

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT
HALLSVILLE, TEXAS**

**Annual Financial Report
For the Year Ended
August 31, 2008**

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT
HALLSVILLE, TEXAS**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2008**

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**HALLSVILLE INDEPENDENT SCHOOL DISTRICT
HALLSVILLE, TEXAS**

**MEMBERS OF THE BOARD OF EDUCATION
YEAR ENDED AUGUST 31, 2008**

<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. Jay Nelson	5460 Noonday Road Hallsville, TX 75650	Certified Public Accountant CDM Resource Management
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. Lee Gaw.....	Vice-President
Mr. Robert Womack.....	Secretary
Mrs. Beth Anders.....	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, 2008 at a meeting of the Board of Trustees of such school district on the 12th day of January , 2009.

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) 938-0334

**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, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District as of August 31, 2008, 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 1, 2008, 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 SIGNATURE ON FILE WITH TEA

Certified Public Accountants

December 1, 2008

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2008

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, 2008. 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, 2008

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, 2008**

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 \$31,067,527 to \$40,153,084. 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 \$13,085,567 at August 31, 2008. This increase in governmental net assets was the result of three factors. First, the District's revenues exceeded expenditures by \$233,055. (See Exhibit C-3 for details.) Second, the District paid bonds in the amount of \$5,940,000 and acquired capital assets in the amount of \$5,469,496 that was added back to the net change. Third, the District recorded depreciation and other expenses not recognized in the past in the amounts of \$2,556,994 that decreased the net change. (See Note II. B.)

**Table I
HALLSVILLE INDEPENDENT
SCHOOL DISTRICT**

NET ASSETS

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Current and Other Assets	\$20,445,704	\$18,747,183
Capital Assets	<u>34,825,089</u>	<u>30,923,222</u>
Total Assets	<u>55,270,793</u>	<u>49,670,405</u>
Long-term Liabilities	10,384,241	16,280,280
Other Liabilities	<u>4,733,468</u>	<u>2,322,598</u>
Total Liabilities	<u>15,117,709</u>	<u>18,602,878</u>
Net Assets:		
Invested in Capital Assets Net of Related Debt	24,440,848	14,718,221
Restricted	2,626,669	648,045
Unrestricted	<u>13,085,567</u>	<u>15,701,261</u>
Total Net Assets	<u>\$40,153,084</u>	<u>\$31,067,527</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2008**

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

	Governmental Activities	
	<u>2008</u>	<u>2007</u>
Revenues:		
Program Revenues:		
Charges for Services	\$ 1,785,567	\$ 1,344,798
Operating Grants and Contributions	4,172,100	3,966,647
General Revenues:		
Maintenance and Operations Taxes	24,695,361	31,139,428
Debt Service Taxes	8,264,956	2,145,901
State Aid - Formula Grants	12,071,447	7,583,632
Investment Earnings	834,707	900,852
Miscellaneous	<u>352,464</u>	<u>524,925</u>
Total Revenue	<u>52,176,602</u>	<u>47,606,183</u>
Expenses:		
Instruction, Curriculum and Media Services	20,883,762	18,189,120
Instructional and School Leadership	2,882,366	2,664,603
Student Support Services	2,967,461	2,651,457
Child Nutrition	1,671,979	1,442,206
Cocurricular Activities	1,474,768	1,291,085
General Administration	1,305,920	1,544,904
Plant Maintenance, Security and Data Processing	5,283,474	4,110,693
Community Services	65,434	44,375
Debt Services	592,401	1,023,974
Contracted Services	<u>5,963,480</u>	<u>7,873,394</u>
Total Expenses	<u>43,091,045</u>	<u>40,835,811</u>
Increase in Net Assets	<u>9,085,557</u>	<u>6,770,372</u>
Net Assets at Beginning of Year	<u>31,067,527</u>	<u>24,297,155</u>
Net Assets at End of Year	<u>\$40,153,084</u>	<u>\$31,067,527</u>

The District's total revenues increased 10% for the year, while the total cost of all programs and services increased about 6%.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED AUGUST 31, 2008

The increase in the cost of programs and services was mainly due to the increase in salaries, utilities, and additional payroll costs in 2008.

