

COMPLIANCE SECTION



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS
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 accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Lufkin, Texas as of and for the year ended September 30, 2006 which collectively comprise the City of Lufkin, Texas' basic financial statements and have issued our report thereon dated November 21, 2006. 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 City of Lufkin, Texas' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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 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*.

We noted certain matters that we reported to management of the City of Lufkin, Texas, in a separate letter dated November 21, 2006.

Public Funds Investment Act

We have performed tests designed to verify City of Lufkin, Texas compliance with the requirements of the Public Funds Investment Act. During the year ended September, 30 2006, no instances of noncompliance were found,

This report is intended solely for the information and use of the audit committee, management, 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.

ALEXANDER, LANKFORD & HIERS, INC
Certified Public Accountants
Lufkin, Texas
November 21, 2006

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND ON 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, Texas 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, 2006. 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*. 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 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, 2006.

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 the internal control over compliance in accordance with OMB Circular A-133.

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

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 reportable 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 caused by error or fraud 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, 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.

Alexander, Lankford & Hiers, Inc.

ALEXANDER, LANKFORD & HIERS, INC
Certified Public Accountants
Lufkin, Texas
November 21, 2006

CITY OF LUFKIN, TEXAS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2006

GRANT/CONTRACT	FEDERAL CFDA NUMBER	CONTRACT NUMBER PASS - THROUGH GRANTOR'S NUMBER	TOTAL EXPENDITURES
U.S. Department of Housing and Urban Development:			
Passed Through Texas Department of Housing and Community Affairs: HOME Investment Partnerships Program	14.239	1000059	\$ 35,970
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>35,970</u>
U. S. Department of Justice:			
Direct Program:			
Local Law Enforcement Block Grant Program	16.592	2004LBBX0092	1,103
Local Law Enforcement Block Grant Program	16.592	2005DJBX1284	<u>18,155</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>19,258</u>
U. S. Department of Transportation:			
Passed Through Texas Department of Transportation:			
State and Community Highway Safety	20.600	58582XXF6093	2,417
State and Community Highway Safety	20.600	586XXF6123	11,659
State and Community Highway Safety	20.600	586XXF6172	7,477
Highway Planning and Construction	20.205	CSJ091100043	280,283
Highway Planning and Construction	20.205	N/A	608
Highway Planning and Construction	20.205	911-38-042	<u>28,732</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>331,176</u>
U. S. Department of Homeland Security:			
Direct Program:			
Assistance to Firefighters Grant	97.044	EMW-2004-FG-03618	<u>288,000</u>
Passed through Governor's Division of Emergency Management-Texas Department of Public Safety:			
Disaster Grants - Public Assistance	97.036	1606-DR-TX	711,615
Disaster Grants - Public Assistance	97.036	3216-EM-TX	28,259
Law Enforcement Terrorism Prevention Program	97.074	HSGP-45072	<u>27,786</u>
Total Texas Division of Emergency Management			<u>767,660</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>1,055,660</u>
U. S. Environmental Protection Agency:			
Passed Through Texas Water Development Board			
Capitalization Grants for Drinking Water State Revolving Fund	66.468	60452	<u>1,065,000</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>1,065,000</u>
TOTAL FEDERAL AWARDS			<u>\$ 2,507,064</u>

CITY OF LUFKIN, TEXAS
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended September 30, 2006

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 #1000059
For the Year Ended September 30, 2006

Federal Award
 Federal Grantor: U.S. Department of Housing and Urban Development
 Pass Through Grantor: Office of Rural Community Affairs
 CFDA Number: 14.239
 Project Number: 1000059
 Contract Period: April 30, 2002 to February 28, 2006

	Federal		Match		Total	
	Budget	Prior Years	Current Year	Prior Years		Current Year
Revenues						
Federal	\$ 520,000	\$ 484,030	\$ 35,970	\$ -	\$ -	\$ 520,000
Local	62,500	-	-	57,551	22,661	80,212
Total revenues	582,500	484,030	35,970	57,551	22,661	600,212
Expenditures						
Federal:						
Construction	500,000	484,030	15,970	-	-	500,000
Administration	20,000	-	20,000	-	-	20,000
Local:						
Construction	30,000	-	-	20,836	22,661	43,497
Engineering	-	-	-	3,575	-	3,575
Administration	32,500	-	-	33,140	-	33,140
Total expenditures	582,500	484,030	35,970	57,551	22,661	600,212
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

CITY OF LUFKIN, TEXAS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended September 30, 2006

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 Reported

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 Reported

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:

<u>CFDA NUMBER(S)</u>	<u>NAME OF FEDERAL PROGRAM OR CLUSTER</u>
66.468	U. S. Environmental Protection Agency: Passed through Texas Water Development Board, Capitalization Grants for Drinking Water State Revolving Fund
97.036	U.S. Department of Homeland Security: Passed through Governor's Division of Emergency Management - Texas Department of Public Safety, Disaster Grants - Public Assistance

Dollar threshold 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 - CONTINUED
For the Year Ended September 30, 2006

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:

PROGRAM	FINDING/NONCOMPLIANCE	QUESTIONED COSTS
None	None	\$ -

CITY OF LUFKIN, TEXAS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended September 30, 2006

Prior Audit Finding / Recommendation / Current Status

There were no prior audit findings relating to federal awards.

