

**LYFORD CONSOLIDATED INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE  
YEAR ENDED**

**AUGUST 31, 2008**

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2008

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CERTIFICATE OF BOARD

Lyford Consolidated Independent School District                      Willacy                      245902  
Name of School District                      County                      Co.-Dist.  
Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended August 31, 2008 at a meeting of the Board of Trustees of such school district on the 19th day of January, 2009.

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

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

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

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER  
SUPPLEMENTARY INFORMATION INCLUDING THE  
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditor's Report

Board of Trustees  
Lyford Consolidated Independent School District  
P. O. Box 220  
Lyford, Texas 78569

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Lyford Consolidated Independent School District (the District) as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express 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, 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, the major fund, and the aggregate remaining fund information of Lyford Consolidated Independent School District as of August 31, 2008, and the respective changes in financial position here applicable, thereof, and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis on pages 7 through 12 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009 on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering

the results of our audit.

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

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

*Buffo and Berkman*  
*Certified Public Accountants*

*January 16, 2009*

# LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2008

Our discussion and analysis of Lyford Consolidated Independent School District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2008. Please read in conjunction with the District's financial statements.

### FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$9,694,112 (*net assets*). Of this amount, \$3,520,789 (*unrestricted net assets*) may be used to meet the District's ongoing obligations to citizens and creditors.
- During the year, the District's expenditures exceeded revenue and other sources by \$43,258. This compares to last year when revenues and other sources exceeded expenditures by \$289,973.
- The District's total net assets decreased by \$99,549, or approximately 1%, as a result of this year's operations.
- The District expenditures for the fiscal year represent an decrease of about \$253,554 over the previous year. This decrease was due to a decrease in funding in special funds.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,811,854, a decrease of \$43,258 in comparison with prior year. \$1,530,810 is *available for spending* at the District's discretion (*unreserved fund balance*).

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities Exhibites A-1 and B-1.

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

Fund financial statements Exhibits C-1, C-3 and C-5 report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, Exhibit E-1 provides financial information about activities for which the District acts solely as a trustee.

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

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

## **Reporting the District as a Whole**

### ***The Statement of Net Assets and the Statement of Activities***

The analysis of the District's overall financial condition and operations are in Exhibit A-1 and B-1. Its primary objective is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the same method used by most private sector companies.

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

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

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

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

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin with Exhibit C-1 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

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

## The District as Trustee

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

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on Exhibit E-1. We exclude these resources from the District's other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental activities.

Net assets of the District's governmental activities decreased from \$9,793,661 to \$9,694,112. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations and construction was \$3,520,789 at August 31, 2008.

This decrease in governmental net assets was the net result of four factors. First, the District's expenditures exceeded revenues by about \$43,258. Second, the District recognition of depreciation decreased the net assets by \$482,853. Third, the District's net assets were increased by miscellaneous reclassifications of \$10,093. Forth, the District increased its net assets by \$416,470. This was a result of capital outlay, and long-term debt principal payments.

**Table I**  
**Lyford Consolidated Independent School District**

<b>NET ASSETS</b>		
Governmental Activities		
	2008	2007
Current and other assets	4,873,641	4,467,793
Capital assets	<u>15,267,272</u>	<u>15,673,660</u>
Total assets	<u>20,140,913</u>	<u>20,141,453</u>
Long-term liabilities	9,612,819	9,959,351
Other liabilities	<u>833,984</u>	<u>388,441</u>
Total liabilities	<u>10,446,803</u>	<u>10,347,792</u>
Net Assets:		
Invested in capital assets, net of related debt	5,688,126	5,152,042
Restricted	485,197	413,508
Unrestricted	<u>3,520,789</u>	<u>4,228,111</u>
Total Net Assets	<u>9,694,112</u>	<u>9,793,661</u>



**Table II**  
**Lyford Consolidated Independent School District**

**CHANGES IN NET ASSETS**

Governmental Activities

	<u>2008</u>	<u>2007</u>
Revenues:		
Program Revenues:		
Charges for Services	230,942	212,352
Operating Grants and Contributions	4,084,054	3,742,777
General Revenues:		
Maintenance and Operations Taxes	1,722,887	2,265,737
Debt Service Taxes	378,356	123,387
State Aid Formula Grants	8,786,238	8,936,341
Grants, Contributions not restricted to specific Functions	604,969	378,808
Investment Earnings	126,461	242,079
Miscellaneous	<u>69,082</u>	<u>118,841</u>
Total Revenue	<u>16,003,389</u>	<u>16,020,322</u>
Expenses:		
Instruction, curriculum and media services	8,682,464	8,780,547
Instructional/school leadership	679,859	672,226
Student Support Services	1,119,736	1,045,503
Child Nutrition	1,123,560	1,034,987
Cocurricular activities	754,322	752,787
General administration	748,977	717,946
Plant Maintenance and Security	2,085,684	2,034,712
Data Processing	151,150	133,878
Community Services	165,774	209,566
Debt Services	531,649	481,607
Facilities Aquisition & Construction		
Payments to fiscal agent/member districts	59,762	62,066
Debt Service		
Total Expenses	<u>16,102,937</u>	<u>15,925,825</u>
Increase in Net Assets	<u>99,548</u>	<u>94,497</u>
Net assets at 9/1/07	<u>9,793,661</u>	<u>9,699,163</u>
Net assets at 8/31/08	<u>9,694,113</u>	<u>9,793,660</u>

## THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on Exhibit C-1) reported a combined fund balance of approximately \$3,811,853, which is less than last year's total of \$3,855,115. Included in this year's total change in fund balance is a decrease of \$6,837 in the District's revenues and an increase of \$253,554 in expenditures. The primary reasons for the General Fund's decrease mirrors the governmental activities analysis financial highlights mentioned at the beginning of this report.

