

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT
HALLSVILLE, TEXAS**

**Annual Financial Report
For the Year Ended
August 31, 2007**

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT
HALLSVILLE, TEXAS**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2007**

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
MEMBERS OF THE BOARD OF EDUCATION	1	
CERTIFICATE OF BOARD	2	
<u>Independent Auditors' Report:</u>		
Unqualified Opinion on Basic Financial Statements Accompanied by Required Supplementary Information and other Supplementary Information Including the Supplementary Schedule of Expenditures of Federal Awards	3	
<u>Management's Discussion and Analysis</u>	5	
<u>Basic Financial Statements:</u>		
Government Wide Statements:		
Statement of Net Assets	12	A-1
Statement of Activities	13	B-1
Governmental Fund Financial Statements:		
Balance Sheet	14	C-1
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	15	C-2
Statement of Revenues, Expenditures, and Changes in Fund Balance	16	C-3
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17	C-4
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	18	C-5
Fiduciary Fund Financial Statements:		
Statement of Fiduciary Net Assets	19	D-1
<u>Notes to the Financial Statements</u>	20	
<u>Combining Schedules:</u>		
Non-major Governmental Funds:		
Combining Balance Sheet	40	E-1
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	44	E-2
Agency Funds:		
Statement of Changes in Assets and Liabilities	48	E-3

TABLE OF CONTENTS (Continued)

	<u>Page</u>	<u>Exhibit</u>
<u>Required TEA Schedules:</u>		
Schedule of Delinquent Taxes Receivable	49	F-1
Schedule of Expenditures for Computations of Indirect Cost for 2008-2009		
General and Special Revenue Funds	51	F-2
Fund Balance and Cash Flow Calculation Worksheet - General Fund		
- UNAUDITED	52	F-3
Schedule of Revenues, Expenditures, and Changes in Fund Balance -		
Budget and Actual - National Breakfast and Lunch Program	53	F-4
Schedule of Revenues, Expenditures, and Changes in Fund Balance -		
Budget and Actual - Debt Service Fund	54	F-5
<u>Federal Award Section:</u>		
Report on Internal Control Over Financial Reporting and on Compliance		
and Other Matters Based on an Audit of Financial Statements Performed		
in Accordance with <i>Government Auditing Standards</i>	55	
Report on Compliance with Requirements Applicable to Each		
Major Program and Internal Control Over Compliance in		
Accordance with OMB Circular A-133	57	
Schedule of Findings and Questioned Costs	59	
Summary Schedule of Prior Audit Findings	60	
Corrective Action Plan	61	
Schedule of Expenditures of Federal Awards	62	G-1
Notes on Accounting Policies for Federal Awards	63	

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT
HALLSVILLE, TEXAS**

**MEMBERS OF THE BOARD OF EDUCATION
YEAR ENDED AUGUST 31, 2007**

<u>NAME</u>	<u>ADDRESS</u>	<u>PRINCIPAL OCCUPATION OR BUSINESS</u>
Mr. Jason Petersen	105 Invitation Drive Hallsville, TX 75650	Vice-President Austin Bank
Mr. Lee Gaw	240 Bechtold Hallsville, TX 75650	AEP-SWEPCO
Mr. Robert Womack	122 Wendy Drive Longview, TX 75605	Retired
Mr. Ben Preston	629 Collins Creek Road Hallsville, TX 75650	Equipment Operator Texas Utilities Co.
Mr. Rob Key	215 Acorn Trail Hallsville, TX 75650	Supervisor Texas Utilities Co.
Mrs. Beth Anders	3357 Country Club Longview, TX 75602	Retired
Mr. Howard Hunt	118 Hunt Cut Off Road Hallsville, TX 75650	Contractor

OFFICERS AND SUPERINTENDENT

Mr. Jason Petersen.....	President
Mr. Howard Hunt.....	Vice-President
Mr. Rob Key.....	Secretary
Mr. Ben Preston.....	Assistant Secretary
Mr. Greg Wright.....	Superintendent

CERTIFICATE OF BOARD

Hallsville Independent School District

Name of School District

Harrison

County

102-904

Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved disapproved for the year ended August 31, 2007 at a meeting of the Board of Trustees of such school district on the 14th day of January , 2008.

AUTHORIZED SIGNATURES ON FILE WITH TEA

Signature of Board **Secretary**

Signature of Board **President**

KNUCKOLS DUVALL HALLUM & CO. A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

204 S. WELLINGTON STREET
POST OFFICE BOX 1315
MARSHALL, TEXAS 75670
(903) 938-0331 FAX (903) 938-0334

**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 AUDITORS' REPORT

Board of Trustees
Hallsville Independent School District
P. O. Box 810
Hallsville, Texas 75650

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District (the District) as of and for the year ended August 31, 2007, 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, each major fund, and the aggregate remaining fund information of Hallsville Independent School District as of August 31, 2007, and the respective changes in financial position, 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.

The Management's Discussion and Analysis on pages 5 through 11 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 December 13, 2007, 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 *Government 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 Hallsville 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.

Although the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they 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.

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 F-1 through F-5. Except for Exhibit F-3, Fund Balance and Cash Flow Calculation Worksheet - General Fund 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.

Respectfully submitted,

KNUCKOLS, DUVALL, HALLUM & CO.

AUTHORIZED SIGNATURES ON FILE WITH TEA

Certified Public Accountants

December 13, 2007

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2007

In this section of the Annual Financial and Compliance Report, we, the managers of Hallsville Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2007. Please read it in conjunction with the Independent Auditors' Report on page 3, and the District's Basic Financial Statements which begin on page 12.

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 (on pages 12 and 13). 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 (starting on page 14) 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, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 20) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. 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 begins on page 12. Its primary purpose 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 basis used by 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 from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2007

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 type 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, contracted 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 on page 14 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. The District's governmental funds are described below:

Governmental funds - Most of the District's basic services are reported 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 the Statement of Fiduciary Net Assets on page 19. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2007**

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 increased from \$24,297,155 to \$31,067,527. Unrestricted net assets - the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$15,701,261 at August 31, 2007. This increase in governmental net assets was the result of three factors. First, the District's revenues exceeded expenditures by \$4,398,321. (See Exhibit C-3 for details.) Second, the District paid bonds and other long-term debt in the amount of \$1,060,139 and acquired capital assets in the amount of \$843,610 that was added back to the net change. Third, the District recorded depreciation, reclassified proceeds of bonds, and other expenses not recognized in the past in the amounts of \$468,302 that increased the net change. (See Note II. B.)

**Table I
HALLSVILLE INDEPENDENT
SCHOOL DISTRICT
NET ASSETS**

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Current and Other Assets	\$18,747,183	\$13,823,171
Capital Assets	<u>30,923,222</u>	<u>31,370,608</u>
Total Assets	<u>49,670,405</u>	<u>45,193,779</u>
Long-term Liabilities	16,280,280	17,509,327
Other Liabilities	<u>2,322,598</u>	<u>3,387,297</u>
Total Liabilities	<u>18,602,878</u>	<u>20,896,624</u>
Net Assets:		
Invested in Capital Assets Net of Related Debt	14,718,221	14,105,469
Restricted	648,045	593,485
Unrestricted	<u>15,701,261</u>	<u>9,598,201</u>
Total Net Assets	<u>\$31,067,527</u>	<u>\$24,297,155</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2007**

**Table II
HALLSVILLE INDEPENDENT
SCHOOL DISTRICT
CHANGES IN NET ASSETS**

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,344,798	\$ 1,321,251
Operating Grants and Contributions	3,966,647	3,952,531
General Revenues:		
Maintenance and Operations Taxes	31,139,428	27,319,260
Debt Service Taxes	2,145,901	2,103,749
State Aid - Formula Grants	7,583,632	1,733,151
Grants and Contributions Not Restricted	-	5,924
Investment Earnings	900,852	585,650
Miscellaneous	<u>524,925</u>	<u>409,842</u>
Total Revenue	<u>47,606,183</u>	<u>37,431,358</u>
Expenses:		
Instruction, Curriculum and Media Services	18,189,120	16,766,202
Instructional and School Leadership	2,664,603	2,288,384
Student Support Services	2,651,457	2,557,951
Child Nutrition	1,442,206	1,328,503
Cocurricular Activities	1,291,085	1,194,190
General Administration	1,544,904	1,374,589
Plant Maintenance, Security and Data Processing	4,110,693	3,667,409
Community Services	44,375	36,764
Debt Services	1,023,974	1,026,229
Contracted Services	<u>7,873,394</u>	<u>4,924,740</u>
Total Expenses	<u>40,835,811</u>	<u>35,164,961</u>
Increase in Net Assets	<u>6,770,372</u>	<u>2,266,397</u>
Net Assets at Beginning of Year	<u>24,297,155</u>	<u>22,030,758</u>
Net Assets at End of Year	<u>\$31,067,527</u>	<u>\$24,297,155</u>

The District's total revenues increased 27% for the year, while the total cost of all programs and services increased about 16%.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2007

The increase in the cost of programs and services was mainly due to the District being classified as a Chapter 41 district. This amount is reflected in the increase of contracted services expenses. Another reason for the increase was due to salary increases, utilities, and additional payroll costs in 2007.