A breakdown in the increase of total revenues is: property tax revenues decreased approximately 1%, state revenues increased 59%, grants and contributions increased 5%, charges for services increased 33%, and various other revenues decreased about 17%. The District's local property tax revenue decreased less than 1% from 2007, (comparing the tax levied from 2007 to 2008), which was due to the fact that the District's property assessed valuation increased by almost 6% for 2008, and due to the state legislature's property tax rate reduction requirement, the District's maintenance property tax rates decreased from \$1.346 to \$1.02 on \$100 valuation. The District's debt service property tax rates increased from \$.094 to \$.339 on \$100 valuation. This was due to the new debt service requirements for bonds issued by the District.

The cost of all governmental activities this year was \$43,091,045. 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 \$32,960,317 because some of the costs were paid by those who directly benefited from the programs (\$1,785,567) or by other governments and organizations that subsidized certain programs with grants and contributions, including state aid (\$16,243,547), and by miscellaneous sources (\$1,187,171).

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 \$13,030,928, which is above last year's total of \$12,797,873. Included in this year's total change in fund balance is a decrease of \$1,745,569 in the District's General Fund. The decrease in the General Fund's fund balance was mainly due to the District's rising expenditure costs for the current year, and also the purchase of land for \$2,595,676. The land purchase was paid out of the General Fund for the future construction of new campuses.

The most significant reason for the increase in the total governmental funds fund balances of \$233,055 was from the Debt Service Fund as explained below.

The increase in Other Funds fund balances of \$157,083 was mainly from the National Breakfast and Lunch Program Fund where the District transferred in \$435,000 from the General Fund for a net increase in fund balance of \$157,083. This year the Debt Service Fund's fund balance increased \$1,821,541 mostly due to the increase in debt service property tax revenue received for the future payments of debt service.

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 \$8,060,394 in the General Fund as noted in Exhibit C-5. The significant budgeted expenditures that increased were: instruction by \$999,424, extracurricular by \$221,001, instructional resources and media services by \$147,904, data processing services by \$146,478, and general administration by \$275,380, (for additional expenditures incurred during the year); facilities maintenance and operations by \$1,626,742, (for the rising cost of utilities and capital expenditures); facilities acquisition and construction by \$3,300,000, (purchase of land and additional construction expenditures that occurred); and contracted instructional services between schools by \$900,000 (increase in contracted expenditures). The District also amended the budget for \$425,000 for a transfer to the National Breakfast and Lunch Program to cover additional food services expenditures.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2008

The budgeted expenditures increased in the National Breakfast and Lunch Program by \$308,355, 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 \$425,000 for a transfer from the General Fund.

Also, the budgeted expenditures increased in the Debt Service Fund by \$1,329,432, as noted in Exhibit F-5. This was due to actual principal payments in debt were more than originally budgeted.

The District amended the General Fund's revenues to include an increase in local revenues of \$6,434,333 and an increase in state revenues in the amount of \$1,026,447.

The District's General Fund balance of \$10,404,259 reported on pages 14 and 16 differs from the General Fund's budgetary fund balance of \$11,546,026 reported in the budgetary comparison schedule on page 18. This is mainly due to the District over budgeting state program revenues. The District received less state revenue than was anticipated.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2008, the District had \$55,084,403 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 \$5,469,496, or 11%, above last year.

This year's major additions included:

Land, baseball improvements, school buses, vehicles, paving parking lots, track renovations, and various other computer and technology equipment and improvements.	<u>\$5,469,496</u>
--	--------------------

Long-Term Debt

At year-end, the District had \$10,384,241 in bonds outstanding (including premium and deferred refunding) versus \$16,280,280 last year - a decrease of 36%. 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 2009 budget preparation was up over \$18 million, or .75% from 2008.
- General operating fund spending per student increases in the 2009 budget by \$543, or 7%.
- The District is classified as a Chapter 41 district for the seventh year in a row. The recapture payment is expected to be approximately the same as it was in 2008, which was \$4.5 million.

These indicators were taken into account when adopting the General Fund budget for 2009. 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED AUGUST 31, 2008

Amounts available for appropriation in the General Fund budget are \$37,885,327, a decrease of \$4,130,142 over the final 2008 budget of \$42,015,469.

