governments (continued)

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 42,408		42,408
Special revenue	<u>10,027</u>	<u>7,342</u>	<u>17,369</u>
Total	<u>\$ 52,435</u>	<u>7,342</u>	<u>59,777</u>

D. Capital Assets

Capital asset activity for the year ended August 31, 2005, was as follows:

	<u>Primary Government</u>			<u>Ending Balance</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	
Government activities:				
Land	\$ 4,041,213			4,041,213
Buildings and improvements	10,933,583	92,378		11,025,961
Furniture and equipment	352,262			352,262
Vehicles	726,895	27,587		754,482
Construction in progress	<u>0</u>	<u>18,595,818</u>		<u>18,595,818</u>
Totals at historical cost	<u>16,053,953</u>	<u>18,715,783</u>		<u>34,769,736</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,594,113)	(287,717)		(2,881,830)
Furniture and equipment	(268,419)	(27,831)		(296,250)
Vehicles	<u>(155,759)</u>	<u>(49,460)</u>		<u>(205,219)</u>
Total accumulated depreciation	<u>(3,018,291)</u>	<u>(365,008)</u>		<u>(3,383,299)</u>
Governmental activities capital assets, net	<u>\$ 13,035,662</u>	<u>18,350,775</u>		<u>31,386,437</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 184,793
Instructional Resources and Media	8,632
Curriculum and staff development	5,754
School Leadership	17,263
Guidance counseling & evaluation	5,754
Health services	2,877
Student transportation	53,714
Food Services	26,213
General Administration	25,895
Plant Maintenance and Operations	31,236
Data processing services	<u>2,877</u>
Total Depreciation Expense	<u>\$ 365,008</u>

-continued-

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

-continued-

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

E. Construction Commitments

At August 31, 2005, the District had one project under construction. A summary of the status of this project and the related binding contract with the contractor is as follows:

<u>Project Name</u>	<u>Scheduled Completion Date</u>	<u>Contract Amount</u>	<u>Costs Incurred Through 08/31/05</u>	<u>Amount Retained</u>
High School	08/06	\$ 30,429,219	18,595,818	907,621

F. Bonds Payable

Bonds payable activity for the year ended August 31, 2005, was as follows:

<u>Governmental Activities</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Bonded Indebtedness:						
1993 School Bldg.	5.30 - 8.30%	\$ 380,000	245,000		(20,000)	225,000
1998 School Bldg.	3.90 - 5.90%	6,500,000	6,080,000		(280,000)	5,800,000
2001 School Bldg.	4.50 - 6.00%	1,500,000	1,435,000		(35,000)	1,400,000
2002 School Bldg.	4.35 - 5.50%	4,250,000	4,160,000		(95,000)	4,065,000
2003 School Bldg.	3.25 - 4.35%	9,360,000	9,275,000		(210,000)	9,065,000
2004 School Bldg.	4.50 - 5.25%	23,190,000		23,190,000		23,190,000
Total bonded indebtedness			\$ <u>21,195,000</u>	<u>23,190,000</u>	<u>(640,000)</u>	<u>43,745,000</u>

Interest expense for the year on all bonded indebtedness was \$1,813,793.

Debt service requirements for the general obligation bonds are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2006	\$ 1,215,000	1,970,301	3,185,301
2007	1,270,000	1,910,086	3,180,086
2008	1,325,000	1,847,096	3,172,096
2009	1,390,000	1,783,524	3,173,524
2010	1,465,000	1,716,903	3,181,903
2011-2015	8,555,000	7,471,629	16,026,629
2016-2020	9,750,000	5,316,701	15,066,701
2021-2025	10,205,000	3,175,156	13,380,156
2026-2029	8,570,000	731,435	9,301,435
Total	\$ <u>43,745,000</u>	<u>25,922,831</u>	<u>69,667,831</u>

-continued-

LOVEJOY INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
at and for the
Year ended August 31, 2005
-continued-

NOTE 4 DETAILED NOTES ON ALL FUNDS (continued)

F. Bonds Payable (continued)

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2005.