A breakdown in the increase of total revenues is: property tax revenues increased 10%, state revenues increased 16%, grants and contributions increased less than 1%, charges for services increased less than 1%, and various other revenues increased about 1%. The District's local property tax revenue increased approximately 13% from 2006, (comparing the tax levied from 2006 to 2007), which was due to the fact that the District's property assessed valuation increased by almost 21% for 2007, and due to the state legislature's property tax rate reduction requirement, the District's property tax rates decreased from \$1.587 to \$1.44 on \$100 valuation.

The cost of all governmental activities this year was \$40,835,811. However, as shown in the Statement of Activities on page 13, the amount that our taxpayers ultimately financed for these activities through District taxes was \$33,285,329 because some of the costs were paid by those who directly benefited from the programs (\$1,344,798) or by other governments and organizations that subsidized certain programs with grants and contributions, including state aid (\$11,550,279), and by miscellaneous sources (\$1,425,777).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$12,797,873, which is above last year's total of \$8,399,552. Included in this year's total change in fund balance is an increase of \$4,373,325 in the District's General Fund. The increase in the General Fund's fund balance was mainly due to actual revenues exceeded expenditures. The District had been conservative in estimating revenues and overall staying within the appropriations that were budgeted. Also, due to the state legislature's property tax rate reduction requirement, the District received more state aid - formula grants revenue this year.

The most significant reason for the increase in the total governmental funds fund balances of \$4,398,321 was from the General Fund as explained above.

The increase in Other Funds fund balances of \$24,996 was mainly from the National Breakfast and Lunch Program Fund where the District transferred in \$350,000 from the General Fund for a net increase in fund balance of \$135,140. This year the Debt Service Fund's fund balance decreased \$80,580 mostly due to the District refunding the Series 2001, Unlimited Tax School Building Bonds.

Over the course of the year, the Board of Trustees revised the District's budgeted expenditures several times. These budget amendments were mainly moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. Over all, the budgeted expenditures increased by \$590,457 in the General Fund as noted in Exhibit C-5, and this was mainly for the adjustment to the budget for plant maintenance and operations of \$275,000. This increase was for the rising cost of utilities. Also, the budgeted expenditures increased in cocurricular/extracurricular activities by \$130,074, instruction by \$126,000, school leadership by \$139,936 and debt service principal of \$90,158. These increases were to cover additional expenditures incurred and to pay-off the loan at Southside Bank. The District also amended the budget for \$375,000 for a transfer to the National Breakfast and Lunch Program to cover additional food services expenditures. The District decreased the facilities acquisition and construction expenditures by \$380,000. The District was not anticipating completion of certain construction projects. Over all, the \$590,457 or 2% is not considered a significant increase.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2007

The budgeted expenditures increased in the National Breakfast and Lunch Program by \$195,000, as noted in Exhibit F-4. This was mainly due to the increase of food services expenditures incurred. Also, as previously noted, the District amended the budget for \$375,000 for a transfer from the General Fund.

Also, the budgeted expenditures increased in the Debt Service Fund by \$387,300, as noted in Exhibit F-5. This was due to the District incurring additional bond issuance costs and fees for the refunding of the Series 2001, Unlimited Tax School Building Bonds.

The District amended the General Fund's revenues to include a decrease in state revenues in the amount of \$246,148.

The District's General Fund balance of \$12,149,828 reported on pages 14 and 16 differs from the General Fund's budgetary fund balance of \$6,564,898 reported in the budgetary comparison schedule on page 18. This is principally due to the District being conservative in estimating revenues and not incurring additional expenditures that were anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2007, the District had \$49,614,907 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$843,610, or 2%, above last year.

This year's major additions included:

Improvements to the high school field house, baseball improvements, school buses, vehicles, paving parking lots, bleachers at the junior high gym, and various other computer and technology equipment and improvements. Included in the \$843,610 is \$309,144 of track resurfacing that was in progress at August 31, 2007. \$843,610

Long-Term Debt

At year-end, the District had \$16,280,280 in bonds outstanding (including premium and deferred refunding) versus \$17,509,327 last year - a decrease of 7%. The District's general obligation bond rating is an A3. Moody's assigned a Aaa rating to the District's 2005 Unlimited Tax Refunding Bonds.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2008 budget preparation was down over \$215 million, or 10% from 2007.
- General operating fund spending per student decreases in the 2008 budget by \$639, or 7%.
- The District is classified as a Chapter 41 district for the sixth year in a row. The recapture payment is expected to be \$5.1 million, down from \$7.2 million in 2007. This is a 29% decrease.

These indicators were taken into account when adopting the General Fund budget for 2008. One of the most important factors was the fact that the District is a Chapter 41 district. Chapter 41 is devoted to wealth equalization through the mechanism of recapture, the recovery of financial resources from districts defined by the state as high property wealth. Resources are recovered for the purpose of sharing them with low-wealth districts. The decrease in the Chapter 41 recapture payment played a very important part of adopting the 2008 General Fund budget.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2007

Amounts available for appropriation in the General Fund budget are \$34.3 million, a decrease of 5% over the final 2007 budget of \$36.2 million. Property tax revenue will decrease due to the decreasing values, and due to the state mandated tax rate compression.

Expenditures are budgeted to decrease by nearly \$922,000 or 2.6%. The decrease is mainly due to the decrease in the Chapter 41 payment. Even though the overall budget decreased, the District has budgeted to break even. The District has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the District's budgetary General Fund balance is expected to remain at \$12,149,828 at the close of 2008.

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 business office, at Hallsville Independent School District, P. O. Box 810, Hallsville, Texas.

BASIC FINANCIAL STATEMENTS

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2007

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 2,573,012
1120 Current Investments	9,716,948
1220 Property Taxes Receivable (Delinquent)	4,390,351
1230 Allowance for Uncollectible Taxes	(878,070)
1240 Due from Other Governments	2,666,860
1290 Other Receivables, net	20,750
1300 Inventories	117,451
1420 Capitalized Bond and Other Debt Issuance Costs	139,881
Capital Assets:	
1510 Land	545,844
1520 Buildings, Net	28,845,147
1530 Furniture and Equipment, Net	1,223,087
1580 Construction in Progress	309,144
1000 Total Assets	49,670,405
LIABILITIES	
2110 Accounts Payable	332,918
2140 Interest Payable	25,450
2160 Accrued Wages Payable	1,474,393
2180 Due to Other Governments	242
2300 Deferred Revenues	489,595
Noncurrent Liabilities	
2501 Due Within One Year	5,940,000
2502 Due in More Than One Year	10,340,280
2000 Total Liabilities	18,602,878
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	14,718,221
3820 Restricted for Federal and State Programs	159,192
3850 Restricted for Debt Service	488,853
3900 Unrestricted Net Assets	15,701,261
3000 Total Net Assets	\$ 31,067,527

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2007

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	\$ 17,436,756	\$ 93,878	\$ 2,452,415	\$ (14,890,463)
12 Instructional Resources and Media Services	399,414	-	15,742	(383,672)
13 Curriculum and Instructional Staff Development	352,950	-	130,917	(222,033)
21 Instructional Leadership	967,091	43,374	62,961	(860,756)
23 School Leadership	1,697,512	-	96,899	(1,600,613)
31 Guidance, Counseling and Evaluation Services	789,321	137,775	105,122	(546,424)
32 Social Work Services	68,970	-	3,996	(64,974)
33 Health Services	291,148	-	13,684	(277,464)
34 Student (Pupil) Transportation	1,502,018	-	60,668	(1,441,350)
35 Food Services	1,442,206	634,735	585,471	(222,000)
36 Cocurricular/Extracurricular Activities	1,291,085	137,927	24,661	(1,128,497)
41 General Administration	1,544,904	-	32,816	(1,512,088)
51 Plant Maintenance and Operations	3,812,074	-	99,297	(3,712,777)
52 Security and Monitoring Services	107,382	-	3,391	(103,991)
53 Data Processing Services	191,237	-	8,234	(183,003)
61 Community Services	44,375	-	1,453	(42,922)
72 Debt Service - Interest on Long Term Debt	985,726	-	-	(985,726)
73 Debt Service - Bond Issuance Cost and Fees	38,248	-	-	(38,248)
91 Contracted Instructional Services Between Schools	7,307,365	-	-	(7,307,365)
93 Payments to Fiscal Agent/Member Districts of SSA	566,029	297,109	268,920	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 40,835,811	\$ 1,344,798	\$ 3,966,647	(35,524,366)

Data			
Control			
Codes			
	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		31,139,428
DT	Property Taxes, Levied for Debt Service		2,145,901
SF	State Aid - Formula Grants		7,583,632
IE	Investment Earnings		900,852
MI	Miscellaneous Local and Intermediate Revenue		524,925
TR	Total General Revenues		42,294,738
CN	Change in Net Assets		6,770,372
NB	Net Assets--Beginning		24,297,155
NE	Net Assets--Ending		\$ 31,067,527