Expenditures are budgeted to decrease by nearly \$4 million or 10%. The decrease is mainly due to the decrease in facilities acquisition and construction. In 2008 the District purchased land for \$2,595,676, as previously mentioned. 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 2009 budget.

If these estimates are realized, the District's budgetary General Fund balance is expected to remain at \$10,404,259 at the close of 2009.

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, 2008

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 12,065,096
1120 Current Investments	2,771,885
1220 Property Taxes Receivable (Delinquent)	3,244,965
1230 Allowance for Uncollectible Taxes	(648,993)
1240 Due from Other Governments	2,749,118
1250 Accrued Interest	18,996
1290 Other Receivables, net	21,055
1300 Inventories	120,450
1420 Capitalized Bond and Other Debt Issuance Costs	103,132
Capital Assets:	
1510 Land	3,141,520
1520 Buildings, Net	29,279,720
1530 Furniture and Equipment, Net	2,095,428
1580 Construction in Progress	308,421
1000 Total Assets	55,270,793
LIABILITIES	
2110 Accounts Payable	334,123
2140 Interest Payable	17,796
2160 Accrued Wages Payable	901,141
2180 Due to Other Governments	2,870,836
2300 Deferred Revenues	609,572
Noncurrent Liabilities	
2501 Due Within One Year	1,070,000
2502 Due in More Than One Year	9,314,241
2000 Total Liabilities	15,117,709
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	24,440,848
3820 Restricted for Federal and State Programs	316,275
3850 Restricted for Debt Service	2,310,394
3900 Unrestricted Net Assets	13,085,567
3000 Total Net Assets	\$ 40,153,084

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, 2008

EXHIBIT B-1

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

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 19,760,277	\$ 278,342	\$ 2,358,105	\$ (17,123,830)
12 Instructional Resources and Media Services	563,518	-	18,680	(544,838)
13 Curriculum and Instructional Staff Development	559,967	-	261,919	(298,048)
21 Instructional Leadership	1,072,868	43,526	55,904	(973,438)
23 School Leadership	1,809,498	-	110,683	(1,698,815)
31 Guidance, Counseling and Evaluation Services	858,508	146,404	30,520	(681,584)
32 Social Work Services	70,186	-	3,815	(66,371)
33 Health Services	259,650	-	14,865	(244,785)
34 Student (Pupil) Transportation	1,779,117	-	57,356	(1,721,761)
35 Food Services	1,671,979	739,845	669,115	(263,019)
36 Extracurricular Activities	1,474,768	120,810	8,156	(1,345,802)
41 General Administration	1,305,920	-	34,992	(1,270,928)
51 Plant Maintenance and Operations	4,917,815	-	119,316	(4,798,499)
52 Security and Monitoring Services	113,140	-	3,552	(109,588)
53 Data Processing Services	252,519	-	7,630	(244,889)
61 Community Services	65,434	-	1,842	(63,592)
72 Debt Service - Interest on Long Term Debt	554,977	-	-	(554,977)
73 Debt Service - Bond Issuance Cost and Fees	37,424	-	-	(37,424)
91 Contracted Instructional Services Between Schools	4,566,770	-	-	(4,566,770)
93 Payments to Fiscal Agent/Member Districts of SSA	872,290	456,640	415,650	-
99 Other Intergovernmental Charges	524,420	-	-	(524,420)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 43,091,045	\$ 1,785,567	\$ 4,172,100	(37,133,378)

Data	General Revenues:		
Control	Taxes:		
Codes	Property Taxes, Levied for General Purposes		
MT	24,695,361		
DT	8,264,956		
SF	12,071,447		
IE	834,707		
MI	352,464		
TR	46,218,935		
CN	Change in Net Assets		
NB	Net Assets--Beginning		
NE	Net Assets--Ending		
	\$ 40,153,084		