Over the course of the year, the Board of Trustees revised the District's budget several times. These amendments fall into two categories. The first category includes amendments to transfer funds among functions. The second category was to purchase capital outlay and construction projects.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2008 the District had approximately \$15,572,152 (net of accumulated depreciation) invested in a broad range of capital assets, including land, instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment.

This year's major additions included:

Cafeteria Improvement	\$ 68,565
Buses, Vehicles & Equipment	<u>7,900</u>
Totaling	\$76,465

### Debt

At year-end, the District had approximately \$10,254,997 in bonds payable versus approximately \$10,689,997 last year. The District's general obligation bond rating continues to carry the highest rating possible, a rating that has been assigned by national rating agencies.

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

The District's elected and appointed officials considered many factors when setting the fiscal-year 2009 budget and tax rates. The District's enrollment and ADA has slightly increased since last year, and the district has maintained the same staff level for the 2009 school year in order to balance the budget. District administrative staff are continuing to monitor the enrollment and state aid formulas to ensure that there are sufficient resources for the fiscal year. The M&O tax rate is at \$1.04 which is the maximum allowed by law.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administrative Office, at P.O. Drawer 220, Lyford, Texas.

# **BASIC FINANCIAL STATEMENTS**

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2008

Data Control Codes	Primary Government  Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 1,945,697
1120 Current Investments	2,223,421
1220 Property Taxes Receivable (Delinquent)	804,579
1230 Allowance for Uncollectible Taxes	(274,112)
1240 Due from Other Governments	383,287
1250 Accrued Interest	15,912
1290 Other Receivables, net	45,018
1410 Deferred Expenses	14,050
1430 Discount on Issuance of Debt	(284,211)
Capital Assets:	
1510 Land	62,778
1520 Buildings, Net	14,804,986
1530 Furniture and Equipment, Net	399,508
1000 Total Assets	20,140,913
<b>LIABILITIES</b>	
2110 Accounts Payable	36,919
2140 Interest Payable	18,450
2150 Payroll Deductions & Withholdings	(3,120)
2160 Accrued Wages Payable	251,359
2180 Due to Other Governments	469,100
2300 Deferred Revenues	61,276
Noncurrent Liabilities	
2501 Due Within One Year	445,000
2502 Due in More Than One Year	9,167,819
2000 Total Liabilities	10,446,803
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	5,688,126
3820 Restricted for Federal and State Programs	281,466
3850 Restricted for Debt Service	203,731
3900 Unrestricted Net Assets	3,520,789
3000 Total Net Assets	\$ 9,694,112

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

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2008

EXHIBIT B-1

Data	Program Revenues			Net (Expense)
Control	1	3	4	Revenue and
Codes	Expenses	Charges for	Operating	Changes in Net
		Services	Grants and	Assets
			Contributions	Primary Gov.
				Governmental
				Activities

**Primary Government:**

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 8,265,871	\$ 11,720	\$ 2,404,655	\$ (5,849,496)
12 Instructional Resources and Media Services	258,532	-	39,882	(218,650)
13 Curriculum and Instructional Staff Development	158,061	-	101,991	(56,070)
21 Instructional Leadership	72,431	-	26,979	(45,452)
23 School Leadership	607,428	-	26,659	(580,769)
31 Guidance, Counseling and Evaluation Services	377,173	-	153,102	(224,071)
32 Social Work Services	18,050	-	706	(17,344)
33 Health Services	133,581	-	12,718	(120,863)
34 Student (Pupil) Transportation	590,932	95,307	21,902	(473,723)
35 Food Services	1,123,560	68,917	989,086	(65,557)
36 Cocurricular/Extracurricular Activities	754,322	36,157	22,373	(695,792)
41 General Administration	750,926	-	24,610	(726,316)
51 Plant Maintenance and Operations	1,937,233	18,841	49,841	(1,868,551)
52 Security and Monitoring Services	148,451	-	1,923	(146,528)
53 Data Processing Services	151,150	-	2,697	(148,453)
61 Community Services	165,774	-	205,330	39,556
72 Debt Service - Interest on Long Term Debt	531,649	-	-	(531,649)
93 Payments to Fiscal Agent/Member Districts of SSA	34,528	-	-	(34,528)
95 Payments to Juvenile Justice Alternative Ed. Prg.	25,234	-	-	(25,234)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 16,104,886</b>	<b>\$ 230,942</b>	<b>\$ 4,084,454</b>	<b>(11,789,490)</b>