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2007

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
ASSETS				
1110	Cash and Cash Equivalents	\$ 1,878,777	\$ 694,235	\$ 2,573,012
1120	Investments - Current	9,204,948	512,000	9,716,948
1220	Property Taxes - Delinquent	4,018,816	371,535	4,390,351
1230	Allowance for Uncollectible Taxes (Credit)	(803,763)	(74,307)	(878,070)
1240	Due from Other Governments	2,513,614	153,246	2,666,860
1260	Due from Other Funds	74,757	-	74,757
1290	Other Receivables	20,750	-	20,750
1300	Inventories	117,451	-	117,451
1000	Total Assets	<u>\$ 17,025,350</u>	<u>\$ 1,656,709</u>	<u>\$ 18,682,059</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	Accounts Payable	\$ 301,734	\$ 31,184	\$ 332,918
2160	Accrued Wages Payable	1,358,493	115,900	1,474,393
2170	Due to Other Funds	-	74,757	74,757
2180	Due to Other Governments	242	-	242
2300	Deferred Revenues	3,215,053	786,823	4,001,876
2000	Total Liabilities	<u>\$ 4,875,522</u>	<u>\$ 1,008,664</u>	<u>\$ 5,884,186</u>
Fund Balances:				
Reserved For:				
3410	Investments in Inventory	\$ 117,451	\$ -	\$ 117,451
3420	Retirement of Long Term Debt	-	488,853	488,853
3450	Food Service	-	159,192	159,192
Unreserved and Undesignated:				
3600	Reported in the General Fund	12,032,377	-	12,032,377
3000	Total Fund Balances	<u>\$ 12,149,828</u>	<u>\$ 648,045</u>	<u>\$ 12,797,873</u>
4000	Total Liabilities and Fund Balances	<u>\$ 17,025,350</u>	<u>\$ 1,656,709</u>	<u>\$ 18,682,059</u>

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2007

Total Fund Balances - Governmental Funds	\$	12,797,873
1 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 \$48,771,297 and the accumulated depreciation was \$17,400,689. 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 (decrease) net assets.		13,749,111
2 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 2007 capital outlays and debt principal payments is to increase (decrease) net assets.		1,903,749
3 The 2007 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,290,996)
4 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 (decrease) net assets.		3,907,790
19 Net Assets of Governmental Activities	\$	31,067,527

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 31,222,311	\$ 3,275,930	\$ 34,498,241
5800 State Program Revenues	8,798,946	418,900	9,217,846
5900 Federal Program Revenues	-	2,332,433	2,332,433
5020 Total Revenues	<u>40,021,257</u>	<u>6,027,263</u>	<u>46,048,520</u>
EXPENDITURES:			
Current:			
0011 Instruction	14,903,145	1,837,106	16,740,251
0012 Instructional Resources and Media Services	399,414	-	399,414
0013 Curriculum and Instructional Staff Development	226,635	126,315	352,950
0021 Instructional Leadership	852,164	114,927	967,091
0023 School Leadership	1,688,406	9,106	1,697,512
0031 Guidance, Counseling and Evaluation Services	416,341	372,980	789,321
0032 Social Work Services	68,970	-	68,970
0033 Health Services	291,148	-	291,148
0034 Student (Pupil) Transportation	1,583,753	-	1,583,753
0035 Food Services	-	1,435,066	1,435,066
0036 Cocurricular/Extracurricular Activities	1,038,250	17,153	1,055,403
0041 General Administration	1,481,922	-	1,481,922
0051 Facilities Maintenance and Operations	3,782,677	1,167	3,783,844
0052 Security and Monitoring Services	107,382	-	107,382
0053 Data Processing Services	191,237	-	191,237
0061 Community Services	44,375	-	44,375
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	115,139	945,000	1,060,139
0072 Debt Service - Interest on Long Term Debt	1,083	1,058,029	1,059,112
0073 Debt Service - Bond Issuance Cost and Fees	-	52,079	52,079
Capital Outlay:			
0081 Facilities Acquisition and Construction	501,417	-	501,417
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	7,307,365	-	7,307,365
0093 Payments to Fiscal Agent/Member Districts of SSA	297,109	268,920	566,029
6030 Total Expenditures	<u>35,297,932</u>	<u>6,237,848</u>	<u>41,535,780</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>4,723,325</u>	<u>(210,585)</u>	<u>4,512,740</u>
OTHER FINANCING SOURCES (USES):			
7901 Refunding Bonds Issued	-	5,085,000	5,085,000
7915 Transfers In	-	350,000	350,000
8911 Transfers Out (Use)	(350,000)	-	(350,000)
8940 Payment to Bond Refunding Escrow Agent (Use)	-	(5,199,419)	(5,199,419)
7080 Total Other Financing Sources (Uses)	<u>(350,000)</u>	<u>235,581</u>	<u>(114,419)</u>
1200 Net Change in Fund Balances	4,373,325	24,996	4,398,321
0100 Fund Balance - September 1 (Beginning)	<u>7,776,503</u>	<u>623,049</u>	<u>8,399,552</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 12,149,828</u>	<u>\$ 648,045</u>	<u>\$ 12,797,873</u>

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

HALLSVILLE 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, 2007

Total Net Change in Fund Balances - Governmental Funds	\$	4,398,321
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 2007 capital outlays and debt principal payments is to increase (decrease) net assets.		1,903,749
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.		(1,290,996)
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 (decrease) net assets.		1,759,298
 Change in Net Assets of Governmental Activities	 \$	 <u><u>6,770,372</u></u>

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget
	Original	Final	See Note III A&B	Positive or (Negative)
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 28,774,935	\$ 28,774,935	\$ 31,222,311	\$ 2,447,376
5800 State Program Revenues	6,932,815	6,686,667	8,798,946	2,112,279
5020 Total Revenues	35,707,750	35,461,602	40,021,257	4,559,655
EXPENDITURES:				
Current:				
0011 Instruction	15,400,179	15,526,179	14,903,145	623,034
0012 Instructional Resources and Media Services	409,933	434,933	399,414	35,519
0013 Curriculum and Instructional Staff Development	324,377	324,377	226,635	97,742
0021 Instructional Leadership	849,286	871,286	852,164	19,122
0023 School Leadership	1,567,264	1,707,200	1,688,406	18,794
0031 Guidance, Counseling and Evaluation Services	572,478	572,478	416,341	156,137
0032 Social Work Services	71,323	81,323	68,970	12,353
0033 Health Services	244,655	314,000	291,148	22,852
0034 Student (Pupil) Transportation	1,658,769	1,638,769	1,583,753	55,016
0036 Cocurricular/Extracurricular Activities	1,002,540	1,132,614	1,038,250	94,364
0041 General Administration	1,464,341	1,519,341	1,481,922	37,419
0051 Facilities Maintenance and Operations	3,634,231	3,909,231	3,782,677	126,554
0052 Security and Monitoring Services	104,286	104,286	107,382	(3,096)
0053 Data Processing Services	189,414	208,414	191,237	17,177
0061 Community Services	36,428	58,250	44,375	13,875
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	38,720	128,878	115,139	13,739
0072 Debt Service - Interest on Long Term Debt	-	7,122	1,083	6,039
Capital Outlay:				
0081 Facilities Acquisition and Construction	630,000	250,000	501,417	(251,417)
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	7,214,526	7,214,526	7,307,365	(92,839)
0093 Payments to Fiscal Agent/Member Districts of SSA	295,000	295,000	297,109	(2,109)
6030 Total Expenditures	35,707,750	36,298,207	35,297,932	1,000,275
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(836,605)	4,723,325	5,559,930
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	(375,000)	(350,000)	25,000
7080 Total Other Financing Sources (Uses)	-	(375,000)	(350,000)	25,000
1200 Net Change in Fund Balances	-	(1,211,605)	4,373,325	5,584,930
0100 Fund Balance - September 1 (Beginning)	7,776,503	7,776,503	7,776,503	-
3000 Fund Balance - August 31 (Ending)	\$ 7,776,503	\$ 6,564,898	\$ 12,149,828	\$ 5,584,930

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2007

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 271,224
Total Assets	<u>\$ 271,224</u>
LIABILITIES	
Due to Student Groups	\$ 271,224
Total Liabilities	<u>\$ 271,224</u>

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hallsville 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 Hallsville Independent School District’s 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. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 some governmental funds major and reports their 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, as do the fiduciary fund financial statements. 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 considers 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 considers 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 sometimes require the District to refund all or part of the unused amount.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

D. FUND ACCOUNTING:

The District reports the following major governmental fund:

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 Fund** - 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.

Fiduciary Fund:

Agency Funds - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are Student Activities.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. OTHER ACCOUNTING POLICIES:

1. In the government-wide financial statements long-term debt is reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line 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 recognized 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

A portion of the bonds issued by the District are premium Capital Appreciation Bonds (CAB's). The CAB portion of the bond issue are bonds issued at a discount. The interest on these bonds accretes each year but is paid with the principal at the maturity of the bonds. The accumulating accreted interest is a liability to the District and is recorded as "Long-Term Liabilities" in the Statement of Net Assets in governmental activities.