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2008

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 8,812,738	\$ 2,385,151	\$ 867,207	\$ 12,065,096
1120 Investments - Current	2,771,885	-	-	2,771,885
1220 Property Taxes - Delinquent	2,911,492	333,473	-	3,244,965
1230 Allowance for Uncollectible Taxes (Credit)	(582,298)	(66,695)	-	(648,993)
1240 Due from Other Governments	2,581,407	-	167,711	2,749,118
1250 Accrued Interest	18,996	-	-	18,996
1260 Due from Other Funds	74,757	-	1,759	76,516
1290 Other Receivables	21,055	-	-	21,055
1300 Inventories	120,450	-	-	120,450
1000 Total Assets	<u>\$ 16,730,482</u>	<u>\$ 2,651,929</u>	<u>\$ 1,036,677</u>	<u>\$ 20,419,088</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ 305,823	\$ -	\$ 28,300	\$ 334,123
2160 Accrued Wages Payable	825,751	-	75,390	901,141
2170 Due to Other Funds	1,759	74,757	-	76,516
2180 Due to Other Governments	2,863,696	-	7,140	2,870,836
2300 Deferred Revenues	2,329,194	266,778	609,572	3,205,544
2000 Total Liabilities	<u>\$ 6,326,223</u>	<u>\$ 341,535</u>	<u>\$ 720,402</u>	<u>\$ 7,388,160</u>
Fund Balances:				
Reserved For:				
3410 Investments in Inventory	\$ 120,450	\$ -	\$ -	\$ 120,450
3420 Retirement of Long Term Debt	-	2,310,394	-	2,310,394
3450 Food Service	-	-	316,275	316,275
Unreserved and Undesignated:				
3600 Reported in the General Fund	10,283,809	-	-	10,283,809
3000 Total Fund Balances	<u>\$ 10,404,259</u>	<u>\$ 2,310,394</u>	<u>\$ 316,275</u>	<u>\$ 13,030,928</u>
4000 Total Liabilities and Fund Balances	<u>\$ 16,730,482</u>	<u>\$ 2,651,929</u>	<u>\$ 1,036,677</u>	<u>\$ 20,419,088</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, 2008

Total Fund Balances - Governmental Funds	\$	13,030,928
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 \$49,614,907 and the accumulated depreciation was \$18,691,685. 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.		14,718,222
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 2008 capital outlays and debt principal payments is to increase (decrease) net assets.		11,409,496
3 The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(1,567,629)
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, 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.		2,562,067
19 Net Assets of Governmental Activities	\$	40,153,084

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, 2008

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 26,941,305	\$ 8,280,886	\$ 1,627,172	\$ 36,849,363
5800 State Program Revenues	13,386,946	-	477,718	13,864,664
5900 Federal Program Revenues	-	-	2,378,883	2,378,883
5020 Total Revenues	<u>40,328,251</u>	<u>8,280,886</u>	<u>4,483,773</u>	<u>53,092,910</u>
EXPENDITURES:				
Current:				
0011 Instruction	17,319,279	-	1,961,465	19,280,744
0012 Instructional Resources and Media Services	590,387	-	-	590,387
0013 Curriculum and Instructional Staff Development	299,757	-	260,210	559,967
0021 Instructional Leadership	989,509	-	107,909	1,097,418
0023 School Leadership	1,816,496	-	12,810	1,829,306
0031 Guidance, Counseling and Evaluation Services	542,678	-	315,830	858,508
0032 Social Work Services	70,186	-	-	70,186
0033 Health Services	259,650	-	-	259,650
0034 Student (Pupil) Transportation	1,970,560	-	-	1,970,560
0035 Food Services	-	-	1,686,877	1,686,877
0036 Extracurricular Activities	1,214,616	-	-	1,214,616
0041 General Administration	1,238,560	-	-	1,238,560
0051 Facilities Maintenance and Operations	5,235,137	-	939	5,236,076
0052 Security and Monitoring Services	113,140	-	-	113,140
0053 Data Processing Services	380,806	-	-	380,806
0061 Community Services	65,434	-	-	65,434
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	5,940,000	-	5,940,000
0072 Debt Service - Interest on Long Term Debt	-	518,670	-	518,670
0073 Debt Service - Bond Issuance Cost and Fees	-	675	-	675
Capital Outlay:				
0081 Facilities Acquisition and Construction	3,806,895	-	177,900	3,984,795
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	4,566,770	-	-	4,566,770
0093 Payments to Fiscal Agent/Member Districts of SSA	456,640	-	415,650	872,290
0099 Other Intergovernmental Charges	524,420	-	-	524,420
6030 Total Expenditures	<u>41,460,920</u>	<u>6,459,345</u>	<u>4,939,590</u>	<u>52,859,855</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,132,669)</u>	<u>1,821,541</u>	<u>(455,817)</u>	<u>233,055</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	612,900	612,900
8911 Transfers Out (Use)	(612,900)	-	-	(612,900)
7080 Total Other Financing Sources (Uses)	<u>(612,900)</u>	<u>-</u>	<u>612,900</u>	<u>-</u>
1200 Net Change in Fund Balances	(1,745,569)	1,821,541	157,083	233,055
0100 Fund Balance - September 1 (Beginning)	<u>12,149,828</u>	<u>488,853</u>	<u>159,192</u>	<u>12,797,873</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 10,404,259</u>	<u>\$ 2,310,394</u>	<u>\$ 316,275</u>	<u>\$ 13,030,928</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, 2008

