

LUFKIN INDEPENDENT SCHOOL DISTRICT

Lufkin, Texas

ANNUAL FINANCIAL REPORT

For The Year Ended August 31, 2012

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INTRODUCTORY SECTION


LUFKIN INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD
August 31, 2012


Lufkin Independent School District
Name of School District

Angelina
County

003-903
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2012, at a meeting of the Board of Trustees of such school district on the 17th day of January, 2013.


Signature of Board Secretary


Signature of Board President

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lufkin Independent School District
Lufkin, 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 Lufkin Independent School District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lufkin Independent School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lufkin Independent School District as of August 31, 2012 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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2013 on our consideration of Lufkin Independent School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board, who considers it to be an economic or historical context. We have applied certain limited procedures, which consisted principally 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 performed for the purpose of forming an opinion on the basic financial statements of Lufkin Independent School District taken as a whole. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the supporting schedules, and other supplementary information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic 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 aspects in relation to the financial statements as a whole.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
January 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Lufkin Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended August 31, 2012. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$47,630,458 as of August 31, 2012.
- During the year ended August 31, 2012, the District's net assets decreased by \$906,651. The District generated \$74,748,998 in taxes and other revenues from governmental activities.
- The total cost of the District's programs was \$75,655,649.
- The general fund reported a total fund balance of \$22,372,973.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of three parts - **management's discussion and analysis** (this section), the **basic financial statements**, and **required supplementary information**. The basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The required supplementary information further explains and supports the information in the financial statements.

Government-wide Financial Statements

The District's annual financial report includes two government-wide financial statements. These statements provide both long-term and short-term information about the District's finances. Financial reporting at this level uses a perspective similar to that found in the private sector.

The first of these government-wide financial statements is the **Statement of Net Assets**. This is the District wide statement of position presenting information that includes all of the District's assets and liabilities, with the difference reported as **net assets**. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors such as changes to the District's tax base.

The second government-wide financial statement is the **Statement of Activities**, which reports how the District's net assets changed during the current year. All current revenues and expenses are included regardless of when the cash is received or paid.

The government-wide financial statements of the District include the governmental activities of the District. These are the basic services such as instruction, extracurricular activities, curriculum and staff development, health services, and administration. Property taxes, state aid, and federal grants finance most of these activities.

Fund Financial Statements

The fund financial statements focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.

- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- The fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

Governmental funds - Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statement, or on the subsequent page, that explains the relationship (or differences) between them.

Fiduciary funds - The District is the trustee, or fiduciary, for money raised by student activities, a library program and a scholarship program. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance operations.

The accompanying notes to the financial statements provide essential information to a full understanding of the government-wide and fund financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were \$47,630,458 as of August 31, 2012. The following table provides a summary of the District's net assets.

The District's Net Assets

	2012	2011
Current and other assets	\$ 33 834 672	\$ 31 824 283
Capital and non-current assets	76 517 293	74 933 502
TOTAL ASSETS	110 351 965	106 757 785
Other liabilities	10 044 258	8 174 714
Long term liabilities	52 377 249	50 045 962
TOTAL LIABILITIES	62 721 507	58 220 676
Net Assets:		
Invested in capital assets, net of related debt	19 688 235	23 734 928
Restricted	4 056 623	2 379 650
Unrestricted	23 885 600	22 422 531
TOTAL NET ASSETS	\$ 47 630 458	\$ 48 537 109

Changes in net assets. The District's total revenues were \$74,748,998. A significant portion, 47 percent, of the District's revenue comes from state aid-formula grants. Property taxes represent 35 percent of the District's revenue. The rest of the District's revenue comes from operating grants, charges for services, investment earnings, and other local sources. The total cost of all programs and services was \$75,655,649; 79 percent of these costs are for instructional and student services.

GOVERNMENTAL ACTIVITIES

	<u>2012</u>	<u>2011</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 1 322 561	\$ 1 523 412
Operating grants and contributions	11 241 275	18 581 392
Property taxes	26 325 848	25 188 856
State aid - Formula	35 502 241	32 423 993
Investment earnings	65 372	39 149
Other	291 701	1 005 031
TOTAL PROGRAM REVENUES	<u>74 748 998</u>	<u>78 761 833</u>
Expenses:		
Instruction	38 485 873	41 999 924
Instructional resources and media services	1 004 182	900 773
Curriculum and staff development	1 917 944	2 060 766
Instructional leadership	1 636 169	1 727 605
School leadership	3 611 170	3 732 837
Guidance, counseling and evaluation	2 294 485	2 295 744
Social work services	103 481	120 011
Health services	572 064	609 062
Student transportation	3 477 482	2 716 274
Food service	5 159 148	4 968 080
Extracurricular activities	1 835 249	1 986 181
General administration	1 613 197	1 906 330
Plant maintenance and operations	7 960 532	7 833 359
Security and monitoring services	627 356	595 271
Data processing services	1 112 017	978 398
Community services	60 417	42 626
Debt service	3 452 479	2 401 436
Capital Outlay	84 169	-
Payments related to shared service arrangements	246 800	261 008
	<u>401 435</u>	<u>406 162</u>
TOTAL EXPENSES	<u>75 655 649</u>	<u>77 541 847</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ (906 651)</u>	<u>\$ 1 219 986</u>

The governmental activities may be summarized as follows:

- The cost of all governmental activities this year was \$75,655,649.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$26,325,848.
- Some of the cost was paid by those who directly benefit from the programs in the amount of \$1,322,561, or
- By operating grants of \$11,241,275.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUND

Revenues from governmental fund types totaled \$74,359,276, an increase of 5.4% over the preceding year. The increase in revenues is primarily attributable to an increase in state sources.

The District's governmental funds ended the year with a reported combined fund balance of \$26,429,596, which is \$2,268,889 increase from last years ending balance of \$24,160,707.

General Fund Budgetary Highlights

Over the course of the year the District revised its budget periodically.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the District had invested \$126 million, less accumulated depreciation of \$50 million, in a broad range of capital assets, including land, school buildings, athletics facilities, instructional equipment, and school buses. The following table provides a summary of the District's capital assets.

District's Capital Assets (Net of depreciation)

	2012	2011
Land	\$ 1 956 778	\$ 1 911 090
Buildings and improvements	110 913 604	107 028 221
Furniture and equipment	4 211 835	4 373 375
Vehicles	6 481 530	5 748 744
Construction in progress	<u>3 187 767</u>	<u>3 872 064</u>
TOTALS AT HISTORICAL COST	126 757 513	122 933 495
Less accumulated depreciation	<u>(50 240 221)</u>	<u>(47 999 993)</u>
NET CAPITAL ASSETS	<u>\$ 76 517 292</u>	<u>\$ 74 933 502</u>

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

Long-term Debt

The following table provides a summary of the District's long-term debt.

District's Long-term Debt

	2012	2011
Leases payable	\$ 309 941	\$ -
Bonds payable	<u>54 672 969</u>	<u>51 222 969</u>
TOTAL BONDS AND NOTES	<u>\$ 54 982 910</u>	<u>\$ 51 222 969</u>

At year-end the District had \$54.67 million, in school building bonds outstanding as shown above.

More detailed information about the District's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised values used for the 2013 budget preparation were expected to increase from the prior year.
- The District's 2012-2013 average daily attendance is expected to be about the same as last year.

These indicators were taken into account when adopting the general fund budget for 2013. Due to legislative changes, State revenue will increase significantly at the same time an equal decline on property taxes will occur. The State is funding a larger portion of public education in future years.

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 demonstrate accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Chief Financial Officer.

BASIC FINANCIAL STATEMENTS

LUFKIN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
August 31, 2012

EXHIBIT A-1

DATA CONTROL CODES		1 GOVERNMENTAL ACTIVITIES
	ASSETS	
1110	Cash and cash equivalents	\$ 28 530 795
1225	Property taxes receivable	1 905 377
1240	Due from other governments	2 284 675
1290	Other receivables	16 461
1300	Inventory	305 647
1410	Deferred expenditure	124 131
1420	Capitalized bond and other debt issuance costs	667 586
	Capital Assets:	
1510	Land	1 956 778
1520	Buildings and improvements, net	68 490 332
1530	Furniture and equipment, net	2 882 416
1580	Construction in progress	3 187 767
1000	TOTAL ASSETS	110 351 965
	LIABILITIES	
2110	Accounts payable	2 103 237
2140	Interest payable	918 521
2150	Other accrued expense	426 918
2160	Accrued wages payable	2 154 203
2170	Due to other funds	513
1430	Premium on issuance of bonds	1 314 286
	Accredited interest on CAB bonds	820 919
2501	Due within one year	2 605 661
	Noncurrent Liabilities:	
2502	Due in more than one year	52 377 249
2000	TOTAL LIABILITIES	62 721 507
	NET ASSETS	
3200	Investment in capital assets, net of related debt	19 688 235
	Restricted for:	
3820	Federal and state programs	1 136 113
3850	Debt service	1 166 567
3860	Construction	1 753 943
3900	Unrestricted	23 885 600
3000	TOTAL NET ASSETS	\$ 47 630 458

The accompanying notes are an integral part of this statement.