2. Inventories of supplies on the balance sheet are stated at cost. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity. 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.
3. 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.
4. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.
5. Capital assets, which include land, buildings, furniture and equipment are reported in the governmental column 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 a year. 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

6. 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.
7. 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.

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 and notes 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 at the Beginning of the Year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land	\$ 545,844	\$ -	\$ 545,844	
Buildings and Improvements	42,261,702	(12,711,468)	29,550,234	
Furniture and Equipment	<u>5,963,751</u>	<u>(4,689,221)</u>	<u>1,274,530</u>	
Change in Net Assets				<u>\$31,370,608</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

<u>Long-Term Liabilities at the Beginning of the Year</u>	<u>Payable at the Beginning of the Year</u>	
Bonds Payable	\$17,150,000	
CAB Accreted Interest	356,358	
Note Payable	<u>115,139</u>	
Change in Net Assets		\$(17,621,497)
Net Adjustment to Net Assets		<u>\$ 13,749,111</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>Current Year Capital Outlay</u>	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
Buildings and Improvements	\$ 192,273		
Furniture and Equipment	342,193		
Construction in Progress	<u>309,144</u>		
Total Capital Outlay	<u>\$ 843,610</u>	<u>\$ 843,610</u>	<u>\$ 843,610</u>
 <u>Debt Principal Payments</u>			
Note Principal	\$ 115,139		
Bond Principal	<u>945,000</u>		
Total Principal Payments	<u>\$1,060,139</u>	<u>\$1,060,139</u>	<u>\$1,060,139</u>
Total Adjustment to Net Assets		<u>\$1,903,749</u>	<u>\$1,903,749</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:

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

<u>Adjustments to Revenue and Deferred Revenue</u>	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
Taxes Collected from Prior Year Levies	\$ 480,065	\$ (480,065)	\$ -
Uncollected Taxes (assumed collectible) from Current Year Levy	1,625,760	1,625,760	1,625,760
Uncollected Taxes (assumed collectible) from Prior Year Levy	1,886,521	-	1,886,521
Prior Year Tax Collection Adjustment	411,965	411,965	-
<u>Adjustments to Assets and Liabilities Associated with Long-Term Debt</u>			
Current Year Change in Interest Accrual	18,897	18,897	-
Current Year Change in CAB Accreted Interest	356,358	356,358	356,358
Current Year Change in Bond Issuance Costs	13,831	13,831	-
Current Year Change in Premium on Bonds	14,303	14,303	-
Current Year Change in Deferred Refunding	(201,751)	(201,751)	-
<u>Recognizing Assets and Liabilities Associated with Long-Term Debt</u>			
Interest Accrual on Long-Term Debt	25,450	-	(25,450)
Bond Issuance Costs	139,881	-	139,881
Premium on Bonds	132,489	-	(132,489)
Deferred Refunding	<u>57,209</u>	<u>-</u>	<u>57,209</u>
Total	<u>\$4,960,978</u>	<u>\$1,759,298</u>	<u>\$3,907,790</u>

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 National Breakfast and Lunch Program Fund (which is included in the Special Revenue Funds). 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 F-4 and F-5.

The following procedures are followed in establishing the budgetary data reflected in the 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

3. Prior to September 1, the budget is legally enacted through the 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 the fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

August 31, 2007
Fund Balance

Appropriated Budget Funds – National Breakfast and Lunch Program	<u>\$159,192</u>
All Special Revenue Funds	<u>\$159,192</u>

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

As noted in Exhibit C-5, Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund, the District's expenditures exceeded appropriations in Function 52 - Security and Monitoring Services by \$3,096; Function 81 - Facilities Acquisition and Construction by \$251,417; Function 91 - Contracted Instructional Services Between Schools by \$92,839, and Function 93 - Payments to Fiscal Agent/Member Districts of SSA by \$2,109. Also, Exhibit F-4, Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - National Breakfast and Lunch Program - shows the District's expenditures exceeded appropriations by \$9,402. Also, as shown in Exhibit F-5 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Debt Service Fund, the District did not budget for the payment to the bond refunding escrow agent for \$5,199,419. In the future, the District will strive to amend the budgets throughout the year as considered necessary to adhere to the budgets that are legally adopted.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS:

Legal and Contractual Provisions Governing Deposits and Investments

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 the District 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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2007

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

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 District 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 District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does address the following risks:

1. Custodial Credit Risk For Deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is:

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

The District is exposed to custodial credit risk for its deposits as follows:

At August 31, 2007, the carrying amount of the District's deposits (cash, petty cash, and interest-bearing checking accounts) was \$482,725 and the bank balances were \$1,285,790. The District's cash deposits at August 31, 2007, and during the year were entirely covered by FDIC and SPIC insurance or by pledged collateral held by the pledging financial institution's agent in the District's name.

At August 31, 2007, the District had \$201,950 of deposits, which were fully insured by the FDIC and SIPC. The deposit balances at the bank of \$1,083,840 were collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

2. Custodial Credit Risk For Investments - This is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

The District's policy is to retain clearly marked receipts providing proof of the District's ownership. The District may delegate, however, to an investment pool the authority to hold legal title as custodian of investments purchased with District funds by the investment pool. All of the securities are in the District's name and held by the District or its agent.

3. Interest Rate Risk - Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. The District's investment policy states that the investment officer shall monitor the investment portfolio and shall keep the Board informed of significant declines in the market value of the District's investment portfolio.
4. Credit Risk Exposure - The District's main goal of their investment program is to ensure its safety and maximize financial returns within current market conditions in accordance with policy. Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during a 12-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio.

The District limits investments to: obligations, including letters of credit, of the United States or its agencies and instrumentalities; direct obligations of the state of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state of Texas, the United States, or their respective agencies and instrumentalities; obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent.

5. Concentration of Credit Risk - The District's investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District's policy places no limit on the amount the District may invest in any one issuer.
6. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. At year-end and during the year, the District was not exposed to foreign currency risk.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

As of August 31, 2007, the District had the following investments:

<u>Investment Type</u>	<u>Rating</u>	<u>Concentration Of Credit Risk</u>	<u>Investment Maturities (Callable) (In Years)</u>		
			<u>Market Value</u>	<u>Less Than 1</u>	<u>1-5</u>
U.S. Government Treasury and Agency Securities:					
Commercial Paper:					
Centrestar CAP No. 1 LLC	A1 (Bloomberg)	33.81%	\$ 4,083,817	\$ 4,083,817	\$ -
New Center Asset Trust	A1 (Bloomberg)	16.77%	2,026,158	2,026,158	-
General Electric Cap. Corp.	A1+(Bloomberg)	<u>29.87%</u>	<u>3,606,973</u>	<u>3,606,973</u>	<u>-</u>
TOTAL		<u>80.45%</u>	<u>9,716,948</u>	<u>9,716,948</u>	<u>-</u>
State Investment Pools:					
TexPool (2a7-Like Pool)	AAAm (S&P)	.11%	13,095	13,095	-
TexSTAR (2a7-Like Pool)	AAAm (S&P)	1.97%	238,706	238,706	-
Lone Star Investment Pool - Liquidity					
Corporate Fund (2a7-Like Pool)	AAAf (S&P)	4.19%	505,858	505,858	-
Lone Star Investment Pool -					
Liquidity Plus (2a7-Like Pool)	AAAf (S&P)	<u>13.28%</u>	<u>1,603,852</u>	<u>1,603,852</u>	<u>-</u>
TOTAL		<u>19.55%</u>	<u>2,361,511</u>	<u>2,361,511</u>	<u>-</u>
GRAND TOTAL		<u>100.00%</u>	<u>\$12,078,459</u>	<u>\$12,078,459</u>	<u>\$ -</u>

Some investments maintained by the District are invested in pools managed by other governments. During the fiscal year ended for 2007, the District had investments at TexPool, Lone Star Investment Pool, TexSTAR, and the brokerage firms holding the securities. The market values of temporary investments are based on values provided by TexPool, Lone Star Investment Pool, TexSTAR, and the brokerage firms holding the securities at August 31, 2007.

The investments of the District are reported at amortized cost and fair market value based upon type of security held in accordance with Governmental Accounting Standards Board Statement (GASB) No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under GASB Statement No. 31, investments are accounted for at fair market value and all investment income, including changes in the fair market value of investments, are reported as revenue on the District's operating statement.

GASB Statement No. 31 provides an exception to the fair value reporting for investments in an external pool if the pool operates as a "2a7-like" pool. This exception applies to TexPool, Lone Star Investment Pool Liquidity Corporate Fund, Lone Star Liquidity Plus, and TexSTAR, and allows the funds to report their investments at amortized cost rather than fair value.