Total Net Change in Fund Balances - Governmental Funds	\$	233,055
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase (decrease) net assets.		11,409,496
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.		(1,567,629)
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, 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.		(989,365)
 Change in Net Assets of Governmental Activities	 \$	 <u>9,085,557</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, 2008

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	\$ 20,215,667	\$ 26,650,000	\$ 26,941,305	\$ 291,305
5800 State Program Revenues	14,160,220	15,186,667	13,386,946	(1,799,721)
5020 Total Revenues	34,375,887	41,836,667	40,328,251	(1,508,416)
EXPENDITURES:				
Current:				
0011 Instruction	16,510,576	17,510,000	17,319,279	190,721
0012 Instructional Resources and Media Services	457,096	605,000	590,387	14,613
0013 Curriculum and Instructional Staff Development	348,264	300,377	299,757	620
0021 Instructional Leadership	918,153	1,010,622	989,509	21,113
0023 School Leadership	1,707,958	1,830,000	1,816,496	13,504
0031 Guidance, Counseling and Evaluation Services	566,146	552,478	542,678	9,800
0032 Social Work Services	71,036	91,323	70,186	21,137
0033 Health Services	268,283	314,000	259,650	54,350
0034 Student (Pupil) Transportation	1,944,028	1,980,000	1,970,560	9,440
0036 Extracurricular Activities	1,053,999	1,275,000	1,214,616	60,384
0041 General Administration	986,083	1,261,463	1,238,560	22,903
0051 Facilities Maintenance and Operations	3,673,258	5,300,000	5,235,137	64,863
0052 Security and Monitoring Services	98,926	106,286	113,140	(6,854)
0053 Data Processing Services	250,522	397,000	380,806	16,194
0061 Community Services	51,327	72,500	65,434	7,066
Capital Outlay:				
0081 Facilities Acquisition and Construction	525,000	3,825,000	3,806,895	18,105
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	3,700,000	4,600,000	4,566,770	33,230
0093 Payments to Fiscal Agent/Member Districts of SSA	300,000	460,000	456,640	3,360
0099 Other Intergovernmental Charges	524,420	524,420	524,420	-
6030 Total Expenditures	33,955,075	42,015,469	41,460,920	554,549
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	420,812	(178,802)	(1,132,669)	(953,867)
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	(425,000)	(612,900)	(187,900)
7080 Total Other Financing Sources (Uses)	-	(425,000)	(612,900)	(187,900)
1200 Net Change in Fund Balances	420,812	(603,802)	(1,745,569)	(1,141,767)
0100 Fund Balance - September 1 (Beginning)	12,149,828	12,149,828	12,149,828	-
3000 Fund Balance - August 31 (Ending)	\$ 12,570,640	\$ 11,546,026	\$ 10,404,259	\$ (1,141,767)

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, 2008

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 247,651
Total Assets	<u>247,651</u>
LIABILITIES	
Due to Student Groups	\$ 247,651
Total Liabilities	<u>247,651</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, 2008

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, 2008

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, 2008

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 funds:

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

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. **Capital Project Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects 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, 2008

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.

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.