LUFKIN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2012

EXHIBIT B-1

DATA CONTROL CODES	FUNCTIONS/PROGRAMS	1 EXPENSES	3 PROGRAM REVENUES		4 OPERATING GRANTS AND CONTRIBUTIONS	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS GOVERNMENTAL ACTIVITIES
			CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS		
	Governmental Activities:					
11	Instruction	\$ 38 485 873	\$ 57 322	\$ 5 384 925	\$	(33 043 626)
12	Instruction resources and media services	1 004 182	-	2 067		(1 002 115)
13	Curriculum and staff development	1 917 944	-	1 030 122		(887 822)
21	Instructional leadership	1 636 169	-	213 932		(1 422 237)
23	School leadership	3 611 170	-	5 582		(3 605 588)
31	Guidance, counseling, and evaluation services	2 294 485	-	203 384		(2 091 101)
32	Social work services	103 481	-	51 017		(52 464)
33	Health services	572 064	-	2 930		(569 134)
34	Student transportation	3 477 482	-	-		(3 477 482)
35	Food services	5 159 148	842 907	4 271 350		(44 891)
36	Co-curricular/extracurricular activities	1 835 249	422 332	48 138		(1 364 779)
41	General administration	1 613 197	-	-		(1 613 197)
51	Plant maintenance and operations	7 960 532	-	986		(7 959 546)
52	Security and monitoring services	627 356	-	-		(627 356)
53	Data processing services	1 112 017	-	-		(1 112 017)
61	Community services	60 417	-	26 842		(33 575)
72	Debt services	3 452 479	-	-		(3 452 479)
81	Facilities acquisition and construction	84 169	-	-		(84 169)
93	Payments related to shared services arrangements	246 800	-	-		(246 800)
	Other government charges	401 435	-	-		(401 435)
TG	TOTAL GOVERNMENTAL ACTIVITIES	<u>75 655 649</u>	<u>1 322 561</u>	<u>11 241 275</u>		<u>(63 091 813)</u>
TP	TOTAL PRIMARY GOVERNMENT	<u>\$ 75 655 649</u>	<u>\$ 1 322 561</u>	<u>\$ 11 241 275</u>		<u>(63 091 813)</u>
	General Revenues:					
MT	Property taxes, levied for general purposes					22 851 058
DT	Property taxes, levied for debt service					3 474 790
IE	Investment earnings					65 372
GC	Grants and contributions not restricted to specific programs					35 502 241
MI	Miscellaneous					291 701
TR	TOTAL GENERAL REVENUES					<u>62 185 162</u>
CN	CHANGE IN NET ASSETS					(906 651)
NB	Net assets - Beginning					48 537 109
NE	NET ASSETS - ENDING				\$	<u><u>47 630 458</u></u>

The accompanying notes are an integral part of this statement.

LUFKIN INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
August 31, 2012

EXHIBIT C-1

DATA CONTROL CODES		10	60	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS
		GENERAL FUND	CAPITAL PROJECT FUND		
	ASSETS				
1110	Cash and cash equivalents	\$ 24 012 739	\$ 2 208 931	\$ 2 309 125	\$ 28 530 795
1225	Taxes receivable, net	1 690 461	-	214 916	1 905 377
1240	Due from other governments	1 036 465	-	1 248 210	2 284 675
1260	Due from other funds	-	12 087	40 985	53 072
1290	Other receivables	16 211	-	250	16 461
1300	Inventory	119 858	-	185 789	305 647
1410	Deferred expenditures	124 131	-	-	124 131
1000	TOTAL ASSETS	<u>\$ 26 999 865</u>	<u>\$ 2 221 018</u>	<u>\$ 3 999 275</u>	<u>\$ 33 220 158</u>
	LIABILITIES AND FUND BALANCE				
	Current Liabilities:				
2110	Accounts payable	\$ 418 490	\$ 467 075	\$ 1 217 672	\$ 2 103 237
2150	Other payables	426 918	-	-	426 918
2160	Accrued wages payable	1 913 274	-	240 929	2 154 203
2170	Due to other funds	30 507	-	23 078	53 585
2300	Deferred revenue	1 837 703	-	214 916	2 052 619
2000	TOTAL LIABILITIES	<u>4 626 892</u>	<u>467 075</u>	<u>1 696 595</u>	<u>6 790 562</u>
	Fund Balances:				
3410	Nonspendable fund balance	243 989	-	-	243 989
	Restricted Fund Balances:				
3450	Restricted for food service	-	-	892 505	892 505
3420	Restricted for debt service	-	-	1 166 567	1 166 567
3490	Restricted for construction	-	1 753 943	243 608	1 997 551
3600	Unassigned	22 128 984	-	-	22 128 984
3000	TOTAL FUND BALANCE	<u>22 372 973</u>	<u>1 753 943</u>	<u>2 302 680</u>	<u>26 429 596</u>
4000	TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 26 999 865</u>	<u>\$ 2 221 018</u>	<u>\$ 3 999 275</u>	<u>\$ 33 220 158</u>

The accompanying notes are an integral part of this statement.

LUFKIN INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
August 31, 2012

EXHIBIT C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS BALANCE SHEET	\$ 26 429 596
Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:	
Capital assets used in governmental activities are not reported in the funds.	76 517 293
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	2 052 619
Payables for bond and lease principal and interest which are due in the current period are not reported in the funds.	(57 118 115)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds	<u>(250 935)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES - STATEMENT OF OF NET ASSETS	\$ <u><u>47 630 458</u></u>

The accompanying notes are an integral part of this statement.

LUFKIN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended August 31, 2012

EXHIBIT C-2

DATA CONTROL CODES		10	50	98
		GENERAL FUND	CAPITAL PROJECT FUND	OTHER GOVERN- MENTAL FUNDS
		FUND	FUND	MENTAL FUNDS
Revenues:				
5700	Local and intermediate sources	\$ 22 726 275	\$ 9	\$ 4 889 476
5800	State program revenues	33 821 904	-	1 336 174
5900	Federal program revenues	668 971	-	10 916 467
5020	TOTAL REVENUES	<u>57 217 150</u>	<u>9</u>	<u>17 142 117</u>
Expenditures:				
Current:				
0011	Instruction	31 504 001	-	5 639 012
0012	Instructional resources and media services	841 575	-	126 759
0013	Curriculum and staff development	819 353	-	1 030 122
0021	Instructional leadership	1 363 651	-	214 108
0023	School leadership	3 465 888	-	16 366
0031	Guidance, counseling and evaluation services	2 008 883	-	203 691
0032	Social work	48 770	-	51 017
0033	Health services	548 712	-	2 930
0034	Student transportation	3 750 293	-	695
0035	Food services	-	-	5 024 264
0036	Co curricular/extracurricular activities	1 532 062	-	237 670
0041	General administration	1 555 313	-	294
0051	Plant maintenance and operations	7 690 235	-	6 287
0052	Security and monitoring services	604 960	-	-
0053	Data processing services	1 072 319	-	-
0061	Community services	30 150	-	28 110
0071	Debt service	80 590	-	4 651 781
0081	Capital outlay	257 985	3 438 856	-
0093	Payments to shared service arrangements	246 800	-	-
0099	Other Governmental charges	401 435	-	-
6030	TOTAL EXPENDITURES	<u>57 822 975</u>	<u>3 438 856</u>	<u>17 233 106</u>
1100	EXCESS (DEFICIENCY) REVENUES OVER EXPENDITURES	<u>(605 825)</u>	<u>(3 438 847)</u>	<u>(90 989)</u>
Other Financing Sources:				
7911	Bond proceeds	-	5 768 572	8 002
7913	Capital lease proceeds	390 531	-	-
7916	Premium on bond issue	-	231 428	-
7917	Prepaid interest on bond issue	-	-	6 017
7080	TOTAL OTHER FINANCING SOURCES	<u>390 531</u>	<u>6 000 000</u>	<u>14 019</u>
1200	NET CHANGE IN FUND BALANCES	(215 294)	2 561 153	(76 970)
0100	Fund balance - Beginning	22 588 267	(807 210)	2 379 650
3000	FUND BALANCE - ENDING	<u>\$ 22 372 973</u>	<u>\$ 1 753 943</u>	<u>\$ 2 302 680</u>

The accompanying notes are an integral part of this statement.