The State Comptroller of Public Accounts and the Lone Star Investment Governing Board exercise oversight responsibility over TexPool and Lone Star Investment Pool Funds. Additionally, both oversight agencies review their investment policies and management fee structure. Also, both operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool and Lone Star Investment Pool - Liquidity Corporate Fund and Plus Fund use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool and Lone

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Star Investment Liquidity Corporate Fund and Plus Fund is the same as the value of TexPool and Lone Star Investment Corporate Fund and Plus Fund shares.

TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund is rated AAAM by Standard and Poor's and maintains a weighted average maturity of 60 days or less, with a maximum weighted average maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools. TexSTAR uses amortized cost rather than market value to compute share prices. It also operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

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 (1) when they become due or past due and receivable within the current period and (2) 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:

Interfund balances at August 31, 2007, consisted of the following amounts:

Due to General Fund (Major Governmental Fund #1) From:	
Nonmajor Governmental Funds	<u>\$ 74,757</u>
Total Due to General Fund From Nonmajor Governmental Funds	<u>\$ 74,757</u>

Interfund transfers for the year ended August 31, 2007, consisted of the following individual amounts:

Transfers to Nonmajor Governmental Fund From:	
General Fund (Major Governmental Fund #1)	<u>\$350,000</u>
Total Transferred to Nonmajor Governmental Fund	<u>\$350,000</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES:

Receivables at August 31, 2007, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
<u>Governmental Activities:</u>					
General Fund (Major Gov. Fund #1)	\$4,018,816	\$2,513,614	\$74,757	\$20,750	\$6,627,937
Nonmajor Gov. Funds	<u>371,535</u>	<u>153,246</u>	<u>-</u>	<u>-</u>	<u>524,781</u>
Total - Gov. Activities	<u>\$4,390,351</u>	<u>\$2,666,860</u>	<u>\$74,757</u>	<u>\$20,750</u>	<u>\$7,152,718</u>
Amounts Not Scheduled for Collection During the Subsequent Year	<u>\$ 878,070</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 878,070</u>

Payables at August 31, 2007, were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Total Payables</u>
<u>Governmental Activities:</u>					
General Fund (Major Gov. Funds #1)	\$ 301,734	\$1,358,493	\$ -	\$ 242	\$1,660,469
Nonmajor Gov. Funds	<u>31,184</u>	<u>115,900</u>	<u>74,757</u>	<u>-</u>	<u>221,841</u>
Total - Gov. Activities	<u>\$ 332,918</u>	<u>\$1,474,393</u>	<u>\$74,757</u>	<u>\$ 242</u>	<u>\$1,882,310</u>

F. CAPITAL ASSET ACTIVITY:

Capital asset activity for the District for the year ended August 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Primary Government Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 545,844	\$ -	\$ -	\$ 545,844
Buildings and Improvements	42,261,702	192,273	-	42,453,975
Furniture and Equipment	5,963,751	342,193	-	6,305,944
Construction in Progress	<u>-</u>	<u>309,144</u>	<u>-</u>	<u>309,144</u>
Totals at Historic Cost	<u>48,771,297</u>	<u>843,610</u>	<u>-</u>	<u>49,614,907</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(12,711,468)	(897,360)	-	(13,608,828)
Furniture and Equipment	<u>(4,689,221)</u>	<u>(393,636)</u>	<u>-</u>	<u>(5,082,857)</u>
Total Accumulated Depreciation	<u>(17,400,689)</u>	<u>(1,290,996)</u>	<u>-</u>	<u>(18,691,685)</u>
Governmental Activities Capital Assets, Net	<u>\$31,370,608</u>	<u>\$ (447,386)</u>	<u>\$ -</u>	<u>\$30,923,222</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 718,522
Student (Pupil) Transportation	177,136
Food Services	40,465
Cocurricular/Extracurricular Activities	235,682
General Administration	62,981
Plant Maintenance and Operations	<u>56,210</u>
Total Depreciation Expense	<u><u>\$1,290,996</u></u>

G. LOAN:

On October 20, 1999, the District executed a loan with Southside Bank, Tyler, Texas, in the amount of \$300,000 to purchase a new telephone system. This loan is reflected in the Statement of Net Assets in governmental activities, and current requirements for principal and interest expenditures are accounted for in the General Fund. This loan was paid off this year.

A summary of changes in the loan for the year ended August 31, 2007, is as follows:

<u>Date of Issue</u>	<u>10/20/99</u>
<u>Purpose and Lawful Authority</u>	Equipment/Telephone System LGC CH 271
<u>Interest Rate</u>	5.200%
<u>(Terms) Maturity Schedule</u>	12/15/2009
<u>Fund Payable From</u>	Operating
<u>Loan Amount</u>	<u>\$300,000</u>
<u>Amounts Outstanding 9/1/06</u>	\$115,139
<u>Issued Current Year</u>	-
<u>Retired Current Year</u>	<u>(115,139)</u>
<u>Amounts Outstanding 8/31/07</u>	<u>\$ -</u>
<u>Interest Current Year</u>	<u>\$ 1,083</u>

H. BONDS:

Bonded indebtedness of the District is accounted for in the Statement of Net Assets in governmental activities, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Effective interest rates on the Series 1996 bonds range from 4.80% to 6.0%; 4.50% to 4.70% on the Series 2001 bonds; 3.00% to 5.00% on the Series 2004 bonds; and 3.76% on the Series 2007 bonds.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

On August 15, 2007, the District issued \$5,085,000 Unlimited Tax Refunding Bonds, Series 2007, dated August 15, 2007, in pursuant to the laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended, and constitute direct obligations of the District, payable as to principal and interest from the proceeds of a continuing, direct annual ad valorem tax, levied against all taxable property within the District without limitation as to rate or amount, sufficient to provide for the payment of said principal and interest, as provided in the order authorizing the issuance of the Bonds.

Proceeds from the sale of the bonds are being used to refund outstanding Unlimited Tax School Building Bonds, Series 2001, in order to lower the debt service requirements of the District. Interest of the bonds is payable semiannually on February 15 and August 15 of each year, commencing February 15, 2008. The issuance of the Bonds produces a gross debt service savings of approximately \$200,368 and a net present value savings of approximately \$35,955, net of any issuer contribution to the refunding, being equal to .707% net present value savings for the refunded obligations.

In 2004 and 2007, the District defeased certain general obligation bonds by placing the proceeds of the 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. On August 31, 2007, \$16,625,000 of bonds considered defeased are still outstanding.

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, 2007.

A summary of changes in long-term debt for the year ended August 31, 2007 is as follows:

<u>Date of Issue</u>	<u>12/1/96</u>	<u>12/1/96</u>	<u>04/01/01</u>	<u>09/08/04</u>	<u>08/15/07</u>
<u>Description</u>	CAB Accreted Interest	Series 1996, Unlimited Tax School Building Bonds	Series 2001, Unlimited Tax School Building Bonds	Series 2004, Unlimited Tax Refunding Bonds	Series 2007, Unlimited Tax Refunding Bonds
<u>Interest Rate Payable</u>	N/A	Various	4.50% - 4.70%	3.00% - 5.00%	3.760%
<u>Amounts Original Issue</u>	<u>N/A</u>	<u>\$15,000,000</u>	<u>\$7,000,000</u>	<u>\$11,345,000</u>	<u>\$5,085,000</u>
<u>Amounts Outstanding 9/1/06</u>	\$356,358	\$ 495,000	\$5,465,000	\$11,190,000	\$ -
<u>Issued Current Year</u>	-	-	-	-	5,085,000
<u>Retired Current Year</u>	(356,358)	(495,000)	(380,000)	(70,000)	-
<u>Refunded Current Year</u>	-	-	(5,085,000)	-	-
<u>Amounts Outstanding 8/31/07</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$11,120,000</u>	<u>\$5,085,000</u>
<u>Interest Current Year</u>	<u>N/A</u>	<u>\$ 380,000</u>	<u>\$ 240,420</u>	<u>\$ 437,609</u>	<u>\$ -</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Debt service requirements are as follows:

Year Ending <u>August 31,</u>	General <u>Obligations</u>		Total <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2008	\$ 5,940,000	\$ 519,712	\$ 6,459,712
2009	1,070,000	394,026	1,464,026
2010	995,000	358,971	1,353,971
2011	1,035,000	320,859	1,355,859
2012	1,080,000	280,179	1,360,179
2013 - 2017	<u>6,085,000</u>	<u>702,587</u>	<u>6,787,587</u>
	<u>\$16,205,000</u>	<u>\$2,576,334</u>	<u>\$18,781,334</u>

I. COMMITMENTS UNDER OPERATING LEASES:

The District entered into two non-cancelable five-year operating leases for copy machines on October 24, 2003. The commitment under the operating (noncapitalized) lease agreements provides for minimum future rental payments as of August 31, 2007, as follows:

Year Ending <u>August 31,</u>	
2008	<u>\$135,470</u>
TOTAL MINIMUM PAYMENTS REQUIRED	<u>\$135,470</u>
RENTAL EXPENDITURES IN FISCAL YEAR 2007	<u>\$157,560</u>

In addition, on June 18, 2007, the District entered into four non-cancelable three-year operating leases for modular buildings. These lease agreements provide for minimum future rental payments as of August 31, 2007, as follows:

Year Ending <u>August 31,</u>	
2008	\$ 36,000
2009	36,000
2010	<u>33,000</u>
TOTAL MINIMUM PAYMENTS REQUIRED	<u>\$105,000</u>
RENTAL EXPENDITURES IN FISCAL YEAR 2007	<u>\$ 3,000</u>

J. RISK MANAGEMENT:

The District is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The District has joined together with other governments to form a self-insurance workers' compensation risk pool (East Texas Educational Insurance Association), a public entity risk pool currently operating as a common risk management and insurance program for workers' compensation. The District has retained the

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

services of an independent plan supervisor experienced in claims processing. The agreement for formation of the Workers' Compensation Plans provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event, with an unlimited aggregate limit. The pool has contracted with Midwest Employers Casualty Company for its stop-loss coverage. The pooling agreement requires the pool to be self-sustaining.