Data	General Revenues:		
Control			
Codes			
	Taxes:		
MT	Property Taxes, Levied for General Purposes		1,722,887
DT	Property Taxes, Levied for Debt Service		378,356
SF	State Aid - Formula Grants		8,786,238
GC	Grants and Contributions not Restricted		604,969
IE	Investment Earnings		126,461
MI	Miscellaneous Local and Intermediate Revenue		71,031
TR	<b>Total General Revenues</b>		<b>11,689,942</b>
CN	Change in Net Assets		(99,548)
NB	Net Assets--Beginning		9,793,661
NE	Net Assets--Ending		<b>\$ 9,694,113</b>

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

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2008

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
<b>ASSETS</b>				
1110	Cash and Cash Equivalents	\$ 1,797,093	\$ 148,604	\$ 1,945,697
1120	Investments - Current	2,223,421	-	2,223,421
1220	Property Taxes - Delinquent	758,496	46,083	804,579
1230	Allowance for Uncollectible Taxes (Credit)	(255,479)	(18,633)	(274,112)
1240	Due from Other Governments	257,118	126,169	383,287
1250	Accrued Interest	15,912	-	15,912
1260	Due from Other Funds	20,147	(20,147)	-
1290	Other Receivables	45,018	-	45,018
1410	Deferred Expenditures	14,050	-	14,050
1000	<b>Total Assets</b>	<u>\$ 4,875,776</u>	<u>\$ 282,076</u>	<u>\$ 5,157,852</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110	Accounts Payable	\$ 34,232	\$ 2,687	\$ 36,919
2150	Payroll Deductions and Withholdings Payable	(3,120)	-	(3,120)
2160	Accrued Wages Payable	251,359	-	251,359
2180	Due to Other Governments	466,331	2,769	469,100
2300	Deferred Revenues	551,253	40,490	591,743
2000	<b>Total Liabilities</b>	<u>1,300,055</u>	<u>45,946</u>	<u>1,346,001</u>
Fund Balances:				
Reserved For:				
3420	Retirement of Long Term Debt	-	203,731	203,731
3450	Food Service	281,466	-	281,466
3490	Other Purposes	390,518	-	390,518
Unreserved Designated For:				
3510	Construction	1,405,328	-	1,405,328
Unreserved and Undesignated:				
3600	Reported in the General Fund	1,498,411	-	1,498,411
3610	Reported in Special Revenue Funds	-	32,399	32,399
3000	<b>Total Fund Balances</b>	<u>3,575,723</u>	<u>236,130</u>	<u>3,811,853</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,875,778</u>	<u>\$ 282,076</u>	<u>\$ 5,157,854</u>

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

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET ASSETS  
 AUGUST 31, 2008

<b>Total Fund Balances - Governmental Funds</b>	\$	3,811,853
<b>1</b> Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$20,947,757 and the accumulated depreciation was \$5,241,097. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		5,418,175
<b>2</b> Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2008 capital outlays and debt principal payments is to increase net assets.		416,470
<b>3</b> The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(482,853)
<b>4</b> Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		530,467
<b>19 Net Assets of Governmental Activities</b>	<u>\$</u>	<u>9,694,112</u>

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



LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes		10 General Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700	Total Local and Intermediate Sources	\$ 2,153,188	\$ 382,422	\$ 2,535,610
5800	State Program Revenues	9,506,083	1,051,278	10,557,361
5900	Federal Program Revenues	965,730	1,936,544	2,902,274
5020	Total Revenues	<u>12,625,001</u>	<u>3,370,244</u>	<u>15,995,245</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011	Instruction	6,066,171	1,926,068	7,992,239
0012	Instructional Resources and Media Services	219,815	36,917	256,732
0013	Curriculum and Instructional Staff Development	139,278	18,783	158,061
0021	Instructional Leadership	50,856	21,575	72,431
0023	School Leadership	602,200	-	602,200
0031	Guidance, Counseling and Evaluation Services	241,358	135,815	377,173
0032	Social Work Services	18,050	-	18,050
0033	Health Services	133,581	-	133,581
0034	Student (Pupil) Transportation	511,816	-	511,816
0035	Food Services	1,095,466	35,492	1,130,958
0036	Extracurricular Activities	700,435	-	700,435
0041	General Administration	748,859	60	748,919
0051	Facilities Maintenance and Operations	1,941,117	-	1,941,117
0052	Security and Monitoring Services	146,451	-	146,451
0053	Data Processing Services	151,150	-	151,150
0061	Community Services	(13,432)	179,206	165,774
<b>Debt Service:</b>				
0071	Debt Service - Principal on Long Term Debt	-	435,000	435,000
0072	Debt Service - Interest on Long Term Debt	-	436,654	436,654
<b>Intergovernmental:</b>				
0093	Payments to Fiscal Agent/Member Districts of SSA	34,528	-	34,528
0095	Payments to Juvenile Justice Alternative Ed. Prg.	25,234	-	25,234
6030	Total Expenditures	<u>12,812,933</u>	<u>3,225,570</u>	<u>16,038,503</u>
1200	Net Change in Fund Balances	(187,932)	144,674	(43,258)
0100	Fund Balance - September 1 (Beginning)	<u>3,763,657</u>	<u>91,455</u>	<u>3,855,112</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 3,575,725</u>	<u>\$ 236,129</u>	<u>\$ 3,811,854</u>

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

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED AUGUST 31, 2008

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(43,258)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase net assets.		416,470
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(482,853)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		10,093
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>(99,548)</b>