LUFKIN INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2012

EXHIBIT C-3

Net change in fund balances - Total governmental funds	\$	2 268 889
Amounts Reported for Governmental Activities in the Statement of Activities ("SOA") are Different Because:		
Capital outlays are not reported as expenses in the SOA.		4 134 900
The depreciation of capital assets used in governmental activities is not reported in the funds.		(2 575 504)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		389 722
Repayment of bond and capital lease principal is an expenditure in the funds but is not an expense in the SOA.		(2 510 590)
Current year debt proceeds and issue cost are reported as revenue in the fund financial statements, and increases in long-term debt in government-wide financial statement. The net effect is to decrease net assets.		(1 788 059)
Amount represents increase in accrued interest from beginning of period to end of period.		<u>(826 009)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES	\$	<u><u>(906 651)</u></u>

The accompanying notes are an integral part of this statement.

LUFKIN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
August 31, 2012

EXHIBIT E-1

DATA CONTROL CODES		AGENCY FUNDS
	ASSETS	
1110	Cash and cash equivalents	\$ 255 966
1260	Due from other funds	514
1000	TOTAL ASSETS	\$ 256 480
	LIABILITIES	
	Current Liabilities:	
2190	Due to student groups	\$ 256 480
2000	TOTAL LIABILITIES	\$ 256 480

The accompanying notes are an integral part of this statement.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Lufkin Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

1. The Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity" and there are not component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

Basis of Presentation:

Government-wide Financial Statements: The statement of net assets and the statement of activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

In addition, the District reports the following fund types:

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and therefore not available to support District programs, these funds are not included in the government-wide statements.

Measurement Focus, Basis of Accounting:

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider property tax revenues collected after its year-end to be available. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Fund balances of the Government Funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

Property Taxes:

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

Allowances of uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Inventories and Prepaid Items:

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets:

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>ASSET CLASS</u>	<u>ESTIMATED USEFUL LIVES</u>
Buildings and improvements	20 - 50
Furniture and equipment	5 - 20
Capital leases	5 - 10

Receivable and Payable Balances:

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

There are no significant receivables which are not scheduled for collection within one year of year end.

Interfund Activity:

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivable and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires the use of management's estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimated.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2012

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Data Control Codes:

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

NOTE B - COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

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

<u>VIOLATION</u>	<u>ACTION TAKEN</u>
None Reported	Not Applicable

NOTE C - DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amounts of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$19,638,483 and the bank balance was \$20,256,793. The District's cash deposits at August 31, 2012 and during the period ended August 31, 2012, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

LUFKIN INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2012

NOTE C - DEPOSITS AND INVESTMENTS - CONTINUED

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The District's Investments at August 31, 2012 are shown below.

INVESTMENT OR INVESTMENT TYPE	WEIGHTED AVERAGE	FAIR VALUE
External investment pool TexPool	42 days	\$ 5 543 816
Federated government obligations #5	N/A	3 375 530
TOTAL INVESTMENTS		\$ 8 919 346

3. Analysis of Specific Deposit and Investment Risks:

GASB statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

Credit Risk:

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The District's policy does not limit its investment in public funds investment pools or money market mutual funds based on credit ratings.

At August 31, 2012, the District's investments are rated as to credit quality as follows: TexPool - Rated AAAM by Standard and Poor's, Federated Government Obligations #5 - Rated AAAM by Standard and Poor's, Aaa by Moody's Investors Service, and AAA Fitch Ratings.

Interest Rate Risk:

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's policy does not limit its investment in public funds investment pools. Weighted average maturities are noted in the table above. The District's policy limits its investments in money market mutual funds to those that have a dollar-weighted average stated maturity of 90 days or less.

The District's general policy is to report investments at fair value unless a legal contract exists which guarantees a higher value.

LUFKIN INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2012

NOTE C - DEPOSITS AND INVESTMENTS - CONTINUED

Public Funds Investment Pools:

Public funds investment pools in Texas ("Pool")s are established under the authority of the interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio with one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is a 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's rule 2a7 of the Investment Company Act of 1940. TexPool is a 2a7-like pool.

NOTE D - CAPITAL ASSETS

Capital asset activity for the period ended August 31, 2012, was as follows:

	BEGINNING BALANCES	INCREASES	DECREASES	ENDING BALANCES
<u>GOVERNMENT ACTIVITIES</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 1 911 090	\$ 45 688	\$ -	\$ 1 956 778
Construction in progress	3 872 063	3 245 547	(3 929 843)	3 187 767
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	5 783 153	3 291 235	(3 929 843)	5 144 545
Capital Assets Being Depreciated:				
Buildings and improvements	107 028 221	3 885 383	-	110 913 604
Furniture and equipment	4 373 375	177 333	(338 873)	4 211 835
Vehicles	5 748 745	834 087	(95 302)	6 487 530
TOTAL CAPITAL ASSETS BEING DEPRECIATED	117 150 341	4 896 803	(434 175)	121 612 969
Less Accumulated Depreciation for:				
Buildings and improvements	(40 390 395)	(2 032 877)	-	42 423 272
Furniture and equipment	(3 243 994)	(235 371)	328 277	3 151 088
Vehicles	(4 365 604)	(307 257)	7 000	4 665 861
TOTAL ACCUMULATED DEPRECIATION	(47 999 993)	(2 575 505)	335 277	50 240 221
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	69 150 348	2 321 298	(98 898)	71 372 748
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 74 933 501	\$ 5 612 533	\$ (4 028 741)	\$ 76 517 293

LUFKIN INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2012

NOTE D - CAPITAL ASSETS - CONTINUED

Depreciation was charged to functions as follows:

11	Instruction	\$	1 378 738
12	Instructional resources and media services		35 848
13	Curriculum and staff development		68 469
21	Instructional leadership		58 410
23	School leadership		128 916
31	Guidance, counseling, and evaluation services		81 911
32	Social work services		3 694
33	Health services		20 422
34	Student transportation		138 864
35	Food services		183 280
36	Extracurricular activities		65 517
41	General administration		57 590
51	Plant maintenance and operations		289 595
52	Security and monitoring services		22 396
53	Data processing services		39 698
61	Community services		2 157
		\$	2 575 505

NOTE E - INTERFUND BALANCES AND ACTIVITIES

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2012, consisted of the following:

DUE TO FUND	DUE FROM FUND	AMOUNT	PURPOSE
General fund	Other governmental funds	\$ 53 072	Short-term advances
Agency fund	General fund	514	Short-term advances
	TOTAL	\$ 53 585	

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

NOTE F - LONG-TERM OBLIGATIONS

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under the Sec Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity:

Long-term obligations include debt and other long-term liabilities.

The District issued the Series 2005 Unlimited Tax Refunding Bonds originally for \$19,600,000. Interest rates on these bonds range from 2.25% to 11.50%.

The Series 2008 Unlimited Tax School Building Bonds were issued in an original amount of \$14,499,999, which included \$159,999 of capital appreciation bonds. The original premium associated with the capital appreciation bonds was \$358,951. Interest rates range from 3.25% to 5.00%.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2012

NOTE F - LONG-TERM OBLIGATIONS - CONTINUED

The Series 2009 Unlimited Tax School Building bonds were issued for \$25,497,970. Of that amount, \$112,970 were capital appreciation bonds. The capital appreciation bonds were issued at a premium of \$948,416. Interest rates range from 2.50% to 4.75% for these bonds.

The Series 2012 Unlimited Tax School Building Bonds were issued for \$5,880,000. These bonds were issued at a premium of \$231,428 with associated issue cost of \$103,426. Interest rates range from 1.00 to 1.80%.