For the year ended August 31, 2007, the District was responsible for the first \$215,127 of workers' compensation claims filed by its employees. Claims in excess of that amount are paid by the pool until the stop-loss insurance coverage threshold is reached. According to the financial data provided by East Texas Educational Insurance Association for August 31, 2007, the amount of unpaid claims including estimated incurred, but not reported claims (IBNR) is approximately \$203,969 which has been recorded as a fund liability of the General Fund for the year ended August 31, 2007.

The District continues to carry commercial insurance for all other risks of loss, including commercial building and property, vehicle collision and comprehensive, and District personnel and school board errors and omissions insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three school years.

K. DEFINED BENEFIT PENSION PLAN:

Plan Description: Hallsville 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 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy: State law provides for fiscal years 2005, 2006, and 2007 a state contribution rate of 6.0% 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 6.0% 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 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

State contributions to TRS made on behalf of Hallsville Independent School District's employees for the years ended August 31, 2005, 2006, and 2007 were \$914,298, \$1,044,378, and \$1,210,938, respectively. Hallsville Independent School District paid additional state contributions for the years ended August 31, 2005, 2006, and 2007 in the amount of \$75,016, \$81,206, and \$109,809, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

L. HEALTH CARE COVERAGE:

During the year ended August 31, 2007, the District's employees were covered by a health plan with the Teacher Retirement System's comprehensive health care and prescription drug program named TRS-Active Care. This is a statewide health care program for public education employees. The District contributes \$150 per month, per employee, and the employees, at their option, authorize payroll withholdings to pay the employee, and if applicable, dependent premiums.

M. CHANGES IN LONG-TERM LIABILITIES:

Long-term activity for the year ended August 31, 2007, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and Note Payable:					
Equipment Note	\$ 115,139	\$ -	\$ (115,139)	\$ -	\$ -
General Obligation Bonds	17,150,000	5,085,000	(6,030,000)	16,205,000	5,940,000
CAB Accreted Interest	356,358	-	(356,358)	-	-
Premium	146,792	-	(14,303)	132,489	-
Less: Deferred Refunding Amount	<u>(258,962)</u>	<u>(114,419)</u>	<u>316,172</u>	<u>(57,209)</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u>\$17,509,327</u>	<u>\$4,970,581</u>	<u>(\$6,199,628)</u>	<u>\$16,280,280</u>	<u>\$5,940,000</u>

N. DEFERRED REVENUES:

Deferred revenues at year-end consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$3,215,053	\$ -	\$297,228	\$3,512,281
Head Start	-	1,598	-	1,598
Adult Basic Education State	-	2,286	-	2,286
Visually Impaired	-	31	-	31
Technology Allotment	-	29,891	-	29,891
Shared Service Arrangements Special Education	<u>-</u>	<u>455,789</u>	<u>-</u>	<u>455,789</u>
TOTAL DEFERRED REVENUES	<u>\$3,215,053</u>	<u>\$489,595</u>	<u>\$297,228</u>	<u>\$4,001,876</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007**

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

O. DUE FROM OTHER GOVERNMENTS:

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, 2007, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$2,513,614	\$ -	\$2,513,614
Special Revenue	<u>49,191</u>	<u>104,055</u>	<u>153,246</u>
TOTAL	<u>\$2,562,805</u>	<u>\$104,055</u>	<u>\$2,666,860</u>

P. REVENUES 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 Funds</u>	<u>Debt Service Fund</u>	<u>Total</u>
Property Taxes	\$29,651,280	\$ -	\$2,076,388	\$31,727,668
Penalties, Interest and Other Tax-Related Income	509,635	-	-	509,635
Tuition and Fees	10,427	-	-	10,427
Investment Income	888,212	81	12,559	900,852
Food Sales	-	634,654	-	634,654
Athletic Activities	137,927	-	-	137,927
Other	24,830	-	-	24,830
Shared Service Arrangements	<u>-</u>	<u>552,248</u>	<u>-</u>	<u>552,248</u>
TOTAL	<u>\$31,222,311</u>	<u>\$1,186,983</u>	<u>\$2,088,947</u>	<u>\$34,498,241</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2007

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS (Continued)

Q. LITIGATION:

At August 31, 2007, Hallsville Independent School District did not have any significant litigation pending.

R. SHARED SERVICE ARRANGEMENTS:

The District is the fiscal agent for a Shared Services Arrangement (“SSA”), which provides special education services to member districts. In addition to the District, other member districts include Harleton ISD, Karnack ISD, Waskom ISD, and Elysian Fields ISD. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance in TEA’s Resource Guide, the District has accounted for the fiscal agent’s activities of the SSA in Special Revenue Fund No. 437, Shared Services Arrangements - Special Education - and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Hallsville ISD	\$299,419
Harleton ISD	61,386
Karnack ISD	22,651
Waskom ISD	78,472
Elysian Fields ISD	<u>94,613</u>
TOTAL	<u>\$556,541</u>

S. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES:

Construction Commitments

The District had entered into various contracts for construction and/or major repairs at August 31, 2007, which do not, in the opinion of the District, represent significant commitments.

Grant Programs

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

T. SUBSEQUENT EVENT:

On November 6, 2007, an election authorizing the issuance of \$96,000,000 of bonds by the District and the levying of tax in payment thereof was held. As a result of this election, the District was authorized to issue the bonds.

COMBINING SCHEDULES

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2007

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	205 Head Start	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	
ASSETS					
1110	Cash and Cash Equivalents	\$ (216)	\$ 1,598	\$ (7,780)	\$ 189,242
1120	Investments - Current	-	-	-	-
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Due from Other Governments	461	-	24,459	13,989
1000	Total Assets	<u>\$ 245</u>	<u>\$ 1,598</u>	<u>\$ 16,679</u>	<u>\$ 203,231</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ 24,355
2160	Accrued Wages Payable	245	-	16,679	19,684
2170	Due to Other Funds	-	-	-	-
2300	Deferred Revenues	-	1,598	-	-
2000	Total Liabilities	<u>245</u>	<u>1,598</u>	<u>16,679</u>	<u>44,039</u>
Fund Balances:					
Reserved For:					
3420	Retirement of Long Term Debt	-	-	-	-
3450	Food Service	-	-	-	159,192
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>159,192</u>
4000	Total Liabilities and Fund Balances	<u>\$ 245</u>	<u>\$ 1,598</u>	<u>\$ 16,679</u>	<u>\$ 203,231</u>

244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	269 Title V, Pt.A Innovative Programs	289 Safe & Drug Free Schools	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	381 Adult Basic Education State
\$ -	\$ 288	\$ -	\$ -	\$ -	\$ (20,423)	\$ (266)	\$ 2,286
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	2,433	-	-	-	60,623	2,090	-
<u>\$ -</u>	<u>\$ 2,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,200</u>	<u>\$ 1,824</u>	<u>\$ 2,286</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,448	\$ -	\$ -
-	2,721	-	-	-	38,752	1,824	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	2,286
<u>-</u>	<u>2,721</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,200</u>	<u>1,824</u>	<u>2,286</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 2,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,200</u>	<u>\$ 1,824</u>	<u>\$ 2,286</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2007

Data Control Codes	385 Visually Impaired	393 Texas Successful Schools Prog.	397 Advanced Placement Incentives	404 Student Success Initiative	
ASSETS					
1110	Cash and Cash Equivalents	\$ 31	\$ -	\$ -	\$ (32,417)
1120	Investments - Current	-	-	-	-
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Due from Other Governments	-	-	-	37,156
1000	Total Assets	<u>\$ 31</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,739</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ 4,739
2160	Accrued Wages Payable	-	-	-	-
2170	Due to Other Funds	-	-	-	-
2300	Deferred Revenues	31	-	-	-
2000	Total Liabilities	<u>31</u>	<u>-</u>	<u>-</u>	<u>4,739</u>
Fund Balances:					
Reserved For:					
3420	Retirement of Long Term Debt	-	-	-	-
3450	Food Service	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 31</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,739</u>

