

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 City of Lufkin, Texas as of and for the year ended September 30, 2003. 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 December 19, 2003.

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
December 19, 2003

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, 2003. 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, 2003.

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
December 19, 2003

CITY OF LUFKIN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2003

<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 Office of Rural Community Affairs:			
Community Development Block Grants/States Program	14.228	721078	\$ 369 443
Community Development Block Grants/States Program	14.228	722491	95 016
Passed Through Texas Department of Housing and Community Affairs:			
HOME Investment Partnership Program	14.239	530435	(652)
HOME Investment Partnership Program	14.239	531061	<u>334 139</u>
TOTAL U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>797 946</u>
U. S. Department of Justice:			
Direct Program:			
Local Law Enforcement Block Grants Program	16.592	2002LBBX1013	34 026
Local Law Enforcement Block Grants Program	16.592	2001LBBX0852	10 826
Bulletproof Vest Partnership Program	16.607	02011920	<u>49</u>
TOTAL U. S. DEPARTMENT OF JUSTICE			<u>44 901</u>
U. S. Department of Transportation:			
Passed Through Texas Department of Transportation:			
State and Community Highway Safety	20.600	58582XXF6068	6 842
Passed Through Texas Department of Transportation:			
Transportation Enhancement Program	20.205	CSJ091100043	<u>541 339</u>
TOTAL U. S. DEPARTMENT OF TRANSPORTATION			<u>548 181</u>
U. S. Bureau of Alcohol, Tobacco and Firearms:			
Direct Program:			
Gang Resistance Education and Training	21.053	OTG0004	<u>4 416</u>
TOTAL U. S. BUREAU OF ALCOHOL, TOBACCO AND FIREARMS			<u>4 416</u>
U. S. Environmental Protection Agency:			
Passed Through Texas Water Development Board			
Capitalization Grants for Drinking Water State Revolving Fund	66.468	60452	<u>1 500 000</u>
TOTAL U. S. ENVIRONMENTAL PROTECTION AGENCY			<u>1 500 000</u>
TOTAL FEDERAL AWARDS			<u>\$ 2 895 444</u>

CITY OF LUFKIN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2003

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, 2003

Federal Award

Federal Grantor: U.S. Department of Housing and Urban Development

Pass Through Grantor: Texas Department of Housing and Community Affairs

CFDA Number: 14.239

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	\$ 142,826	\$ 334,139	\$ -	\$ -	\$ 476,965
Local	<u>62,500</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>40,195</u>	<u>55,195</u>
Total revenues	<u>582,500</u>	<u>-</u>	<u>334,139</u>	<u>-</u>	<u>40,195</u>	<u>532,160</u>
Expenditures						
Federal:						
Owner occupied rehabilitation	500,000	134,950	334,139	-	-	469,089
Administration	20,000	7,876	-	-	-	7,876
Local:						
Owner occupied rehabilitation					17,695	17,695
Administration	<u>62,500</u>	<u>-</u>	<u>-</u>	<u>15,000</u>	<u>22,500</u>	<u>37,500</u>
Total expenditures	<u>582,500</u>	<u>-</u>	<u>334,139</u>	<u>-</u>	<u>22,500</u>	<u>532,160</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 #530435
For The Year Ended September 30, 2003

Federal Award
 Federal Grantor: U.S. Department of Housing and Urban Development
 Pass Through Grantor: Texas Department of Housing and Community Affairs
 CFDA Number: 14.239
 Project Number: 530435
 Contract Period: August 31, 2000 to October 31, 2001

	Federal			Match		Total
	Budget	Prior Years	Current Year	Prior Years	Current Year	
Revenues						
Federal	\$ 520,000	\$ 500,413	\$ (652)	\$ -	\$ -	\$ 499,761
Local	62,500	-	-	67,351	652	68,003
Total revenues	582,500	500,413	(652)	67,351	652	567,764
Expenditures						
Federal:						
Owner occupied rehabilitation	500,000	480,413	-	-	-	480,413
Administration	20,000	20,000	(652)	-	-	19,348
Local:						
Administration	62,500	-	-	67,351	652	68,003
Total expenditures	582,500	500,413	(652)	67,351	652	567,764
Excess (deficiency) of revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF LUFKIN, TEXAS
SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET TO ACTUAL
TEXAS COMMUNITY DEVELOPMENT PROGRAM – GRANT #721078
For The Year Ended September 30, 2003

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: 721078
Contract Period: March 19, 2002 to December 1, 2002

	Federal			Match		Total
	Budget	Prior Years	Current Year	Prior Years	Current Year	
Revenues						
Federal	\$ 400,000	\$ 30,557	\$ 369,443	\$ -	\$ -	\$ 400,000
Local	<u>1,668,275</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>2,068,275</u>	<u>-</u>	<u>369,443</u>	<u>-</u>	<u>-</u>	<u>400,000</u>
Expenditures						
Federal:						
Water improvements	29,789	-	27,391	-	-	27,391
Sewer improvements	38,551	-	38,551	-	-	38,551
Street improvements	57,923	-	65,728	-	-	65,728
Flood & drainage improvements	243,180	-	237,773	-	-	237,773
Architectural/engineering	3,302	3,302	-	-	-	3,302
General administration	27,255	27,255	-	-	-	27,255
Local:						
Water tap fees	6,750	-	-	-	-	-
Sewer tap fees	6,750	-	-	-	-	-
Housing development	35,500	-	-	-	-	-
Housing construction costs	1,580,877	-	-	-	-	-
Architectural/engineering	<u>38,398</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>2,068,275</u>	<u>30,557</u>	<u>369,443</u>	<u>-</u>	<u>-</u>	<u>400,000</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, 2003

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	\$ 11,200	\$ 95,016	\$ -	\$ -	\$ 106,216
Local	<u>180,068</u>	<u>-</u>	<u>-</u>	<u>36,718</u>	<u>12,869</u>	<u>49,587</u>
Total revenues	<u>430,068</u>	<u>-</u>	<u>95,016</u>	<u>-</u>	<u>12,869</u>	<u>155,803</u>
Expenditures						
Federal:						
Construction	222,000	-	86,616	-	-	86,616
Administration	28,000	11,200	8,400	-	-	19,600
Local:						
Construction	124,150	-	-	-	-	-
Engineering	55,500	-	-	36,718	12,225	48,943
Administration	<u>418</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>644</u>	<u>644</u>
Total expenditures	<u>430,068</u>	<u>11,200</u>	<u>95,016</u>	<u>36,718</u>	<u>12,869</u>	<u>155,803</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 FINDINGS AND QUESTIONED COSTS
For The Year Ended September 30, 2003**

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? ___ Yes X No

Reportable condition(s) identified that are
not considered to be material weaknesses?
Reported ___ 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 condition(s) identified that are
not considered to be material weaknesses?
Reported ___ Yes X None

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

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
66.468	U.S. Environmental Protection Agency: Capitalization Grants for Drinking Water State Revolving Fund

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

Auditee qualified as low-risk auditee? X Yes ___ No

**CITY OF LUFKIN, TEXAS
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For The Year Ended September 30, 2003**

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 Questioned Costs for Federal Awards

Program	Finding/Noncompliance	Questioned Costs
None	None	\$ -

**CITY OF LUFKIN, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For The Year Ended September 30, 2003**

Prior Audit Finding / Recommendation / Current Status

There were no prior audit findings relating to federal awards.