Changes in long-term obligations for the year ended August 31, 2012, are as follows:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Series 2005 Unlimited Tax Refunding bonds	\$ 12 260 000	\$ -	\$ (1 510 000)	\$ 10 750 000	\$ 1 585 000
Series 2005 Unlimited Tax Refunding bonds - Premium	281 746	-	(101 235)	180 511	-
Series 2005 Unlimited Tax Refunding bonds - Deferred refunding loss	(282 027)	-	101 336	(180 691)	-
Series 2008 Unlimited Tax School Building bonds	13 889 999	-	(320 000)	13 569 999	330 000
Series 2008 Unlimited Tax School Building bonds - Premium	189 257	-	(7 010)	182 247	-
Series 2008 Unlimited Tax School Building bonds - Issue cost	(95 360)	-	3 532	(91 828)	-
Capital Appreciation Bonds - Accretion - Series 2008	234 298	70 460	-	304 758	-
Series 2009 Unlimited Tax School Building bonds	25 072 970	-	(600 000)	24 472 970	615 000
Series 2009 Unlimited Tax School Building bonds - Discount	(136 129)	(155 512)	-	(291 641)	-
Capital Appreciation Bonds - Premium - Series 2009	896 905	-	(176 805)	720 100	-
Capital Appreciation Bonds - Accretion - Series 2009	126 430	389 731	-	516 161	-
Series 2012 Unlimited Tax School Building bond	-	5 880 000	-	5 880 000	-
Series 2012 Unlimited Tax School Building bond - Premium	-	231 428	-	231 428	-
Series 2012 Unlimited Tax School Building bond - Issue cost	-	(103 426)	-	(103 426)	-
Capital leases	-	390 531	(80 590)	309 941	75 661
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ 52 438 089</u>	<u>\$ 6 703 212</u>	<u>\$ (2 690 772)</u>	<u>\$ 56 450 529</u>	<u>\$ 2 605 661</u>

LUFKIN INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2012

NOTE F - LONG-TERM OBLIGATIONS - CONTINUED

2. Debt Service Requirements:

Debt service requirements on long-term debt at August 31, 2012, are as follows:

YEAR ENDING AUGUST 31,	BONDS		
	PRINCIPAL	INTEREST	TOTAL
2013	\$ 2 530 000	\$ 2 133 681	\$ 4 663 681
2014	2 635 000	2 043 356	4 678 356
2015	2 467 671	2 216 461	4 684 132
2016	1 962 611	2 728 646	4 691 257
2017	2 342 687	2 475 469	4 818 156
2018-2022	13 405 000	7 784 843	21 189 843
2023-2027	6 695 000	6 186 316	12 881 316
2028-2032	8 305 000	4 577 080	12 882 080
2033-2037	10 395 000	2 480 130	12 875 130
2038-2039	3 935 000	262 798	4 197 798
TOTALS	\$ 54 672 969	\$ 32 888 598	\$ 87 561 567

3. Capital Leases:

YEAR ENDING AUGUST 31,	
2013	\$ 80 589
2014	80 590
2015	80 590
2016	80 589
TOTAL MINIMUM RENTALS	322 358
Less amount representing interest cost	(12 417)
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	\$ 309 941

The effective interest rate on capital leases is 1.59%.

NOTE G - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2012, 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. The District is a member of the Deep East Texas Self-Insurance Fund, a public entity risk pool which is self-sustained through member premiums. The fund reinsures through commercial companies for claims in excess of \$750,000. The District pays an annual premium to the Fund for its workers' compensation insurance coverage. By participating in the pool, the District is not responsible for its own paid claims; consequently risks associated with workers' compensation are passed to the pool. However, members would be contingently liable for their share of liabilities in the event the assets of the Fund were exhausted.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2012

NOTE H - PENSION PLAN

1. Plan Description:

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. TRS operates primarily under the provisions of the Texas constitution, Article XVI, Sec.67, and Texas government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing the TRS communications Department, 1000 Red River Street, Austin, Texas 78701, by calling 800.223.8778, or by downloading the report form TRS internet website, www.trs.state.tx.us, under the TRS Publications heading.

2. Funding Policy:

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) the state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011, 2010, and 2009, and a state contribution rate of 6.644% for fiscal years 2011-2010 and 6.58% for fiscal year 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January 2011 through August 2012. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2012, 2011 and 2010 were \$2,251,559, \$1,978,642 and \$1,939,627, respectively. The District paid additional state contributions for the years ending August 31, 2011, 2010 and 2009 in the amount of \$519,076, \$619,592 and \$616,396, respectively, for the statutory minimum matching and federal grant matching portion of salaries.

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, 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 2012, 2011 and 2010. 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, 2012, 2011 and 2010 the State's contributions to TRS-Care were \$421,610, \$452,172 and \$448,885, respectively, the active member contributions were \$219,430, \$248,690 and \$246,866, respectively, and the District's contributions were \$278,643, \$293,912 and \$291,752, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries know 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, 2012, 2011 and 2010, the subsidy payments received by TRS-Care on behalf of the District was \$120,580, \$126,428 and \$114,777, respectively.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2012

NOTE H - PENSION PLAN - CONTINUED

Other Postemployment Benefits - Retiree Health Care Plan

1. Plan Description

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

NOTE I - HEALTH CARE COVERAGE

1. Employee Health Care Coverage

During the year ended August 31, 2012, employees of the District were covered by a health insurance plan (the Plan). The district is a member of TRS-ActiveCare, a statewide health coverage plan for public school employees. It was established by Chap 1579, "Texas School Employees Uniform Health Coverage Act", of the Texas Insurance Code. Employees can choose from PPO plans administered by BlueCross and BlueShield of Texas and Medco. The district paid premiums of \$225 - \$314 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

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

NOTE J - COMMITMENTS AND CONTINGENCIES

1. Contingencies:

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

2. Litigation:

No reportable litigation was pending against the District at August 31, 2012.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2012

NOTE K - SHARED SERVICES ARRANGEMENTS

Shared Services Arrangement - Fiscal Agent:

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides a Regional Day School Program for the Deaf, a Model 2 Shared Services Arrangement with other local member districts. All services are provided by the fiscal agent. Funding for the Regional Day School comes from federal and state grant programs directly to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund.

Shared Service Arrangement - Membership:

The District participates in a Model 1 Shared Services Arrangement with Region VII Education Service Center for Non-Educational Community-Based Support. The District is reporting the revenues and expenditures associated with monies transferred to them from the fiscal agent in the appropriate special revenue fund. The District also participates in a Model 3 shared services arrangement for at-risk students at the Program, which pays for the salary of a vocational coordinator for Angelina County school districts. Hudson ISD is the fiscal agent for both. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Hudson ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

NOTE L - SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through January 15, 2013, the date the statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board, but not considered a part of the basic financial statements.

LUFKIN INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For The Year Ended August 31, 2012

EXHIBIT G-1

DATA CONTROL CODES		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Revenues:					
5700	Local and intermediate sources	\$ 22 651 865	\$ 22 806 865	\$ 22 726 275	\$ (80 590)
5800	State program revenues	34 022 956	33 522 956	33 821 904	298 948
5900	Federal program revenues	717 545	717 545	668 971	(48 574)
5020	TOTAL REVENUES	<u>57 392 366</u>	<u>57 047 366</u>	<u>57 217 150</u>	<u>169 784</u>
Expenditures:					
Current:					
0011	Instruction	34 420 900	32 054 741	31 504 001	550 740
0012	Instructional resources and media services	825 513	826 534	841 575	(15 041)
0013	Curriculum and staff development	843 670	897 131	819 353	77 778
0021	Instructional leadership	1 453 119	1 458 829	1 363 651	95 178
0023	School leadership	3 613 582	3 520 162	3 465 888	54 274
0031	Guidance, counseling and evaluation services	1 999 570	2 014 426	2 008 883	5 543
0032	Social work	50 451	53 051	48 770	4 281
0033	Health services	509 639	549 639	548 712	927
0034	Student transportation	2 448 726	3 456 552	3 750 293	(293 741)
0036	Co-curricular/extracurricular activities	1 734 491	1 585 778	1 532 062	53 716
0041	General administration	1 610 314	1 627 956	1 555 313	72 643
0051	Plant maintenance and operations	8 299 591	8 148 787	7 690 235	458 552
0052	Security and monitoring services	576 494	607 494	604 960	2 534
0053	Data processing services	1 079 778	1 099 778	1 072 319	27 459
0061	Community services	40 000	33 976	30 150	3 826
0071	Debit services	100 000	85 000	80 590	4 410
0081	Capital outlay	-	401 602	257 985	143 617
0093	Payments shared service arrangements	245 346	249 800	246 800	3 000
0099	Other government charges	410 000	406 000	401 435	4 565
6030	TOTAL EXPENDITURES	<u>60 261 184</u>	<u>59 077 238</u>	<u>57 822 975</u>	<u>1 245 263</u>
1100	EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURES	<u>(2 868 818)</u>	<u>(2 029 872)</u>	<u>(605 825)</u>	<u>1 424 047</u>
Other Financing Sources:					
7913	Capital lease proceeds	-	-	390 531	390 531
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>390 531</u>	<u>390 531</u>
1200	NET CHANGE IN FUND BALANCES	(2 868 818)	(2 029 872)	(215 294)	1 814 578
0100	Fund balance - Beginning	22 588 267	22 588 267	22 588 267	-
3000	FUND BALANCE - ENDING	<u>\$ 19 719 449</u>	<u>\$ 20 558 395</u>	<u>\$ 22 372 973</u>	<u>\$ 1 814 578</u>

See independent auditor's report.