411 Technology Allotment	428 High School Allotment Fund	434 SSA Visually Impaired	437 SSA Special Education	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 26,945	\$ (9,089)	\$ -	\$ 492,426	\$ 642,625	\$ 51,610	\$ 694,235
-	-	-	-	-	512,000	512,000
-	-	-	-	-	371,535	371,535
-	-	-	-	-	(74,307)	(74,307)
2,946	9,089	-	-	153,246	-	153,246
<u>\$ 29,891</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 492,426</u>	<u>\$ 795,871</u>	<u>\$ 860,838</u>	<u>\$ 1,656,709</u>
\$ -	\$ -	\$ -	\$ 642	\$ 31,184	\$ -	\$ 31,184
-	-	-	35,995	115,900	-	115,900
-	-	-	-	-	74,757	74,757
29,891	-	-	455,789	489,595	297,228	786,823
<u>29,891</u>	<u>-</u>	<u>-</u>	<u>492,426</u>	<u>636,679</u>	<u>371,985</u>	<u>1,008,664</u>
-	-	-	-	-	488,853	488,853
-	-	-	-	159,192	-	159,192
-	-	-	-	159,192	488,853	648,045
<u>\$ 29,891</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 492,426</u>	<u>\$ 795,871</u>	<u>\$ 860,838</u>	<u>\$ 1,656,709</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	205 Head Start	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 634,735
5800 State Program Revenues	-	-	-	8,833
5900 Federal Program Revenues	11,153	-	348,968	576,638
5020 Total Revenues	<u>11,153</u>	<u>-</u>	<u>348,968</u>	<u>1,220,206</u>
EXPENDITURES:				
Current:				
0011 Instruction	550	-	292,217	-
0013 Curriculum and Instructional Staff Development	-	-	56,751	-
0021 Instructional Leadership	10,603	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0035 Food Services	-	-	-	1,435,066
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	-	-	-
0072 Debt Service - Interest on Long Term Debt	-	-	-	-
0073 Debt Service - Bond Issuance Cost and Fees	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	-	-	-	-
6030 Total Expenditures	<u>11,153</u>	<u>-</u>	<u>348,968</u>	<u>1,435,066</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(214,860)</u>
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	-	-
7915 Transfers In	-	-	-	350,000
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>350,000</u>
1200 Net Change in Fund Balance	-	-	-	135,140
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,052</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,192</u>

244 Vocational Ed Basic Grant	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	269 Title V, Pt.A Innovative Programs	289 Safe & Drug Free Schools	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	381 Adult Basic Education State
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	1,915
<u>32,513</u>	<u>103,523</u>	<u>6,929</u>	<u>2,080</u>	<u>17,153</u>	<u>1,200,032</u>	<u>29,151</u>	<u>-</u>
<u>32,513</u>	<u>103,523</u>	<u>6,929</u>	<u>2,080</u>	<u>17,153</u>	<u>1,200,032</u>	<u>29,151</u>	<u>1,915</u>
32,513	38,911	-	-	-	931,112	29,151	1,915
-	55,506	6,929	2,080	-	-	-	-
-	-	-	-	-	-	-	-
-	9,106	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	17,153	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	268,920	-	-
<u>32,513</u>	<u>103,523</u>	<u>6,929</u>	<u>2,080</u>	<u>17,153</u>	<u>1,200,032</u>	<u>29,151</u>	<u>1,915</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	385 Visually Impaired	393 Texas Successful Schools Prog.	397 Advanced Placement Incentives	404 Student Success Initiative
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	664	4,643	42,783
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>-</u>	<u>664</u>	<u>4,643</u>	<u>42,783</u>
EXPENDITURES:				
Current:				
0011 Instruction	-	664	4,643	42,783
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	-	-	-
0072 Debt Service - Interest on Long Term Debt	-	-	-	-
0073 Debt Service - Bond Issuance Cost and Fees	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	-	-	-	-
6030 Total Expenditures	<u>-</u>	<u>664</u>	<u>4,643</u>	<u>42,783</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	-	-
7915 Transfers In	-	-	-	-
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

411 Technology Allotment	428 High School Allotment Fund	434 SSA Visually Impaired	437 SSA Special Education	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 552,248	\$ 1,186,983	\$ 2,088,947	\$ 3,275,930
60,328	296,584	3,150	-	418,900	-	418,900
-	-	-	4,293	2,332,433	-	2,332,433
<u>60,328</u>	<u>296,584</u>	<u>3,150</u>	<u>556,541</u>	<u>3,938,316</u>	<u>2,088,947</u>	<u>6,027,263</u>
60,328	236,397	3,150	162,772	1,837,106	-	1,837,106
-	5,049	-	-	126,315	-	126,315
-	11,428	-	92,896	114,927	-	114,927
-	-	-	-	9,106	-	9,106
-	73,274	-	299,706	372,980	-	372,980
-	-	-	-	1,435,066	-	1,435,066
-	-	-	-	17,153	-	17,153
-	-	-	1,167	1,167	-	1,167
-	-	-	-	-	945,000	945,000
-	-	-	-	-	1,058,029	1,058,029
-	-	-	-	-	52,079	52,079
-	-	-	-	268,920	-	268,920
<u>60,328</u>	<u>326,148</u>	<u>3,150</u>	<u>556,541</u>	<u>4,182,740</u>	<u>2,055,108</u>	<u>6,237,848</u>
-	(29,564)	-	-	(244,424)	33,839	(210,585)
-	-	-	-	-	5,085,000	5,085,000
-	-	-	-	350,000	-	350,000
-	-	-	-	-	(5,199,419)	(5,199,419)
-	-	-	-	350,000	(114,419)	235,581
-	(29,564)	-	-	105,576	(80,580)	24,996
-	29,564	-	-	53,616	569,433	623,049
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 159,192</u>	<u>\$ 488,853</u>	<u>\$ 648,045</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 AUGUST 31, 2007

	BALANCE SEPTEMBER 1 2006	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2007
STUDENT ACTIVITY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 287,850	\$ 912,062	\$ 928,688	\$ 271,224
Liabilities:				
Due to Student Groups	\$ 287,850	\$ 912,062	\$ 928,688	\$ 271,224
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 287,850	\$ 912,062	\$ 928,688	\$ 271,224
Liabilities:				
Due to Student Groups	\$ 287,850	\$ 912,062	\$ 928,688	\$ 271,224

REQUIRED TEA SCHEDULES

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2007

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1998 and prior years	Various	Various	\$ Various
1999	1.424310	0.185690	1,188,243,044
2000	1.486970	0.180690	1,220,376,532
2001	1.486970	0.180690	1,248,513,511
2002	1.499990	0.154440	1,373,193,111
2003	1.499990	0.154440	1,408,159,897
2004	1.500000	0.155500	1,370,633,633
2005	1.485000	0.140000	1,643,540,890
2006	1.473000	0.114000	1,912,229,172
2007 (School year under audit)	1.346000	0.094000	2,311,097,511
1000 TOTALS			

(10) Beginning Balance 9/1/2006	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2007
\$ 204,683	\$ -	\$ 2,631	\$ 265	\$ (31,914)	\$ 169,873
48,486	-	931	121	(4,426)	43,008
59,674	-	1,477	179	(4,585)	53,433
59,823	-	2,511	305	(4,740)	52,267
82,389	-	7,850	808	(4,065)	69,666
99,071	-	14,090	1,451	(1,643)	81,887
175,653	-	18,689	1,931	(2,718)	152,315
1,220,301	-	56,967	5,371	(8,057)	1,149,906
493,195	-	338,305	26,182	457,088	585,796
-	33,279,804	29,207,829	2,039,775	-	2,032,200
<u>\$ 2,443,275</u>	<u>\$ 33,279,804</u>	<u>\$ 29,651,280</u>	<u>\$ 2,076,388</u>	<u>\$ 394,940</u>	<u>\$ 4,390,351</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2008-2009
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2007

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

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	\$ -	\$ -	\$ 157,321	\$ 416,047	\$ 4,845	\$ -	\$ 578,213
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	7,374	-	-	-	7,374
6212	Audit Services	-	-	-	19,200	-	-	19,200
6213	Tax Appraisal and Collection	-	580,523	-	-	-	-	580,523
621X	Other Professional Services	-	-	1,284	10,522	-	-	11,806
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	66,971	-	-	66,971
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	1,541	-	-	1,541
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	3,128	45,849	-	-	48,977
6410	Travel, Subsistence, Stipends	6,666	-	4,127	4,540	-	-	15,333
6420	Ins. and Bonding Costs	-	-	-	14,959	-	-	14,959
6430	Election Costs	2,746	-	-	-	-	-	2,746
6490	Miscellaneous Operating	2,195	-	3,614	76,532	-	-	82,341
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	51,938	51,938
6000	TOTAL	\$ 11,607	\$ 580,523	\$ 176,848	\$ 656,161	\$ 4,845	\$ 51,938	\$ 1,481,922

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 39,480,672

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 1,763,248
Total Debt & Lease(6500)	(11)	116,222
Plant Maintenance (Function 51, 6100-6400)	(12)	3,711,326
Food (Function 35, 6341 and 6499)	(13)	450,659
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		<u>656,161</u>