NOTE 5 OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2005, 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.

B. Litigation and Contingencies

The District is not currently involved in any litigation.

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collection ability of any related receivable at August 31, 2005, 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 combined financial statements for such contingencies.

C. Revenues from Local and Intermediate Sources

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$ 13,020,664		2,796,500		15,817,164
Penalties, Interest and Other					
Tax related Income	110,644		21,030		131,674
Investment Income	309,884	971	28,392	374,510	713,757
Food Sales		310,111			310,111
Co-curricular student activities		22,937			22,937
Other	<u>123,363</u>				<u>123,363</u>
Total	<u>\$ 13,564,555</u>	<u>334,019</u>	<u>2,845,922</u>	<u>374,510</u>	<u>17,119,006</u>

LOVEJOY INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
at and for the
Year ended August 31, 2005
-continued-

NOTE 5 OTHER INFORMATION (continued)

D. Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current year. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue reported in the governmental funds were as follows:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	\$ 190,813		38,141	228,954
Employee Health Insurance		<u>560</u>		<u>560</u>
Total Deferred Revenue	<u>\$ 190,813</u>	<u>560</u>	<u>38,141</u>	<u>229,514</u>

E. Health Care Coverage

During the year ended August 31, 2005, employees of the District were covered by a health insurance plan (the plan). The District paid premiums of \$225 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents' health insurance coverage. 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, 2005 and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Blue Cross Blue Shield are available for the year ended December 31, 2004, and are filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

F. Pension Plan Obligations

Plan Description - The District contributes to the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the District, but are the liability of the State of Texas. TRS provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. TRS operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

at and for the

Year ended August 31, 2005

-continued-

NOTE 5 OTHER INFORMATION (continued)

F. Pension Plan Obligations (continued)

Funding Policy - Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the District's covered payroll. The amount of on-behalf payments during the year was \$316,901. The District's employees' contributions to the System for the years ended August 31, 2003, 2004, and 2005, were \$301,299, \$364,457, and \$349,598, respectively, equal to the required contributions for each year. Other contributions made from federal private grants and from the District for salaries above the statutory minimum for the years ended August 31, 2003, 2004, and 2005, were \$35,516, \$45,528, and \$55,500, respectively, equal to the required contributions for each year.

G. Workers' Compensation Insurance

During the year ended August 31, 2005, the employees of the District were covered by workers' compensation insurance through a licensed insurer.

REQUIRED SUPPLEMENTARY INFORMATION

LOVEJOY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2005

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 12,992,372	\$ 13,411,634	\$ 13,564,555	\$ 152,921
5800	State Program Revenues	432,457	794,211	830,326	36,115
5900	Federal Program Revenues	-	-	535	535
5020	Total Revenues	13,424,829	14,205,845	14,395,416	189,571
EXPENDITURES:					
Current:					
0011	Instruction	4,422,287	4,524,189	4,523,434	755
0012	Instructional Resources & Media Services	263,176	213,740	213,004	736
0013	Curriculum & Instructional Staff Development	188,045	185,792	185,372	420
0023	School Leadership	451,865	484,754	482,372	2,382
0031	Guidance, Counseling & Evaluation Services	172,529	170,986	169,322	1,664
0033	Health Services	109,680	104,792	103,455	1,337
0034	Student (Pupil) Transportation	151,322	190,681	182,257	8,424
0036	Cocurricular/Extracurricular Activities	-	12,500	5,985	6,515
0041	General Administration	597,646	640,896	640,628	268
0051	Plant Maintenance and Operations	711,873	810,320	803,981	6,339
0053	Data Processing Services	143,500	117,603	117,296	307
0081	Facilities Acquisition and Construction	-	100,000	76,380	23,620
0091	Contracted Instructional Services Between Schools	5,913,169	6,159,461	6,519,926	(360,465)
0093	Payments to Fiscal Agent/Member Districts of SSA	75,000	75,000	59,983	15,017
6030	Total Expenditures	13,200,092	13,790,714	14,083,395	(292,681)
1200	Net Change in Fund Balances	224,737	415,131	312,021	(103,110)
0100	Fund Balance - September 1 (Beginning)	9,706,028	9,706,028	9,706,028	-
3000	Fund Balance - August 31 (Ending)	\$ 9,930,765	\$ 10,121,159	\$ 10,018,049	\$ (103,110)