LUFKIN INDEPENDENT SCHOOL DISTRICT
 CAPITAL PROJECT FUND
 BUDGETARY COMPARISON SCHEDULE
 For The Year Ended August 31, 2012

EXHIBIT G-2

DATA CONTROL CODES		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	Revenues:				
5700	Local and intermediate sources	\$ 5 000	\$ 5 000	\$ 9	\$ (4 991)
5020	TOTAL REVENUES	<u>5 000</u>	<u>5 000</u>	<u>9</u>	<u>(4 991)</u>
	Expenditures:				
0081	Capital outlay	5 006 209	5 006 209	3 438 856	1 567 353
6030	TOTAL EXPENDITURES	<u>5 006 209</u>	<u>5 006 209</u>	<u>3 438 856</u>	<u>1 567 353</u>
1100	EXCESS REVENUE OVER EXPENDITURES	<u>(5 001 209)</u>	<u>(5 001 209)</u>	<u>(3 438 847)</u>	<u>1 562 362</u>
	Other Financing Sources:				
7911	Bond proceeds	6 000 000	6 000 000	5 768 572	(231 428)
7916	Premium on bond issue	-	-	231 428	231 428
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>6 000 000</u>	<u>6 000 000</u>	<u>6 000 000</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	998 791	998 791	2 561 153	1 562 362
0100	Fund balance - Beginning	(807 210)	(807 210)	(807 210)	-
3000	FUND BALANCE - ENDING	<u>\$ 191 581</u>	<u>\$ 191 581</u>	<u>\$ 1 753 943</u>	<u>\$ 1 562 362</u>

See independent auditor's report.

LUFKIN INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 August 31, 2012

EXHIBIT H-1

DATA CONTROL CODES		SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS (SEE EXHIBIT C-2)
	ASSETS			
1110	Cash and cash equivalent	\$ 1 142 558	\$ 1 166 567	\$ 2 309 125
1225	Taxes receivable, net	-	214 916	214 916
1240	Due from other government	1 248 210	-	1 248 210
1260	Due from other funds	40 985	-	40 985
1290	Other receivables	250	-	250
1300	Inventory	185 789	-	185 789
1000	TOTAL ASSETS	\$ 2 617 792	\$ 1 381 483	\$ 3 999 275
	LIABILITIES			
	Current Liabilities:			
2110	Accounts payable	\$ 1 217 672	\$ -	\$ 1 217 672
2160	Accrued wages payable	240 929	-	240 929
2170	Due to other funds	23 078	-	23 078
2300	Deferred revenue	-	214 916	214 916
2000	TOTAL LIABILITIES	1 481 679	214 916	1 696 595
	FUND BALANCES			
	Reserved Fund Balances:			
3450	Restricted for food service	892 505	-	892 505
3420	Restricted for debt service	-	1 166 567	1 166 567
3490	Other restricted fund balance	243 608	-	243 608
3000	TOTAL FUND BALANCE	1 136 113	1 166 567	2 302 680
4000	TOTAL LIABILITIES AND FUND BALANCES	\$ 2 617 792	\$ 1 381 483	\$ 3 999 275

See independent auditor's report.

LUFKIN INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 For The Year Ended August 31, 2012

EXHIBIT H-2

DATA CONTROL CODES		SPECIAL REVENUE FUNDS	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS (SEE EXHIBIT C-2)
	Revenues:			
5700	Local and intermediate sources	\$ 1 408 968	\$ 3 480 508	\$ 4 889 476
5800	State program revenues	324 809	1 011 365	1 336 174
5900	Federal program revenues	10 916 467	-	10 916 467
5020	TOTAL REVENUE	<u>12 650 244</u>	<u>4 491 873</u>	<u>17 142 117</u>
	Expenditures:			
	Current:			
0011	Instruction	5 639 012	-	5 639 012
0012	Instructional resources and media services	126 759	-	126 759
0013	Curriculum and staff development	1 030 122	-	1 030 122
0021	Instructional leadership	214 108	-	214 108
0023	School leadership	16 366	-	16 366
0031	Guidance, counseling, and evaluation services	203 691	-	203 691
0032	Social work	51 017	-	51 017
0033	Health services	2 930	-	2 930
0034	Student transportation	695	-	695
0035	Food service	5 024 264	-	5 024 264
0036	Cocurricular/extracurricular activities	237 670	-	237 670
0041	General administration	294	-	294
0051	Plant maintenance and operations	6 287	-	6 287
0061	Community services	28 110	-	28 110
0071	Debt service	-	4 651 781	4 651 781
6030	TOTAL EXPENDITURES	<u>12 581 325</u>	<u>4 651 781</u>	<u>17 233 106</u>
	EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURES	68 919	(159 908)	(90 989)
	Other Financing Sources:			
7911	Bond proceeds	-	8 002	8 002
7917	Prepaid interest on bond issue	-	6 017	6 017
	TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>14 019</u>	<u>14 019</u>
1200	NET CHANGE IN FUND BALANCES	68 919	(145 889)	(76 970)
0100	Fund balances - Beginning	1 067 194	1 312 456	2 379 650
3000	FUND BALANCES - ENDING	<u>\$ 1 136 113</u>	<u>\$ 1 166 567</u>	<u>\$ 2 302 680</u>

See independent auditor's report.

LUFKIN INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 August 31, 2012

DATA CONTROL CODES		211	219	224	225
		ESEA TITLE I	TITLE I PART D	IDEA B FORMULA	IDEA B PRESCHOOL
	ASSETS				
1110	Cash and cash equivalent	\$ -	\$ -	\$ -	\$ -
1240	Due from other government	463 423	3 325	334 882	290
1260	Due from other funds	-	-	-	-
1290	Other receivables	-	-	-	-
1300	Inventory	-	-	-	-
1000	TOTAL ASSETS	<u>\$ 463 423</u>	<u>\$ 3 325</u>	<u>\$ 334 882</u>	<u>\$ 290</u>
	LIABILITIES				
	Current Liabilities:				
2110	Accounts payable	\$ 359 671	\$ 3 325	\$ 260 828	\$ 290
2160	Accrued wages payable	103 751	-	74 054	-
2170	Due to other funds	-	-	-	-
2000	TOTAL LIABILITIES	<u>463 422</u>	<u>3 325</u>	<u>334 882</u>	<u>290</u>
	FUND BALANCES				
	Reserved Fund Balances:				
3450	Restricted for food service	-	-	-	-
3490	Other restricted fund balance	1	-	-	-
3000	TOTAL FUND BALANCE	<u>1</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 463 423</u>	<u>\$ 3 325</u>	<u>\$ 334 882</u>	<u>\$ 290</u>

240	242	244	255	263	274
FOOD SERVICE	SUMMER FEEDING PROGRAM	VOCATIONAL EDUCATION BASIC GRANT	TITLE II PART A TRAINING	TITLE III BILINGUAL ESL	GEAR UP 2012
\$ 897 304	\$ -	\$ 335	\$ -	\$ -	\$ -
108 554	-	-	34 655	14 947	117 406
-	40 985	-	-	-	-
-	-	-	-	-	-
185 789	-	-	-	-	-
<u>\$ 1 191 647</u>	<u>\$ 40 985</u>	<u>\$ 335</u>	<u>\$ 34 655</u>	<u>\$ 14 947</u>	<u>\$ 117 406</u>
\$ 208 634	\$ 45 291	\$ 335	\$ 34 655	\$ 14 947	\$ 117 406
63 154	-	-	-	-	-
23 078	-	-	-	-	-
<u>294 836</u>	<u>45 291</u>	<u>335</u>	<u>34 655</u>	<u>14 947</u>	<u>117 406</u>
896 811	(4 306)	-	-	-	-
-	-	-	-	-	-
<u>896 811</u>	<u>(4 306)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 1 191 647</u>	<u>\$ 40 985</u>	<u>\$ 335</u>	<u>\$ 34 655</u>	<u>\$ 14 947</u>	<u>\$ 117 406</u>

LUFKIN INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS - CONTINUED
 August 31, 2012

