

COMPLIANCE SECTION





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

Honorable Mayor and City Council
City of Lufkin, Texas

We have audited the financial statements of governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lufkin, Texas as of and for the year ended September 30, 2004 which collectively comprise the City of Lufkin, Texas basic financial statements and have issued our report thereon dated January 25, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

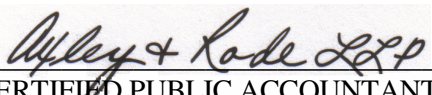
As part of obtaining reasonable assurance about whether City of Lufkin, Texas' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, including the Public Funds Investment Act (Texas Government Code, Chapter 2256), noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control over Financial Reporting

In planning and performing our audit, we considered City of Lufkin, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management in a separate letter dated January 25, 2005.

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

Lufkin, Texas
January 25, 2005


CERTIFIED PUBLIC ACCOUNTANTS

AXLEY & RODE, LLP
CERTIFIED PUBLIC ACCOUNTANTS



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

Honorable Mayor and City Council
City of Lufkin, Texas

Compliance

We have audited the compliance of City of Lufkin 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 September 30, 2004. City of Lufkin, Texas' 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 City of Lufkin, Texas' management. Our responsibility is to express an opinion on City of Lufkin, Texas' 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*. These 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 City of Lufkin, Texas' compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Lufkin, Texas' compliance with those requirements.

In our opinion, City of Lufkin, Texas 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 September 30, 2004.



Internal Control Over Compliance

The management of City of Lufkin, Texas 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 City of Lufkin, Texas' 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

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


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
January 25, 2005

CITY OF LUFKIN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2004

<u>GRANT/CONTRACT</u>	<u>FEDERAL CFDA NUMBER</u>	<u>CONTRACT NUMBER PASS - THROUGH GRANTOR'S NUMBER</u>	<u>TOTAL EXPENDITURES</u>
U.S. Department of Housing and Urban Development:			
Passed Through Texas Department of Housing and Community Affairs:			
HOME Investment Partnership Program	14.239	531061	\$ <u>44,899</u>
 TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			 <u>44,899</u>
U. S. Department of Justice:			
Direct Program:			
Local Law Enforcement Block Grants Program	16.529	2002LBBX1013	14,490
Local Law Enforcement Block Grants Program	16.529	2003LBBX0055	37,732
Bulletproof Vest Partnership Program	16.607	2011920	<u>6,500</u>
 TOTAL U.S. DEPARTMENT OF JUSTICE			 <u>58,722</u>
U. S. Department of Transportation:			
Passed Through Texas Department of Transportation:			
State and Community Highway Safety	20.600	58582XXF6068	10,000
Passed Through Texas Department of Transportation:			
Transportation Enhancement Program	20.205	CSJ091100043	910,853
Governors Community Achievement Program	20.205	N/A	<u>94,700</u>
 TOTAL U.S. DEPARTMENT OF TRANSPORTATION			 <u>1,015,553</u>
U. S. Bureau of Alcohol, Tobacco and Firearms:			
Direct Program:			
Gang Resistance Education and Training	21.053	OTG0004	5,000
Project Safe Neighborhoods	21.053	N/A	<u>2,562</u>
 TOTAL U.S. DEPARTMENT OF ALCOHOL, TOBACCO AND FIREARMS			 <u>7,562</u>

(Continued)

CITY OF LUFKIN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2004

<u>GRANT/CONTRACT</u>	<u>FEDERAL CFDA NUMBER</u>	<u>CONTRACT NUMBER PASS - THROUGH GRANTOR'S NUMBER</u>	<u>TOTAL EXPENDITURES</u>
U. S. Environmental Protection Agency: Passed Through Texas Water Development Board Capitalization Grants for Drinking Water State Revolving Fund	66.468	60452	<u>1,210,000</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>1,210,000</u>
Federal Emergency Management Agency: Direct Program: Fire Operations and Firefighter Safety	83.554	EMW-2003-GH-02902	<u>225,000</u>
TOTAL FEDERAL EMERGENCY MANAGEMENT AGENCY			<u>225,000</u>
U. S. Department of Homeland Security: Passed Through Deep East Texas Council of Governments: State Homeland Security Program	97.004	45072	<u>73,317</u>
TOTAL U. S. DEPARTMENT OF HOMELAND SECURITY			<u>73,317</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,635,053</u>