COMBINING STATEMENTS

LOVEJOY INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2005

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	
ASSETS					
1110	Cash and Cash Equivalents	\$ (1,467)	\$ -	\$ 88,723	\$ -
1240	Due from Other Governments	3,805	-	3,537	-
1000	Total Assets	<u>\$ 2,338</u>	<u>\$ -</u>	<u>\$ 92,260</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2160	Accrued Wages Payable	\$ 2,160	\$ -	\$ 11,976	\$ -
2200	Accrued Expenditures	178	-	228	-
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>2,338</u>	<u>-</u>	<u>12,204</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3450	Food Service	-	-	80,056	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>80,056</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 2,338</u>	<u>\$ -</u>	<u>\$ 92,260</u>	<u>\$ -</u>

262 Title II, D Education Technology	269 Title V, Pt.A Innovative Programs	404 Student Success Initiative	411 Technology Allotment	418 Employee Health Insurance	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ (6,570)	\$ (3,457)	\$ 560	\$ 12,653	\$ 90,442
-	-	6,570	3,457	-	-	17,369
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ 12,653</u>	<u>\$ 107,811</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,136
-	-	-	-	-	-	406
-	-	-	-	560	-	560
-	-	-	-	560	-	15,102
-	-	-	-	-	-	80,056
-	-	-	-	-	12,653	12,653
-	-	-	-	-	12,653	92,709
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ 12,653</u>	<u>\$ 107,811</u>

LOVEJOY INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2005

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 316,145	\$ -
5800 State Program Revenues	-	-	3,201	-
5900 Federal Program Revenues	<u>37,915</u>	<u>1,832</u>	<u>48,071</u>	<u>14,001</u>
5020 Total Revenues	<u>37,915</u>	<u>1,832</u>	<u>367,417</u>	<u>14,001</u>
EXPENDITURES:				
Current:				
0011 Instruction	37,135	1,832	-	-
0012 Instructional Resources & Media Services	-	-	-	-
0013 Curriculum & Instructional Staff Development	780	-	-	14,001
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling & Evaluation Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	330,835	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Plant Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
6030 Total Expenditures	<u>37,915</u>	<u>1,832</u>	<u>330,835</u>	<u>14,001</u>
1200 Net Change in Fund Balance	-	-	36,582	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>43,474</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,056</u>	<u>\$ -</u>

262 Title II, D Education Technology	269 Title V, Pt.A Innovative Programs	404 Student Success Initiative	411 Technology Allotment	418 Employee Health Insurance	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,874	\$ 334,019
-	-	17,576	32,623	63,357	-	116,757
<u>974</u>	<u>1,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>104,124</u>
<u>974</u>	<u>1,331</u>	<u>17,576</u>	<u>32,623</u>	<u>63,357</u>	<u>17,874</u>	<u>554,900</u>
692	-	17,064	32,508	45,252	-	134,483
-	1,331	-	-	2,167	-	3,498
282	-	512	115	500	-	16,190
-	-	-	-	1,917	-	1,917
-	-	-	-	1,000	-	1,000
-	-	-	-	1,000	-	1,000
-	-	-	-	1,292	-	1,292
-	-	-	-	3,562	-	334,397
-	-	-	-	-	6,416	6,416
-	-	-	-	2,000	-	2,000
-	-	-	-	4,042	-	4,042
-	-	-	-	625	-	625
<u>974</u>	<u>1,331</u>	<u>17,576</u>	<u>32,623</u>	<u>63,357</u>	<u>6,416</u>	<u>506,860</u>
-	-	-	-	-	11,458	48,040
-	-	-	-	-	1,195	44,669
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,653</u>	<u>\$ 92,709</u>