DATA CONTROL CODES		278 GEAR UP 2011	281 CHILD CARE SERVICES GRANT	283 IDEA - B FORMULA ARRA	285 TITLE I PART A ARRA
	ASSETS				
1110	Cash and cash equivalent	\$ -	\$ -	\$ -	\$ -
1240	Due from other government	-	-	-	-
1260	Due from other funds	-	-	-	-
1290	Other receivables	-	-	-	-
1300	Inventory	-	-	-	-
1000	TOTAL ASSETS	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
	LIABILITIES				
	Current Liabilities:				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued wages payable	-	-	-	-
2170	Due to other funds	-	-	-	-
2000	TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	FUND BALANCES				
	Reserved Fund Balances:				
3450	Restricted for food service	-	-	-	-
3490	Other restricted fund balance	-	-	-	-
3000	TOTAL FUND BALANCE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

287	289	315	316	317	340
EDUJOBS GRANT	TITLE VI PART A	SSA IDEA-B DISCRETIONARY	SSA IDEA B DEAF	SSA IDEA B PRESCHOOL DEAF	SSA IDEA-C EARLY INTERVENTION DEAF
\$ -	\$ 42	\$ -	\$ 894	\$ -	\$ -
135 740	-	4 051	1 795	33	15
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 42</u>	<u>\$ 4 051</u>	<u>\$ 2 689</u>	<u>\$ 33</u>	<u>\$ 15</u>
\$ 135 740	\$ 42	\$ 4 051	\$ 2 688	\$ 33	\$ 15
-	-	-	-	-	-
-	-	-	-	-	-
<u>135 740</u>	<u>42</u>	<u>4 051</u>	<u>2 688</u>	<u>33</u>	<u>15</u>
-	-	-	-	-	-
-	-	-	1	-	-
-	-	-	1	-	-
<u>\$ 135 740</u>	<u>\$ 42</u>	<u>\$ 4 051</u>	<u>\$ 2 689</u>	<u>\$ 33</u>	<u>\$ 15</u>

LUFKIN INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS - CONTINUED
 August 31, 2012

DATA CONTROL CODES		385	410	435 SSA	461
		VISUALLY IMPAIRED	TEXTBOOK FUND	REGIONAL DAY SCHOOL FOR DEAF	CAMPUS ACTIVITY FUND
	ASSETS				
1110	Cash and cash equivalent	\$ -	\$ 2 991	\$ -	\$ 154 682
1240	Due from other government	-	-	29 094	-
1260	Due from other funds	-	-	-	-
1290	Other receivables	-	-	-	-
1300	Inventory	-	-	-	-
1000	TOTAL ASSETS	<u>\$ -</u>	<u>\$ 2 991</u>	<u>\$ 29 094</u>	<u>\$ 154 682</u>
	LIABILITIES				
	Current Liabilities:				
2110	Accounts payable	\$ -	\$ -	\$ 29 094	\$ 627
2160	Accrued wages payable	-	-	-	-
2170	Due to other funds	-	-	-	-
2000	TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>29 094</u>	<u>627</u>
	FUND BALANCES				
	Reserved Fund Balances:				
3450	Restricted for food service	-	-	-	-
3490	Other restricted fund balance	-	2 991	-	154 055
3000	TOTAL FUND BALANCE	<u>-</u>	<u>2 991</u>	<u>-</u>	<u>154 055</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 2 991</u>	<u>\$ 29 094</u>	<u>\$ 154 682</u>

See independent auditor's report.

499			
SCHOLARSHIP FUND	SPECIAL REVENUE FUNDS (SEE EXHIBIT H-1)		
\$ 86 310	\$ 1 142 558		
-	1 248 210		
-	40 985		
250	250		
-	185 789		
<u>\$ 86 560</u>	<u>\$ 2 617 792</u>		
\$ -	\$ 1 217 672		
-	240 929		
-	23 078		
<u>-</u>	<u>1 481 679</u>		
-	892 505		
86 560	243 608		
<u>86 560</u>	<u>1 136 113</u>		
<u>\$ 86 560</u>	<u>\$ 2 617 792</u>		

LUFKIN INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 For The Year Ended August 31, 2012

DATA CONTROL CODES		211	219	224	225
		ESEA TITLE I	TITLE I PART D	IDEA B FORMULA	IDEA B PRESCHOOL
	Revenues:				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	2 668 607	40 272	1 558 649	17 620
5020	TOTAL REVENUES	<u>2 668 607</u>	<u>40 272</u>	<u>1 558 649</u>	<u>17 620</u>
	Expenditures:				
	Current:				
0011	Instruction	1 612 694	40 272	1 456 702	17 002
0012	Instructional resources and media services	2 067	-	-	-
0013	Curriculum and staff development	815 283	-	-	-
0021	Instructional leadership	80 776	-	24 640	-
0023	School leadership	-	-	-	-
0031	Guidance, counseling, and evaluation services	50 713	-	73 373	311
0032	Social work	51 017	-	-	-
0033	Health services	-	-	2 930	-
0034	Student transportation	-	-	-	-
0035	Food services	-	-	-	-
0036	Cocurricular/extracurricular activities	46 455	-	1 004	307
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0061	Community services	9 601	-	-	-
6030	TOTAL EXPENDITURES	<u>2 668 606</u>	<u>40 272</u>	<u>1 558 649</u>	<u>17 620</u>
1200	NET CHANGE IN FUND BALANCES	1	-	-	-
0100	Fund balances - Beginning	-	-	-	-
3000	FUND BALANCES - ENDING	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240	242	244	255	263	274
CHILD NUTRITION	SUMMER FEEDING PROGRAM	VOCATIONAL EDUCATION BASIC GRANT	TITLE II PART A TRAINING	TITLE III BILINGUAL ESL	GEAR UP 2012
\$ 845 220	\$ -	\$ -	\$ -	\$ -	\$ -
51 286	-	-	-	-	-
4 104 563	115 501	113 278	414 634	152 099	185 825
<u>5 001 069</u>	<u>115 501</u>	<u>113 278</u>	<u>414 634</u>	<u>152 099</u>	<u>185 825</u>
-	-	51 088	230 489	117 813	111 408
-	-	-	-	-	-
-	-	-	169 852	32 738	11 851
-	-	-	-	1 133	52 598
-	-	-	176	43	5 363
-	-	62 190	-	-	986
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
4 904 439	119 807	-	-	-	-
-	-	-	-	372	-
-	-	-	-	-	-
-	-	-	-	-	495
-	-	-	14 117	-	3 124
<u>4 904 439</u>	<u>119 807</u>	<u>113 278</u>	<u>414 634</u>	<u>152 099</u>	<u>185 825</u>
96 630	(4 306)	-	-	-	-
800 181	-	-	-	-	-
<u>\$ 896 811</u>	<u>\$ (4 306)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

LUFKIN INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS - CONTINUED
 For The Year Ended August 31, 2012

DATA CONTROL CODES		278 GEAR UP 2011	281 CHILD CARE SERVICES GRANT	283 IDEA - B FORMULA ARRA	285 TITLE I PART A ARRA
	Revenues:				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	15 811	5 499	4 361	14 424
5020	TOTAL REVENUES	<u>15 811</u>	<u>5 499</u>	<u>4 361</u>	<u>14 424</u>
	Expenditures:				
	Current:				
0011	Instruction	-	5 499	2 457	14 026
0012	Instructional resources and media services	-	-	-	-
0013	Curriculum and staff development	-	-	-	398
0021	Instructional leadership	-	-	1 413	-
0023	School leadership	-	-	-	-
0031	Guidance, counseling, and evaluation services	15 811	-	-	-
0032	Social work	-	-	-	-
0033	Health services	-	-	-	-
0034	Student transportation	-	-	-	-
0035	Food services	-	-	-	-
0036	Cocurricular/extracurricular activities	-	-	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	-	-	491	-
0061	Community services	-	-	-	-
6030	TOTAL EXPENDITURES	<u>15 811</u>	<u>5 499</u>	<u>4 361</u>	<u>14 424</u>
1200	NET CHANGE IN FUND BALANCES	-	-	-	-
0100	Fund balances - Beginning	-	-	-	-
3000	FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

287	289	315	316	317	340
EDUJOBS GRANT	TITLE VI PART A	SSA IDEA-B DISCRETIONARY	SSA IDEA B DEAF	SSA IDEA B PRESCHOOL DEAF	SSA IDEA-C EARLY INTERVENTION DEAF
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
1 458 238	5 549	21 058	17 535	2 020	924
<u>1 458 238</u>	<u>5 549</u>	<u>21 058</u>	<u>17 535</u>	<u>2 020</u>	<u>924</u>
1 458 238	5 549	21 058	17 534	2 020	924
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>1 458 238</u>	<u>5 549</u>	<u>21 058</u>	<u>17 534</u>	<u>2 020</u>	<u>924</u>
-	-	-	1	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>

LUFKIN INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS - CONTINUED
 For The Year Ended August 31, 2012