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

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 2,190,517	\$ 2,201,017	\$ 2,153,188	\$ (47,829)
5800 State Program Revenues	10,476,698	9,885,769	9,506,083	(379,686)
5900 Federal Program Revenues	861,054	955,647	965,730	10,083
5020 Total Revenues	13,528,269	13,042,433	12,625,001	(417,432)
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	6,684,308	6,578,544	6,066,171	512,373
0012 Instructional Resources and Media Services	240,588	240,588	219,815	20,773
0013 Curriculum and Instructional Staff Development	183,898	172,776	139,278	33,498
0021 Instructional Leadership	49,602	49,602	50,856	(1,254)
0023 School Leadership	658,254	658,254	602,200	56,054
0031 Guidance, Counseling and Evaluation Services	270,551	270,551	241,358	29,193
0032 Social Work Services	18,223	18,223	18,050	173
0033 Health Services	137,947	137,947	133,581	4,366
0034 Student (Pupil) Transportation	449,678	505,800	511,816	(6,016)
0035 Food Services	904,192	1,110,462	1,095,466	14,996
0036 Extracurricular Activities	721,267	721,267	700,435	20,832
0041 General Administration	791,041	754,634	748,859	5,775
0051 Facilities Maintenance and Operations	2,015,749	2,005,749	1,941,117	64,632
0052 Security and Monitoring Services	157,792	157,792	146,451	11,341
0053 Data Processing Services	153,891	153,891	151,150	2,741
0061 Community Services	12,600	11,200	(13,432)	24,632
<b>Intergovernmental:</b>				
0093 Payments to Fiscal Agent/Member Districts of SSA	50,688	34,528	34,528	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	28,000	28,000	25,234	2,766
6030 Total Expenditures	13,528,269	13,609,808	12,812,933	796,875
1200 Net Change in Fund Balances	-	(567,376)	(187,932)	379,444
0100 Fund Balance - September 1 (Beginning)	-	3,763,657	3,763,657	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ 3,196,282	\$ 3,575,725	\$ 379,444

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

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2008

EXHIBIT E-1

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	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 55,410
Total Assets	<u>55,410</u>
LIABILITIES	
Due to Student Groups	\$ 55,410
Total Liabilities	<u>55,410</u>

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

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2008

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. REPORTING ENTITY**

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

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

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

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

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

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

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District does not consider all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District does not consider them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

## D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

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

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. **Permanent Funds** – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Fiduciary Funds:

4. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund.

E. OTHER ACCOUNTING POLICIES

1. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

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

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

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

<u>Assets</u>	
Buildings	50
Building	
Improvements	50
Infrastructure	50
Vehicles	10
Office Equipment	5
Computer Equipment	5

4. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
5. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

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

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

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

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

<u>Capital Assets</u> at the Beginning of the year	<u>Historic Cost</u>	<u>Accumulated</u> <u>Depreciation</u>	<u>Net Value at the</u> <u>Beginning of the</u> <u>Year</u>	<u>Change in</u> <u>Net Assets</u>
Land	62,778		62,778	
Buildings	19,022,853	3,917,191	15,105,662	
Furniture & Equipment	1,829,126	1,323,906	505,220	
Capital Leases				
Construction in Progress	<u>0</u>	<u>0</u>		
Change in Net Assets				<u>15,673,660</u>
<u>Long-term Liabilities</u> at the Beginning of the year			<u>Payable at the</u> <u>Beginning of</u> <u>the Year</u>	
Bonds Payable			9,959,351	
Less Deferred Charges				
Loans Payable				
Capital Leases Payable				
Compensated Absences				
Other			<u>296,134</u>	
Change in Net Assets				<u>(10,255,485)</u>
 Net Adjustment to Net Assets				 <u>5,418,175</u>



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

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Current Year Capital Outlay</u>			
Land			
Buildings & Improvements	68,565		
Furniture & Equipment	7,900		
Construction in Progress			
Total Capital Outlay	<u>76,465</u>	<u>76,465</u>	<u>76,465</u>
<u>Debt Principal Payments</u>			
Bond Principal	435,000		
Loan Principal			
Capital Lease Payment			
Premium and accrued interest	<u>(94,995)</u>		
Total Principal Payments	<u>340,005</u>	<u>340,005</u>	<u>340,005</u>
Total Adjustment to Net Assets		<u>416,470</u>	<u>416,470</u>

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

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	95,862	(95,862)	
Uncollected taxes (assumed collectible) from Current Year Levy	105,955	105,955	105,955
Uncollected Taxes (assumed collectible) from Prior Year Levy	424,512		424,512
<u>Reclassify Proceeds of Bonds, Loans &amp; Capital Leases</u>			
New Bond Issue			
Discount (Premium) on Issuance of Bonds			
Capital Lease Proceeds			
Other			
Reclassify liabilities incurred but not liquidated this year			
Unused Vacation Pay and/or unused sick leave			
Reclassify certain expenditures to prepaid assets:			
Prepaid Insurance Premiums		<u>10,093</u>	<u>530,467</u>
Total			

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

**A. BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the General Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are in Exhibit J4 and J5.

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

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

	August 31, 2008
	<u>Fund Balance</u>
All Special Revenue Funds	\$32,399
	_____
All Special Revenue Funds	<u>32,399</u>

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

Expenditures exceeded appropriations in two functions in the General Fund.

**IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. DEPOSITS AND INVESTMENTS**

**District Policies and Legal and Contractual Provisions Governing Deposits**

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

**Compliance with the Public Funds Investment Act**

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

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

As of August 31, 2008, Lyford Consolidated Independent School District had the following investments (dollar amounts are in thousands).

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Certificates of Deposit	1,877,136	1,877,136			
Lone Star Investment Pools	346,285	346,285			
Total	2,223,421	2,223,421			

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

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments to Certificates of Deposit and Lone Star Investment Pools. Lone Star Investment Pools are like funds meaning that they are structured similarly to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant value of \$1.00, although this cannot be fully guaranteed. Lone Star Investment Pools are rated AAA and must maintain a dollar weighted average maturity of 31 days. Although the Lone Star Investment Pools portfolio had a weighted average maturity of 31 days, the District considers the holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value.

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

Concentration of Credit Risk As of August 31, 2008, the Certificates of Deposit represent 84% of the portfolio. Lone Star Investment Pools represent 16% of the portfolio.

**B. PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period. The District does not consider taxes available when they are expected to be collected during a 60-day period after the close of the school fiscal year.

**C. DELINQUENT TAXES RECEIVABLE**

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

**D. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at August 31, 2008, consisted of the following amounts:

**Due to General Fund from:**

Major Governmental Fund #1	\$
Major Governmental Fund #2	
Major Governmental Fund #3	
Nonmajor Governmental Funds	20,147
Internal Service Funds	
All Others	
Total Due to General Fund From Other Funds	<u>20,147</u>

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2008, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>					
General Fund	\$ 758,496	\$ 257,118	\$ 20,147	\$ 45,018	1,080,779
Major Governmental Fund #1	46,083	0	0		46,083
Major Governmental Fund #2	0	0	0	0	
Nonmajor Governmental Funds	0	126,169	(20,147)		106,022
Internal Service Funds	<u>0</u>	<u>0</u>			
Total - Governmental Activities	<u>804,579</u>	<u>383,287</u>	<u>0</u>	<u>45,018</u>	<u>1,232,884</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 274,112</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>274,112</u>

Payables at August 31, 2008, were as follows:

<u>Accounts</u>	<u>Loans, Leases and Bonds Payable - Current Year</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>	
<b>Governmental Activities:</b>							
General Fund	\$34,232	\$ 0	\$248,239	\$ 0	\$ 466,331	\$ 0	748,802
Major Gov. Fund #1	0	0	0	0	0	0	0
Major Gov. Fund #2	2,687	0	0	0	2,769	0	5,456
Nonmajor Gov. Funds	0	0	0	0	0	0	0
Internal Service Funds	0	0	0	0	0	0	0
Total - Gov. Activities	<u>36,919</u>	<u>0</u>	<u>248,239</u>	<u>0</u>	<u>469,100</u>	<u>0</u>	<u>754,258</u>
Amounts not scheduled for payment during the subsequent year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

#### F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2008, was as follows:

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Land	\$62,778	\$		62,778
Buildings and Improvements	19,022,853	68,565		19,091,418
Furniture and Equipment	1,829,126	7,900		1,837,026
Capital Leases Infrastructure				
Totals at Historic Cost	<u>20,914,757</u>	<u>76,465</u>		<u>20,991,222</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,917,191)	(369,241)		(4,286,432)
Furniture and Equipment	(1,323,906)	(113,612)		(1,437,518)
Capital Leases Infrastructure				
Total Accumulated Depreciation	<u>(5,241,097)</u>	<u>(482,853)</u>		<u>(5,723,950)</u>
Governmental Activities Capital Assets, Net	<u>15,673,660</u>	<u>(406,388)</u>		<u>15,267,272</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 273,632
Instructional Resources and Media Services	1,800
Curriculum Development and Instructional Staff Development	0
Instructional Leadership	5,228
School Leadership	0
Guidance, Counseling and Evaluation Services	0
Social Work Services	0
Health Services	0
Student (Pupil) Transportation	79,116
Food Services	61,167
Cocurricular/Extracurricular Activities	53,887
General Administration	2,007
Plant Maintenance and Operations	4,016
Security and Monitoring Service	2,000
Data Processing Services	0
Community Services	0
Facilities Acquisition and Construction	0
Contracted Instructional Services Between Schools	0
In addition, depreciation on capital assets held by the District's Internal Service Fund(s) is charged to the various functions based on their usage of the assets	<u>0</u>
<b>Total Depreciation Expense</b>	<b>482,853</b>

#### G. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2008 is as follows:

<u>DESCRIPTION</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Interest Current Year</u>	<u>Payable Amounts Outstanding 9/1/07</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding 8/31/08</u>
Texas School Building Bonds Series 2002	4.600%	\$ 5,500,000	\$34,663	\$880,000	0	\$ 30,000	850,000
Unlimited Tax Refunding Bonds Series 2006	4.180%	6,470,000	243,246	5,820,000	0	290,000	5,530,000
Unlimited Tax Refunding Bonds Series 2007	4.131%	4,069,997	158,749	3,989,997	0	115,000	3,874,997
<b>TOTAL</b>			<u>436,658</u>	<u>10,689,997</u>	=	<u>435,000</u>	<u>10,254,997</u>

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2008.