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REQUIRED T.E.A. SCHEDULES

LOVEJOY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2005

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1996 and prior years	Various	Various	\$ Various
1997	1.45600	0.08400	262,212,900
1998	1.46200	0.07800	276,513,814
1999	1.45800	0.17200	323,436,885
2000	1.48800	0.16200	392,997,213
2001	1.49100	0.12900	443,363,610
2002	1.48500	0.13500	555,269,368
2003	1.45000	0.15000	690,330,931
2004	1.50000	0.20300	782,744,025
2005 (School year under audit)	1.50000	0.32340	869,977,405
1000 TOTALS			

(10) Beginning Balance 9/1/2004	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2005
\$ 853	\$ -	\$ -	\$ -	\$ 53	906
320	-	-	-	-	320
131	-	-	-	-	131
138	-	-	-	-	138
307	-	-	-	-	307
777	-	-	-	-	777
8,552	-	312	28	340	8,552
28,302	-	20,268	2,097	(5,371)	566
154,636	-	105,194	14,236	(11,629)	23,577
-	15,863,168	12,894,889	2,780,139	7,853	195,993
<u>\$ 194,016</u>	<u>\$ 15,863,168</u>	<u>\$ 13,020,663</u>	<u>\$ 2,796,500</u>	<u>\$ (8,754)</u>	<u>\$ 231,267</u>

LOVEJOY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2006-2007
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2005

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

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	\$ -	\$ -	\$ 186,512	\$ 204,733	\$ -	\$ 20,910	\$ 412,155
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	80	80
6211	Legal Services	-	-	-	14,133	-	-	14,133
6212	Audit Services	-	-	-	5,231	-	-	5,231
6213	Tax Appraisal and Collection	-	-	-	-	-	-	-
621X	Other Professional Services	-	71,704	-	14,987	-	-	86,691
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	11,898	-	-	11,898
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	13,294	-	-	13,294
6290	Miscellaneous Contr.	-	-	-	9,745	-	-	9,745
6320	Textbooks and Reading	-	-	-	108	-	-	108
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	5,764	-	-	30,572	-	751	37,087
6410	Travel, Subsistence, Stipends	13,576	-	3,689	9,968	-	-	27,233
6420	Ins. and Bonding Costs	3,500	-	-	-	-	-	3,500
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	10,301	-	-	9,226	-	-	19,527
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 33,141	\$ 71,704	\$ 190,201	\$ 323,895	\$ -	\$ 21,741	\$ 640,682

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 14,590,255

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 112,721
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	802,415
Food (Function 35, 6341 and 6499)	(13)	127,595
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		323,895

SubTotal:

1,366,626

Net Allowed Direct Cost

\$ 13,223,629

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 11,025,961
Historical Cost of Building over 50 years old	(16)	\$ -
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 1,106,744
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 74,029
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: (\$490) in Function 53 expenditures are included in this report on administrative costs.

LOVEJOY INDEPENDENT SCHOOL DISTRICT
 FUNDBALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2005

UNAUDITED

1	Total General Fund Balance as of 8/31/05 (Exhibit C-1 object 3000 for the General Fund Only)	\$	10,018,049
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$	21,147
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)		3,387,021
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)		5,248,240
5	Estimate of one month's average cash disbursements during the regular school session (9/1/05-5/31/06).		1,312,060
6	Estimate of delayed payments from state sources (58xx) including August payment delays		42,408
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.		32,632
8	Estimate of delayed payments from federal sources (59xx)		-
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)		-
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>10,043,508</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	\$	<u><u>(25,459)</u></u>