DATA CONTROL CODES		385	410	435 SSA	461
		VISUALLY IMPAIRED	TEXTBOOK FUND	REGIONAL DAY SCHOOL FOR DEAF	CAMPUS ACTIVITY FUND
	Revenues:				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ 271 082
5800	State program revenues	11 050	23 939	238 534	-
5900	Federal program revenues	-	-	-	-
5020	TOTAL REVENUES	<u>11 050</u>	<u>23 939</u>	<u>238 534</u>	<u>271 082</u>
	Expenditures:				
	Current:				
0011	Instruction	11 050	20 948	185 162	165 619
0012	Instructional resources and media services	-	-	-	47 456
0013	Curriculum and staff development	-	-	-	-
0021	Instructional leadership	-	-	53 372	176
0023	School leadership	-	-	-	10 784
0031	Guidance, counseling, and evaluation services	-	-	-	307
0032	Social work	-	-	-	-
0033	Health services	-	-	-	-
0034	Student transportation	-	-	-	695
0035	Food services	-	-	-	18
0036	Cocurricular/extracurricular activities	-	-	-	34 650
0041	General administration	-	-	-	294
0051	Plant maintenance and operations	-	-	-	2 801
0061	Community services	-	-	-	-
6030	TOTAL EXPENDITURES	<u>11 050</u>	<u>20 948</u>	<u>238 534</u>	<u>262 800</u>
1200	NET CHANGE IN FUND BALANCES	-	2 991	-	8 282
0100	Fund balances - Beginning	-	-	-	145 773
3000	FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ 2 991</u>	<u>\$ -</u>	<u>\$ 154 055</u>

See independent auditor's report.

499	
SCHOLARSHIP FUND	SPECIAL REVENUE FUNDS (SEE EXHIBIT H-2)
\$ 292 666	\$ 1 408 968
-	324 809
-	10 916 467
<u>292 666</u>	<u>12 650 244</u>
91 460	5 639 012
77 236	126 759
-	1 030 122
-	214 108
-	16 366
-	203 691
-	51 017
-	2 930
-	695
-	5 024 264
154 882	237 670
-	294
2 500	6 287
1 268	28 110
<u>327 346</u>	<u>12 581 325</u>
(34 680)	68 919
121 240	1 067 194
<u>\$ 86 560</u>	<u>\$ 1 136 113</u>

LUFKIN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended August 31, 2012

LAST 10 YEARS ENDED AUGUST 31,	(1) (2) TAX RATES		(3)
	MAINTENANCE	DEBT SERVICE	ASSESSED/APPRaisal VALUE FOR SCHOOL TAX PURPOSES
2003 and prior years	Various	Various	\$ Various
2004	1.5000	0.0800	\$ 1 718 883 108
2005	1.5000	0.0740	\$ 1 726 724 854
2006	1.3700	0.0775	\$ 1 790 772 765
2007	1.0400	0.0700	\$ 1 836 150 217
2008	1.0400	0.0700	\$ 1 910 367 297
2009	1.0400	0.1130	\$ 2 350 252 286
2010	1 0400	0.1720	\$ 2 057 448 119
2011	1.0400	0.1600	\$ 2 085 170 500
2012 (School year under audit)	1.0400	0.1650	\$ 2 123 601 212
TOTALS			

See independent auditor's report.

EXHIBIT J-1

(10) BEGINNING BALANCE 09/01/2011	(20) CURRENT YEAR'S TOTAL LEVY	(31) MAINTENANCE COLLECTIONS	(32) DEBT SERVICE COLLECTIONS	(40) ENTIRE YEAR'S ADJUSTMENTS	(50) ENDING BALANCE 08/31/2012
\$ 491 118	\$ -	\$ 29 045	\$ 3 814	\$ (33 072)	\$ 425 187
118 749	-	11 035	589	(4 346)	102 779
112 761	-	15 423	822	(6 558)	89 958
152 413	-	17 286	853	(11 646)	122 628
156 418	-	19 320	1 093	(5 953)	130 052
141 133	-	24 406	1 643	(6 755)	108 329
192 030	-	48 769	5 299	(6 988)	130 974
326 476	-	75 886	12 550	(10 742)	227 298
684 469	-	233 281	35 889	(41 909)	373 390
-	25 589 365	21 212 538	3 365 454	(1)	1 011 372
<u>\$ 2 375 567</u>	<u>\$ 25 589 365</u>	<u>\$ 21 686 989</u>	<u>\$ 3 428 006</u>	<u>\$ (127 970)</u>	<u>\$ 2 721 967</u>

LUFKIN INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS
 OF INDIRECT COST FOR 2012-2013
 GENERAL AND SPECIAL REVENUE FUNDS
 For the Year Ended August 31, 2012

EXHIBIT J-2

Function 41 - General Administration

Account Number	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
6100-6146	\$ -	\$ -	\$ 272 670	\$ 824 237	\$ -	\$ -	\$ 1 096 907
6211	116 720	-	-	-	-	-	116 720
6212	-	-	-	43 695	-	-	43 695
6213	-	404 157	-	-	-	-	404 157
621X	-	-	-	-	-	-	-
6220	-	-	-	-	-	-	-
6230	-	-	600	4 235	-	-	4 835
6240	-	-	-	6 963	-	-	6 963
6250	-	-	-	-	-	-	-
6260	-	-	-	25 679	-	-	25 679
6290	-	-	5 500	12 257	-	-	17 757
6310	-	-	-	-	-	-	-
6320	-	-	57	-	-	-	57
6330	-	-	-	-	-	-	-
63XX	7 390	-	2 080	95 728	-	-	105 198
6410	5 260	-	2 274	6 967	-	-	14 501
6420	-	-	-	15 788	-	-	15 788
6430	4 247	-	-	-	-	-	4 247
6490	648	-	49 757	50 133	-	-	100 538
6500	-	-	-	-	-	-	-
6600	-	-	-	-	-	-	-
Total	\$ 134 265	\$ 404 157	\$ 332 938	\$ 1 085 682	\$ -	\$ -	\$ 1 957 042

Total expenditures for General and Special Revenue Funds (9) \$ 70 629 564
 Less: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600) (10) 1 269 405
 Total Debt and Lease (6500) (11) 80 590
 Plant Maintenance (Function 51, 6100-6400) (12) 7 822 498
 Food (Function 35, 6341 and 6499) (13) 2 122 488
 Stipends (6413) (14) -
 Column 4 (above) - Total Indirect Cost 1 085 682
 Subtotal 12 380 663
 Net Allowed Direct Cost \$ 58 248 901

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520) (15) \$ 110 913 604
 Historical Cost of Buildings over 50 years old (16) \$ 19 664 215
 Amount of Federal Money in Building Cost (Net of #16) (17) \$ -
 Total Cost of Equipment Before Depreciation (1530 & 1540) (18) \$ 10 699 365
 Historical Cost of Furniture and Equipment over 16 years old (19) \$ 2 319 277
 Amount of Federal Money in Furniture and Equipment (Net of #19) (20) \$ 214 705

Includes \$401,435 of Function 99 Expenditures

See independent auditor's report.

LUFKIN INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)
 GENERAL FUND AS OF AUGUST 31, 2012

EXHIBIT J-3

1	Total general fund balance as of August 31 (object 3000 for the general fund only).	\$	22 372 973
2	Total non-spendable fund balance (total of object 3400s for the general fund only).		243 989
3	Total restricted fund balance (total of object 3500s for the general fund only.)		-
4	Total committed fund balance (total of Object 351X-354X for general fund only).		-
5	Total assigned fund balance (total of Object 355X-359X for general fund only).		-
6	Estimated amount needed to cover fall cash flow deficits in the general fund (net of borrowed funds and funds Representing deferred revenues).		-
7	Estimate of two month's average cash disbursements during the regular school session (09/01-05/31).		12 899 609
8	Estimate of delayed payments from state sources (58xx) including August payment delays.		1 036 465
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.		-
10	Estimate of delayed payments from federal sources (59xx).		-
11	Estimate of expenditures to be reimbursed to general fund from capital projects fund (uses of general fund cash after Bond referendum and prior to issuance of bonds).		-
12	Optimum fund balance and cash flow (lines 2+3+4+5+6+7+8+9).		<u>14 180 063</u>
13	Excess (deficit) undesignated unreserved general fund balance (line 1 minus line 9.)	\$	<u>8 192 910</u>

If Item 11 is a Positive Number

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

The District plans to use the net positive undesignated, unreserved General Fund
 fund balance for the construction of facilities in the subsequent year.

See independent auditor's report.