H. DEBT SERVICE REQUIREMENTS - BONDS AND CAPITAL LEASES

Debt service requirements for bonds are as follows:

Year Ended August 31	<u>General Obligations</u>		Total <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2009	\$ 445,000	\$419,746	864,746
2010	470,000	402,077	872,077
2011	480,000	381,622	861,622
2012	500,000	362,271	862,270
2013	520,000	341,942	861,942
2014-2018	2,419,997	1,909,668	4,329,665
2019-2023	2,960,000	840,154	3,800,154
2024-2028	1,255,000	409,758	1,664,758
2029-2033	1,205,000	128,350	1,333,350
2034-2038	<u>0</u>	<u>0</u>	<u>0</u>
	<u>10,254,997</u>	<u>5,195,588</u>	<u>15,450,584</u>

I. DEFINED BENEFIT PENSION PLAN

**Plan Description** . Lyford Consolidated Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 8701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.tr.s.state.tx.us, under the TRS Publications heading.

**Funding Policy** . State law provides for fiscal years 2006, 2007 and 2008 a state contribution rate of **6.58%** and a member contribution rate of **6.4%**. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's **6.58%** contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of Lyford Consolidated Independent School District's employees for the years ended August 31, 2006, 2007 and 2008 were \$417,953, \$442,434, and \$445,559 respectively. Lyford Consolidated Independent School District paid additional state contributions for the years ended August 31, 2006, 2007, and 2008 in the amount of \$29,228, \$34,064, and \$43,647 respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

J. HEALTH CARE COVERAGE

During the year ended August 31, 2008, employees of the Lyford Consolidated Independent School District were covered by a health insurance plan. The District contributed \$225 per employee monthly to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. The plan was authorized by Section 21.922 Texas Education Code, and was documented by contractual agreement.

K. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2008, was as follows:



<b>Governmental Activities:</b>	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
Bonds and Notes Payable:	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>	<u>One Year</u>
General Obligation Bonds					\$455,000
Special Assessment Bonds	\$ 10,689,997	\$	\$ ( 435,000)	\$10,254,997	
Equipment Note					
Less Deferred Amount on Refunding					
Total Bonds and Notes Payable	<u>10,689,987</u>	<u>                    </u>	<u>( 435,000)</u>	<u>10,254,997</u>	<u>455,000</u>
Total Governmental Activities Long-term Liabilities	<u>10,689,987</u>	<u>                    </u>	<u>( 435,000)</u>	<u>10,254,997</u>	<u>455,000</u>
Ending balance of Bonds Payable				10,254,997	
Accounting loss associated with 1997 Series					
Accumulated amortization					
Accounting loss associated with 2007 Series			( 473,928)		
Accumulated amortization			82,421		
Current year amortization 1997 Series			( 294,012)		
Current year amortization 2002 Series			1,960		
			29,621		
Unamortized accounting loss			11,760		
				<u>( 642,178)</u>	
Total Long-Term Debt				<u>\$ 9,612,819</u>	
Due within year				445,000	
Due beyond one year				9,167,819	

L. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Special</u>	<u>Debt</u>	<u>Total</u>
		<u>Revenue Fund</u>	<u>Service</u>	
			<u>Fund</u>	
Net Tax Revenue	\$ 551,253	\$	\$ 27,450	\$ 578,703
Athletic Receipts				5,462
Food Service Receipts		5,462		7,578
Advanced Placement		7,578		
Optional Extended Year		0	<u>0</u>	<u>0</u>
Technology Grant		<u>0</u>		
	<u>\$ 551,253</u>	<u>\$ 13,040</u>	<u>\$ 27,450</u>	<u>\$ 591,743</u>
Total Deferred Revenue				

**M. DUE FROM STATE AGENCIES**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2008, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>FUNE</u>	<u>STATE ENTITLEMENTS</u>	<u>FEDERAL GRANTS</u>	<u>TOTAL</u>
General	\$ 257,118	\$	\$ 257,118
Special Revenue	<u>                    </u>	<u>126,169</u>	<u>126,169</u>
Total	<u>\$ 257,118</u>	<u>\$ 126,169</u>	<u>\$ 383,287</u>

**N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$1,724,403	\$	\$ 364,928		\$ 2,089,331
Penalties, Interest and Other Tax- related Income	66,329		6,321		72,650
Investment Income	141,990		496		142,486
Food Sales	68,692	225			68,917
Co-curricular Student Activities	33,741				33,741
Other	<u>118,033</u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>128,484</u>
Total	<u>\$2,153,188</u>	<u>\$ 225</u>	<u>\$ 382,196</u>	<u>\$ 0</u>	<u>\$ 2,535,610</u>

**O. LITIGATION**

There is no pending litigation.

**P. SUBSEQUENT EVENTS**

Subsequent to year end, the Texas Education Agency notified the District of a recent decision concerning funding for two prior years. The District has been awarded \$538,013 in refunds from TEA. This amount has been deposited in the District's account in January 2009.

This refunds a portion of the account payable to TEA accrued at August 31, 2008.