CITY OF LUFKIN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2004

Note 1 – Basis of Presentation

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

See Note I to the financial statements for the City of Lufkin, Texas significant accounting policies

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL
HOME PROGRAM - GRANT #531061
For the Year Ended September 30, 2004

Federal Award
 Federal Grantor: U.S. Department of Housing and Urban Development
 Pass Through Grantor: Office of Rural Community Affairs
 CFDA Number: 14.228
 Project Number: 531061
 Contract Period: November 30, 2001 to March 31, 2003

	Federal			Match		Total
	Budget	Prior Years	Current Year	Prior Years	Current Year	
Revenues						
Federal	\$ 520,000	\$ 475,101	\$ 44,899	\$ -	\$ -	\$ 520,000
Local	62,500	-	-	55,195	25,000	80,195
Total revenues	<u>582,500</u>	<u>-</u>	<u>44,899</u>	<u>-</u>	<u>25,000</u>	<u>600,195</u>
Expenditures						
Federal:						
Owner occupied rehabilitation	500,000	469,089	30,911	-	-	500,000
Administration	20,000	6,012	13,988	-	-	20,000
Local:						
Owner occupied rehabilitation	-	-	-	17,695	-	17,695
Administration	62,200	-	-	37,500	25,000	62,500
Total expenditures	<u>582,200</u>	<u>475,101</u>	<u>44,899</u>	<u>55,195</u>	<u>25,000</u>	<u>600,195</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET TO ACTUAL
HOME PROGRAM - GRANT #722491
For the Year Ended September 30, 2004

Federal Award
Federal Grantor: U.S. Department of Housing and Urban Development
Pass Through Grantor: Office of Rural Community Affairs
CFDA Number: 14.228
Project Number: 722491
Contract Period: April 30, 2002 to April 30, 2004

	Federal			Match		Total
	Budget	Prior Years	Current Year	Prior Years	Current Year	
Revenues						
Federal	\$ 250,000	\$ 106,216	\$ -	\$ -	\$ -	\$ 106,216
Local	180,068	-	-	49,587	-	49,587
Total revenues	430,068	106,216	-	49,587	-	155,803
Expenditures						
Federal:						
Construction	222,000	86,616	-	-	-	86,616
Administration	28,000	19,600	-	-	-	19,600
Local:						
Construction	124,150	-	-	-	-	-
Engineering	55,500	-	-	48,943	-	48,943
Administration	418	-	-	644	-	644
Total expenditures	430,068	106,216	0	49,587	0	155,803
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF LUFKIN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2004

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unqualified

Internal Control Over Financial Reporting:

Material weakness(es) identified? Yes X No

Reportable conditions identified that are not considered to be material weaknesses? Yes X None

Noncompliance material to financial statements noted Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified Yes X No

Reportable conditions identified that are not considered to be material weaknesses? Yes X None

Type of auditors' report issued on compliance for major programs Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

CFDA NUMBER(S)	NAME OF FEDERAL PROGRAM OR CLUSTER
20.205	U. S. Department of Transportation: Transportation Enhancement Program
Dollar threshold to distinguish between type A and type B programs:	<u> </u> \$300,000
Auditee qualified as low-risk auditee?	<u> X </u> Yes <u> </u> No

CITY OF LUFKIN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
For the Year Ended September 30, 2004

B. Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with Generally Accepted Governmental Auditing Standards:

None

C. Findings and Questions Costs for Federal Awards:

<u>PROGRAM</u>	<u>FINDING/NONCOMPLIANCE</u>	<u>QUESTIONED COSTS</u>
None	None	\$ -

**CITY OF LUFKIN, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2004**

Prior Audit Finding / Recommendation / Current Status

There were no prior audit findings relating to federal awards.