LUFKIN INDEPENDENT SCHOOL DISTRICT
 NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 BUDGETARY COMPARISON SCHEDULE
 For the Year Ended August 31, 2012

EXHIBIT J-4

DATA CONTROL CODES		1	2	3	4
		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	Revenues:				
5700	Local and intermediate sources	\$ 800 582	\$ 856 582	\$ 845 220	\$ (11 362)
5800	State program revenues	79 765	79 765	81 286	(28 479)
5900	Federal program revenues	3 692 664	3 892 664	4 104 563	211 899
5020	TOTAL REVENUES	<u>4 573 011</u>	<u>4 829 011</u>	<u>5 001 069</u>	<u>172 058</u>
	Expenditures:				
	Current:				
0035	Food services	4 280 738	4 960 738	4 904 439	56 299
6030	TOTAL EXPENDITURES	<u>4 280 738</u>	<u>4 960 738</u>	<u>4 904 439</u>	<u>56 299</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	292 273	(131 727)	96 630	228 357
0100	Fund balance - Beginning	<u>800 181</u>	<u>800 181</u>	<u>800 181</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 1 092 454</u>	<u>\$ 668 454</u>	<u>\$ 896 811</u>	<u>\$ 228 357</u>

See independent auditor's report.

LUFKIN INDEPENDENT SCHOOL DISTRICT
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended August 31, 2012

EXHIBIT J-5

DATA CONTROL CODES		1	2	3	4
		ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE POSITIVE (NEGATIVE)
	Revenues:				
5700	Local and intermediate sources	\$ 3 597 644	\$ 3 597 644	\$ 3 480 508	\$ (117 136)
5800	State program revenues	1 046 598	1 046 598	1 011 365	(35 233)
5020	TOTAL REVENUES	<u>4 644 242</u>	<u>4 644 242</u>	<u>4 491 873</u>	<u>(152 369)</u>
	Expenditures:				
0071	Debit services	4 651 781	4 651 782	4 651 781	1
6030	TOTAL EXPENDITURES	<u>4 651 781</u>	<u>4 651 782</u>	<u>4 651 781</u>	<u>1</u>
1100	EXCESS REVENUE OVER EXPENDITURES	<u>(7 539)</u>	<u>(7 540)</u>	<u>(159 908)</u>	<u>(152 368)</u>
	Other Financing Sources:				
7911	Bond proceeds	-	-	8 002	8 002
7916	Premium on bond issue	-	-	6 017	6 017
7080	TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>14 019</u>	<u>14 019</u>
1200	NET CHANGE IN FUND BALANCES	(7 539)	(7 540)	(145 889)	(138 349)
0100	Fund balance - Beginning	<u>1 312 456</u>	<u>1 312 456</u>	<u>1 312 456</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 1 304 917</u>	<u>\$ 1 304 916</u>	<u>\$ 1 166 567</u>	<u>\$ (138 349)</u>

See independent auditor's report.

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

Board of Trustees
Lufkin Independent School District
Lufkin, Texas
Members of the Board of Trustees:

We have audited the basic financial statements of Lufkin Independent School District as of and for the year ended August 31, 2012, and have issued our report thereon dated January 15, 2013. 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 of the United States.

Compliance

As part of obtaining reasonable assurance about whether Lufkin Independent School District's basic 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

Management of the District, is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

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

Axley & Rode LLP
CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
January 15, 2013

INDEPENDENT AUDITORS' REPORT
ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE
A DIRECT AND MATERIAL EFFECT TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Trustees
Lufkin Independent School District
Lufkin, Texas

Members of the Board of Trustees:

Compliance

We have audited the compliance of Lufkin Independent School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect to its major federal program for the year ended August 31, 2012. Lufkin Independent School District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Lufkin Independent School District's management. Our responsibility is to express an opinion on Lufkin Independent School 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 Lufkin Independent School 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 on Lufkin Independent School District's compliance with those requirements.

In our opinion, Lufkin Independent School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect to its major federal program for the year ended August 31, 2012.

Internal Control Over Compliance

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

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

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

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


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
January 15, 2013

LUFKIN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2012

PROGRAM	FINDINGS/NONCOMPLIANCE	QUESTIONED COSTS
	There were no prior audit findings.	N/A

LUFKIN INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended August 31, 2012

A. Summary of the Auditor's Results

1. Financial Statements

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Material control over major programs:

Material weakness(es) identified? Yes No

Significant deficiencies identified that are not considered to be material weaknesses? Yes 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 Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555/10.559	Child Nutrition Cluster
84.410	Education Jobs Fund

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

Auditee qualified as low-risk auditee? Yes No

B. SECTION II - Financial Statement Findings

NONE

C. SECTION III - Federal Award Findings and Questioned Costs

NONE

LUFKIN INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended August 31, 2012

There were no current findings, therefore, a corrective action plan is not required.

LUFKIN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012

EXHIBIT K-1
PAGE 1 OF 2

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	(2) FEDERAL CFDA NUMBER	(2A) PASS-THROUGH ENTITY IDENTIFYING NUMBER	(3) FEDERAL EXPENDITURES
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:			
Passed through WorkForce Solutions Child Care Services:			
Child Care Services Grant *	93.575	82388	\$ 5 499
Passed through Health and Human Services Commission:			
Medicaid Administrative Claim Program *	93.778	003-903	31 750
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			37 249
U.S. DEPARTMENT OF EDUCATION:			
Passed through Stephen F. Austin State University:			
GEAR UP	84.334	P334A050251-11	185 825
GEAR UP	84.334	12610101003903	15 811
Passed through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs *	84.010	12610101003903	2 713 018
IDEA - Part B, Formula *	84.027	126600010039036600	1 584 911
SSA IDEA - B, Discretionary *	84.027	126600020039036673	21 058
SSA IDEA - B, Deaf *	84.027	126600010039036601	17 824
Career and Technical - Basic Grant	84.048	124200060039030	113 278
IDEA - Part B, Preschool *	84.173	126610010039036610	17 910
SSA IDEA - Part B, Preschool Deaf *	84.173	126610010039036611	2 053
SSA IDEA - Part C, Early Intervention (Deaf) *	84.181	123911010039033911	939
Title III, Part A - English Language Acquisition and Language Enhancement	84.365	12671001003903	154 643
ESEA, Title II, Part A - Teacher and Principal Training and Recruiting	84.367	12694501003903	421 550
Title VI, Part A - Summer School	84.369	69551002	5 549
ARRA - ESEA, Title I, Part A - Improving Basic Programs *	84.389	10551001003903	14 431
ARRA - IDEA - Part B, Formula *	84.391	10554001003903	4 361
Education Jobs Grant	84.410	11550101003903	1 458 238
Title I, Part D	84.010	1261010300903	40 939
TOTAL U.S. DEPARTMENT OF EDUCATION			6 772 338
U.S. DEPARTMENT OF AGRICULTURE:			
Passed Through State Department of Human Services:			
Food Distribution	10.555	003-903	282 219
Summer Food Service Program	10.559	003-903	115 501
TOTAL PASSED THROUGH STATE DEPARTMENT OF HUMAN SERVICES			397 720
Passed Through State Department of Education:			
School Breakfast Program	10.553	71401001	1 210 824
National School Lunch Program	10.555	71301001	2 611 520
TOTAL PASSED THROUGH STATE DEPARTMENT OF EDUCATION			3 822 344

LUFKIN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED
For the Year Ended August 31, 2012

EXHIBIT K-1
PAGE 2 OF 2

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM TITLE	(2) FEDERAL CFDA NUMBER	(2A) PASS-THROUGH ENTITY IDENTIFYING NUMBER	(3) FEDERAL EXPENDITURES
Passed through Office of the Governor:			
Schools and Roads - Grants to Counties *	10.666	003-903	13 675
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>4 233 739</u>
U.S. DEPARTMENT OF COMMERCE:			
E-Rate	32.000	003-903	59 719
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 11 103 045</u>
* Indicates clustered program under OMB Circular A-133 Compliance Supplement			
Reconciliation to Exhibit C-2:			
Total per Exhibit K-1			\$ 11 103 045
Other Federal Revenue:			
School Health and Related Services (SHARS)			482 393
TOTAL FEDERAL REVENUE PER EXHIBIT C-2			<u>\$ 11 585 438</u>

The accompanying note is an integral part of this schedule.

LUFKIN INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2012

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lufkin Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in the preparation of, the general purpose financial statements.

LUFKIN INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED
SCHOOL FIRST INDICATORS
As of August 31, 2012

Exhibit L-1

<u>DATA CONTROL CODES</u>		<u>RESPONSES</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on CAB's included in Government-Wide Statements at fiscal year-end.	\$ 820,919