## **T.E.A. REQUIRED SCHEDULES**

LYFORD CONSOLIDATED INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED AUGUST 31, 2008

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1999 and prior years	\$ 1.480000	\$ 0.000000	\$ 124,475,035
2000	1.480000	0.000000	117,812,770
2001	1.500000	0.000000	123,257,274
2002	1.500000	0.000000	131,983,221
2003	1.500000	0.080000	127,898,066
2004	1.500000	0.080000	129,644,051
2005	1.500000	0.080000	137,702,308
2006	1.500000	0.080000	146,379,746
2007	1.370000	0.080000	166,298,820
2008 (School year under audit)	1.040000	0.230000	161,753,119
1000 TOTALS			

(10) Beginning Balance 9/1/2007	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2008
\$ 226,423	\$ -	\$ 8,829	\$ -	\$ (24,337)	\$ 193,257
28,932	-	2,408	-	(610)	25,914
41,378	-	4,286	-	(275)	36,817
45,597	-	2,454	-	179	43,322
55,344	-	5,395	287	94	49,756
68,102	-	7,620	406	(145)	59,931
82,493	-	14,142	754	899	68,496
101,531	-	17,204	917	(1,918)	81,492
172,137	-	46,197	5,546	(17,320)	103,074
-	2,118,471	1,615,868	357,018	(3,064)	142,521
<u>\$ 821,937</u>	<u>\$ 2,118,471</u>	<u>\$ 1,724,403</u>	<u>\$ 364,928</u>	<u>\$ (46,497)</u>	<u>\$ 804,580</u>

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2007-2008  
 GENERAL AND SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2008

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ 46,508	\$ 145,025	\$ 284,638	\$ -	\$ 89,955	\$ 566,126
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	8,561	-	-	-	-	-	8,561
6212	Audit Services	-	-	-	15,000	-	-	15,000
6213	Tax Appraisal and Collection	-	45,696	-	-	-	-	45,696
621X	Other Professional Services	18	-	-	25,051	-	-	25,069
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	64,370	-	5,728	70,098
6240	Contr. Maint. and Repair	-	59	-	-	-	2,410	2,469
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	2,290	1,381	-	-	3,671
6290	Miscellaneous Contr.	-	7,851	-	6,501	-	-	14,352
6320	Textbooks and Reading	-	-	284	-	-	-	284
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	2,680	4,006	3,468	28,042	-	12,906	51,102
6410	Travel, Subsistence, Stipends	21,931	629	8,699	6,039	-	519	37,817
6420	Ins. and Bonding Costs	-	500	-	7,858	-	-	8,358
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	6,850	-	14,625	28,593	-	-	50,068
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<u>\$ 40,040</u>	<u>\$ 105,249</u>	<u>\$ 174,391</u>	<u>\$ 467,473</u>	<u>\$ -</u>	<u>\$ 111,518</u>	<u>\$ 898,671</u>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 15,101,950  
 LESS: Deductions of Unallowable Costs

FISCAL YEAR	
Total Capital Outlay (6600)	(10) \$ 76,465
Total Debt & Lease(6500)	(11) -
Plant Maintenance (Function 51, 6100-6400)	(12) 1,933,217
Food (Function 35, 6341 and 6499)	(13) 460,938
Stipends (6413)	(14) 96,904
Column 4 (above) - Total Indirect Cost	467,473
<b>SubTotal:</b>	<u>3,034,997</u>
<b>Net Allowed Direct Cost</b>	<u>\$ 12,066,953</u>

CUMULATIVE	
Total Cost of Buildings before Depreciation (1520)	(15) \$ 19,091,418
Historical Cost of Building over 50 years old	(16) \$ 759,377
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 1,837,026
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: \$70,726 in Function 53 expenditures are included in this report on administrative costs.  
 No Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
 FUNDBALANCE AND CASH FLOW CALCULATION WORKSHEET  
 FOR THE YEAR ENDED AUGUST 31, 2008

**UNAUDITED**

1	Total General Fund Balance as of 8/31/08 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 3,811,853
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 875,715	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	1,405,328	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	-	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/08-5/31/09).	1,530,810	
6	Estimate of delayed payments from state sources (58xx) including August payment delays	-	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	-	
8	Estimate of delayed payments from federal sources (59xx)	-	
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>3,811,853</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ -</u>

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 78,650	\$ 89,150	\$ 83,076	\$ (6,074)
5800 State Program Revenues	7,000	7,000	6,658	(342)
5900 Federal Program Revenues	818,542	913,542	937,942	24,400
5020 Total Revenues	904,192	1,009,692	1,027,676	17,984
EXPENDITURES:				
0035 Food Services	904,192	1,110,462	1,095,466	14,996
6030 Total Expenditures	904,192	1,110,462	1,095,466	14,996
1200 Net Change in Fund Balances	-	(100,770)	(67,790)	32,980
0100 Fund Balance - September 1 (Beginning)	-	-	349,256	349,256
3000 Fund Balance - August 31 (Ending)	\$ -	\$ (100,770)	\$ 281,466	\$ 382,236



LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - DEBT SERVICE FUND  
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 375,397	\$ 375,397	\$ 382,197	\$ 6,800
5800 State Program Revenues	507,317	507,317	639,692	132,375
5020 Total Revenues	882,714	882,714	1,021,889	139,175
<b>EXPENDITURES:</b>				
0041 General Administration	-	-	60	(60)
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	405,000	405,000	435,000	(30,000)
0072 Debt Service - Interest on Long Term Debt	477,714	477,714	436,654	41,060
6030 Total Expenditures	882,714	882,714	871,714	11,000
1200 Net Change in Fund Balances	-	-	150,175	150,175
0100 Fund Balance - September 1 (Beginning)	-	53,556	53,556	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ 53,556	\$ 203,731	\$ 150,175

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

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

Independent Auditor's Report

Board of Trustees  
Lyford Consolidated Independent School District  
P. O. Box 220  
Lyford, Texas 78569

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lyford Consolidated Independent School District (the District) as of and for the year ended August 31, 2008. These collectively comprise the District's basic financial statements. We have issued our report on them dated August 31, 2008.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principals such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined above.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lyford Consolidated Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

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

Lyford Consolidated Independent School District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses.

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

*Buffo & Berkman*  
*Certified Public Accountants*

*January 16, 2009*

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

Independent Auditor's Report

Board of Trustees  
P. O. Box 220  
Lyford, Texas 78569

Members of the Board:

Compliance

We have audited the compliance of Lyford Consolidated Independent School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lyford Consolidated Independent School District's administrators. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lyford Consolidated 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 of Lyford Consolidated Independent School District's compliance with those requirements.

In our opinion, Lyford Consolidated Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2008.

Internal Control Over Compliance

The administration of Lyford Consolidated Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of

laws, regulations, contracts and grants applicable to federal programs. In planning and performing 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 of 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 control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

*Buffo & Berkman*  
*Certified Public Accountants*

*January 16, 2009*

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2008

**I. Summary of the Auditor's Results:**

1. The type of report issued on the financial statements of the Lyford Consolidated Independent School District was an: unqualified opinion.
2. Where applicable, a statement that reportable conditions in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. None
3. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. None
4. Where applicable, a statement that reportable conditions in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. None
5. The type of report the auditor issued on compliance for major programs: unqualified opinion.
6. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section \_\_\_\_510(a). These include: None .
7. An identification of major programs: Title IV Part B-21st Cent Community Learning Cent 84.287, National School Breakfast & Lunch Program 10.555, Summer Feeding Program 10.559
8. The dollar threshold used to distinguish between Type A and Type B programs.\$300,000
9. A statement as to whether the auditee qualified as a low-risk auditee. The District was classified as a low risk auditee in the context of OMB Circular A-133.

**II. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above  
None**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2008

(Prepared by the District's Administration)

Findings: As of August 31, 2007, the District had an excess food service fund balance.

Corrective Action: The District's food service fund balance is in compliance with requirements.



CORRECTIVE ACITON PLAN  
FOR THE YEAR ENDED AUGUST 31, 2006

(Prepared by the District's Administration)

None

LYFORD CONSILDATED INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2008

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through: Region One ESC</u>			
ESEA Title IV Safe and Drug Free Schools	84.186A		\$ 10,422
Gear Up II	84.334A		87,917
ESEA Title II, Part A Teacher & Principal Training	84.367A		142,084
ESEA Title II, Part A Teacher & Principal Training	84.367A		4,203
Total CFDA Number 84.367A			<u>146,287</u>
Total Passed Through: Region One ESC			<u>\$ 244,626</u>
<u>Passed Through: Hidalgo ISD</u>			
Title IV Part B-21st Cent. Community Learning Cent	84.287	1-746001085	\$ 252,016
Total Passed Through: Hidalgo ISD			<u>\$ 252,016</u>
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	8610101245902	\$ 732,109
ESEA, Title I, Part A - Improving Basic Programs	84.010A	9610101245902	27,549
Total CFDA Number 84.010A			<u>759,658</u>
ESEA, Title I, Part C - Migratory Children	84.011	8615001245902	233,383
ESEA, Title I, Part C - Migratory Children	84.011	9615001245902	2,605
Total CFDA Number 84.011			<u>235,988</u>
Vocational Education - Basic Grant	84.048	842000624590201	24,872
ESEA, Title I, Part B - Even Start Family Literacy	84.213	086120017110038	200,000
Title V, Part A - Innovative Programs	84.298	08685001245902	3,875
Title II, Part D -Enhancing Ed. Through Technology	84.318	08630001245902	7,495
Title II, Part D -Enhancing Ed. Through Technology	84.318	09630001245902	96
Total CFDA Number 84.318			<u>7,591</u>
Reading First	84.357	076455057110052	134,388
	84.357	086455057110045	2,507
Total CFDA Number 84.357			<u>136,895</u>
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	08696001245902	42,240
Title III, Part A-English Lang. Acquisition	84.365A	08671001245902	20,192
Unidentified Fund from Trial Balance	84.369A	69550702	1,111
Total Passed Through State Department of Education			<u>\$ 1,432,422</u>
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<u>\$ 1,929,064</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program *	10.555	7140301/7130301	\$ 937,942
Summer Feeding Program *	10.559	7547108	35,267
Total Passed Through the State Department of Agriculture			<u>\$ 973,209</u>
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<u>\$ 973,209</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 2,902,273</u>

\*Clustered Programs as required by Compliance Supplement March, 2005

NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2008

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide* . Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

1. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.