LOVEJOY INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2005

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 275,000	\$ 296,385	\$ 316,145	\$ 19,760
5800 State Program Revenues	3,000	13,587	3,201	(10,386)
5900 Federal Program Revenues	35,000	50,000	48,071	(1,929)
5020 Total Revenues	<u>313,000</u>	<u>359,972</u>	<u>367,417</u>	<u>7,445</u>
EXPENDITURES:				
0035 Food Services	<u>307,340</u>	<u>359,972</u>	<u>330,835</u>	<u>29,137</u>
6030 Total Expenditures	<u>307,340</u>	<u>359,972</u>	<u>330,835</u>	<u>29,137</u>
1200 Net Change in Fund Balances	5,660	-	36,582	36,582
0100 Fund Balance - September 1 (Beginning)	<u>43,474</u>	<u>43,474</u>	<u>43,474</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 49,134</u>	<u>\$ 43,474</u>	<u>\$ 80,056</u>	<u>\$ 36,582</u>

LOVEJOY INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2005

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 2,683,786	\$ 2,683,786	\$ 2,845,922	\$ 162,136
5020	Total Revenues	2,683,786	2,683,786	2,845,922	162,136
EXPENDITURES:					
0071	Debt Service - Principal on long-term debt	640,000	640,000	640,000	-
0072	Debt Service - Interest on long-term debt	2,040,786	2,040,786	1,813,793	226,993
0073	Debt Service - Bond Issuance Cost and Fees	3,000	3,000	2,897	103
6030	Total Expenditures	2,683,786	2,683,786	2,456,690	227,096
1200	Net Change in Fund Balances	-	-	389,232	389,232
0100	Fund Balance - September 1 (Beginning)	269,534	269,534	269,534	-
3000	Fund Balance - August 31 (Ending)	\$ 269,534	\$ 269,534	\$ 658,766	\$ 389,232

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COMPLIANCE and INTERNAL CONTROL SECTION

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PINGLETON, HOWARD & COMPANY, P. C.

CERTIFIED PUBLIC ACCOUNTANTS

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MEMBERS
AMERICAN INSTITUTE of CPAs
AICPA DIVISION for CPA FIRMS
TEXAS SOCIETY of CPAs

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITOR'S REPORT

Board of School Trustees
Lovejoy Independent School District
259 Country Club Road
Lovejoy, Texas 75002

Members of the Board:

We have audited the basic financial statements of Lovejoy Independent School District, Lovejoy, Texas, as of and for the year ended August 31, 2005, and have issued our report thereon dated September 27, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether Lovejoy Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards*, which is described in the accompanying schedule of findings and questioned costs as item 05-1.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Lovejoy Independent School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

September 27, 2005

LOVEJOY INDEPENDENT SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended August 31, 2005

<u>Program</u>	<u>Description</u>
Type of Report on Financial Statements	Unqualified
Reportable Conditions:	
05-1	The District over-expended the budget in one function in the General Fund.
Material Weaknesses Involving Reportable Conditions	None
Noncompliance Material to the Financial Statements	None

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Schedule of Status of Prior Findings
For the Year Ended August 31, 2005

<u>Program</u>	<u>Status of Prior Year's Finding/ Noncompliance</u>
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NONE

LOVEJOY INDEPENDENT SCHOOL DISTRICT

Corrective Action Plan

For Year Ended August 31, 2005

Program

Corrective Action Plan

05-1 Budget

The district finance officer calculates the actual state recapture payment in June following the PEIMS Actual submission to TEA. Although the actual payment for settle-up recapture is not billed or paid until late October, beginning this year, the finance officer will compare the actual recapture calculation to the budgeted recapture and accrue Function 91 accordingly, prior to the end of the fiscal year.

Contact person: Ms. Shay Adams
Assistant Superintendent