SubTotal:

6,697,616

Net Allowed Direct Cost

\$ 32,783,056

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 42,453,975
Historical Cost of Building over 50 years old	(16)	\$ -
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 6,305,944
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 350,000
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 417,183

(8) NOTE A: No amounts in Function 53 expenditures are included in this report on administrative costs.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2007

UNAUDITED

1	Total General Fund Balance as of 8/31/07 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 12,149,828
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 117,451	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	-	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	6,593,974	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/07-5/31/08).	2,864,658	
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>9,576,083</u>	
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ 2,573,745</u>

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

The District's Administraton feels that one month's operations in reserve is not adequate no matter what the total amount of the overall budget may be. In addition, with the uncertainty of the school finance issue, the District feels that the excess is reasonable.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - NATIONAL BREAKFAST AND LUNCH PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS) See Note III A&B	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 755,975	\$ 600,000	\$ 634,735	\$ 34,735
5800 State Program Revenues	-	-	8,833	8,833
5900 Federal Program Revenues	475,164	460,000	576,638	116,638
5020 Total Revenues	1,231,139	1,060,000	1,220,206	160,206
EXPENDITURES:				
0035 Food Services	1,230,664	1,425,664	1,435,066	(9,402)
6030 Total Expenditures	1,230,664	1,425,664	1,435,066	(9,402)
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	475	(365,664)	(214,860)	150,804
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	375,000	350,000	(25,000)
7080 Total Other Financing Sources (Uses)	-	375,000	350,000	(25,000)
1200 Net Change in Fund Balances	475	9,336	135,140	125,804
0100 Fund Balance - September 1 (Beginning)	24,052	24,052	24,052	-
3000 Fund Balance - August 31 (Ending)	\$ 24,527	\$ 33,388	\$ 159,192	\$ 125,804

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2007

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS) See Note III A&B	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 2,027,700	\$ 2,027,700	\$ 2,088,947	\$ 61,247
5020	Total Revenues	2,027,700	2,027,700	2,088,947	61,247
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	945,000	945,000	945,000	-
0072	Debt Service - Interest on Long Term Debt	1,058,029	1,058,029	1,058,029	-
0073	Debt Service - Bond Issuance Cost and Fees	24,671	411,971	52,079	359,892
6030	Total Expenditures	2,027,700	2,415,000	2,055,108	359,892
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(387,300)	33,839	421,139
OTHER FINANCING SOURCES (USES):					
7901	Refunding Bonds Issued	-	-	5,085,000	5,085,000
8940	Payment to Bond Refunding Escrow Agent (Use)	-	-	(5,199,419)	(5,199,419)
7080	Total Other Financing Sources (Uses)	-	-	(114,419)	(114,419)
1200	Net Change in Fund Balances	-	(387,300)	(80,580)	306,720
0100	Fund Balance - September 1 (Beginning)	569,433	569,433	569,433	-
3000	Fund Balance - August 31 (Ending)	\$ 569,433	\$ 182,133	\$ 488,853	\$ 306,720

FEDERAL AWARD SECTION

KNUCKOLS DUVALL HALLUM & CO. A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

204 S. WELLINGTON STREET
POST OFFICE BOX 1315
MARSHALL, TEXAS 75670
(903) 938-0331 FAX (903) 938-0334

**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**

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hallsville Independent School District
P. O. Box 810
Hallsville, Texas 75650

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District (the District) as of and for the year ended August 31, 2007, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2007. 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 Hallsville 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 Hallsville Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hallsville 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 principles 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 consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hallsville 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*.

However, we noted certain matters that we have reported to the administration of Hallsville Independent School District in a separate letter dated December 13, 2007.

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.

Respectfully submitted,

KNUCKOLS, DUVALL, HALLUM & CO.

AUTHORIZED SIGNATURES ON FILE WITH TEA

Certified Public Accountants

December 13, 2007

KNUCKOLS DUVALL HALLUM & CO. A Professional Corporation
CERTIFIED PUBLIC ACCOUNTANTS

204 S. WELLINGTON STREET
POST OFFICE BOX 1315
MARSHALL, TEXAS 75670
(903) 938-0331 FAX (903) 938-0334

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

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hallsville Independent School District
P. O. Box 810
Hallsville, Texas 75650

Members of the Board:

Compliance

We have audited the compliance of Hallsville 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, 2007. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Hallsville 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 Hallsville Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hallsville Independent School District's compliance with those requirements.

In our opinion, Hallsville 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, 2007.

Internal Control Over Compliance

The administration of Hallsville 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 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 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 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.

Respectfully submitted,

KNUCKOLS, DUVALL, HALLUM & CO.

AUTHORIZED SIGNATURES ON FILE WITH TEA

Certified Public Accountants

December 13, 2007

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2007

I. Summary of the Auditors' Results:

- a) The type of report issued on the financial statements of the Hallsville Independent School District was an unqualified opinion.
- b) There were no significant deficiencies disclosed that we consider to be material weaknesses during the audit of the financial statements as reported in the 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*.
- c) No instances of noncompliance material to the basic financial statements of Hallsville Independent School District were disclosed during the audit.
- d) There were no significant deficiencies disclosed that we consider to be material weaknesses during the audit in internal control over compliance of major programs.
- e) The type of report Hallsville Independent School District received on compliance for major programs was an unqualified opinion.
- f) The audit did not disclose any audit findings which the auditor is required to report under Section _____.510(a).
- g) The major programs for Hallsville Independent School District as listed in the Schedule of Expenditures of Federal Awards, Exhibit G-1, were:
 - 1) Special education cluster that consisted of IDEA – Part B, Formula, CFDA No. 84.027 and IDEA – Part B, Preschool, CFDA No. 84.173.
 - 2) National School Breakfast and Lunch Program, CFDA No. 10.555.
- h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- i) Hallsville Independent School District qualified as a low-risk auditee for the 2007 fiscal year.

II. Findings Relating to the Financial Statements Which are Required to be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

NONE

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above.

NONE

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2007

Prior Year's Findings:

01-6: The District was not in compliance with the Public Funds Investment Act during the year ended August 31, 2006. Audit procedures performed in connection with cash disclosed that various times from May 2006 thru August 2006 cash deposits were under collateralized.

Status of Prior Year's Findings:

01-6: The District's cash deposits were fully collateralized at August 31, 2007, and all during the current year.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2007**

N/A

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2007

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs</u>			
Safe & Drug Free Schools & Communities-Natl. Prog.	84.184D	Q184D050010	\$ 17,153
Total Direct Programs			\$ 17,153
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	07610101102904	\$ 280,539
ESEA, Title I, Part A - Improving Basic Programs	84.010A	08610101102904	24,459
ESEA Title I, Part D, Subpart 2-Delinquent Program	84.010A	07610103102904	43,970
Total CFDA Number 84.010A			348,968
SSA - IDEA - Part B, Formula	84.027	076600011029046600	1,139,409
SSA - IDEA - Part B, Formula	84.027	086600011029046600	60,623
Total CFDA Number 84.027			1,200,032
Vocational Education - Basic Grant	84.048	0742000610290407	32,513
SSA - IDEA - Part B, Preschool	84.173	076610011029046610	27,061
SSA - IDEA - Part B, Preschool	84.173	086610011029046610	2,090
Total CFDA Number 84.173			29,151
ESEA Title IV - Safe and Drug-Free Schools	84.186A	07691001102904	10,692
ESEA Title IV - Safe and Drug-Free Schools	84.186A	08691001102904	461
Total CFDA Number 84.186A			11,153
Title V, Part A - Innovative Programs	84.298	07685001102904	2,080
Title II, Part D -Enhancing Ed. Through Technology	84.318	07630001102904	6,929
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	07694501102904	101,090
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	08694501102904	2,433
Total CFDA Number 84.367A			103,523
Total Passed Through State Department of Education			\$ 1,734,349
TOTAL DEPARTMENT OF EDUCATION			\$ 1,751,502
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Direct Programs</u>			
Med Assistance Programs-SHARS (Note 4)	93.778	07-102904	\$ 4,293
Total Direct Programs			\$ 4,293
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 4,293
U.S. DEPARTMENT OF AGRICULTURE			
<u>Direct Programs</u>			
Food Distribution	10.550	07-102904	\$ 41,455
Total Direct Programs			\$ 41,455
<u>Passed Through the State Department of Education</u>			
National School Breakfast & Lunch Program*	10.555	07-102904	\$ 535,183
Total Passed Through the State Department of Education			\$ 535,183
TOTAL DEPARTMENT OF AGRICULTURE			\$ 576,638
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,332,433

*Clustered Programs as required by Compliance Supplement March, 2007

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS FOR THE YEAR ENDED AUGUST 31, 2007

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 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 this fund present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types 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.

3. 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.
4. The SHARS program expenditures are not specifically attributable to the federal expenditures source and are shown on the Schedule of Expenditures of Federal Awards for balancing purposes only.