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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	42,453,975	(13,608,828)	28,845,147	
Furniture and Equipment	6,305,944	(5,082,857)	1,223,087	
Construction in Progress	<u>309,144</u>	<u>-</u>	<u>309,144</u>	
Change in Net Assets				<u>\$30,923,222</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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	\$16,205,000
Change in Net Assets	\$(16,205,000)
Net Adjustment to Net Assets	<u>\$ 14,718,222</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>
Land	\$2,595,676		
Buildings and Improvements	1,080,698		
Furniture and Equipment	1,484,701		
Construction in Progress	<u>308,421</u>		
Total Capital Outlay	<u>\$5,469,496</u>	<u>\$ 5,469,496</u>	<u>\$ 5,469,496</u>
 <u>Debt Principal Payments</u>			
Bond Principal	<u>\$5,940,000</u>		
Total Principal Payments	<u>\$5,940,000</u>	<u>\$ 5,940,000</u>	<u>\$ 5,940,000</u>
Total Adjustment to Net Assets		<u>\$11,409,496</u>	<u>\$11,409,496</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, 2008**

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	\$1,253,155	\$(1,253,155)	\$ -
Uncollected Taxes (assumed collectible)			
from Current Year Levy	509,498	509,498	509,498
Uncollected Taxes (assumed collectible)			
from Prior Year Levy	2,086,474	-	2,086,474
Prior Year Tax Collection Adjustment	172,652	(172,652)	-
<u>Adjustments to Assets and Liabilities Associated with Long-Term Debt</u>			
Current Year Change in Interest Accrual	7,654	7,654	-
Current Year Change in Bond Issuance Costs	36,749	(36,749)	-
Current Year Change in Premium on Bonds	13,248	13,248	-
Current Year Change in Deferred Refunding	57,209	(57,209)	-
<u>Recognizing Assets and Liabilities Associated with Long-Term Debt</u>			
Interest Accrual on Long-Term Debt	17,796	-	(17,796)
Bond Issuance Costs	103,132	-	103,132
Premium on Bonds	119,241	-	(119,241)
Total	<u>\$4,376,808</u>	<u>\$(989,365)</u>	<u>\$2,562,067</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, 2008**

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. The significant budget amendments passed in the General Fund during the 2007-08 school year are as follows:

Expenditures:		<u>Increase</u>
0011	Instruction	\$ 999,424
0012	Instructional Resources and Media Services	147,904
0036	Extracurricular	221,001
0041	General Administration	275,380
0051	Facilities Maintenance and Operations	1,626,742
0053	Data Processing Services	146,478
0081	Facilities Acquisition and Construction	3,300,000
0091	Contracted Instructional Services	<u>900,000</u>
	Total	<u>\$7,616,929</u>

The District also amended the General Fund budget for \$425,000 for a transfer to the National Breakfast and Lunch Program to cover additional food services expenditures. In the National Breakfast and Lunch Program, there was a significant budget amendment to Function 35-Food Services for \$308,355. And in the Debt Service Fund, there was a significant budget amendment to Function 71-Principal on Long Term Debt for \$1,329,432.

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, 2008
Fund Balance

Appropriated Budget Funds – National Breakfast and Lunch Program	<u>\$316,275</u>
All Special Revenue Funds	<u>\$316,275</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 \$6,854. Also, the District did not budget for a transfer out of \$177,900 to the Capital Project Fund. In the future, the District will strive to amend the budget throughout the year as considered necessary to adhere to the budget that is legally adopted.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

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 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 must have a bond or in lieu thereof place 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/bonds 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, 2008, the carrying amount of the District's deposits (cash, petty cash, and interest-bearing checking accounts) was \$637,770 and the bank balances were \$1,370,090. The District's cash deposits at August 31, 2008, and during the year were entirely covered by FDIC insurance or insured by an excess insurance bond in the District's name.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED AUGUST 31, 2008

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

At August 31, 2008, the District had \$100,520 of deposits, which were fully insured by the FDIC. The deposit balances at the bank of \$1,269,570 were insured by an excess insurance bond issued by BancInsure, Inc. 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.

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, 2008**

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

As of August 31, 2008, 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) Market Value</u>	<u>Less Than 1</u>	<u>1-5</u>
U.S. Government Treasury and Agency Securities:					
Cash Alternatives:					
UBS Financial (De) LLC	AAAm (S&P)	<u>19.19%</u>	<u>\$ 2,771,885</u>	<u>\$ 2,771,885</u>	<u>\$ _____</u>
TOTAL		<u>19.19%</u>	<u>2,771,885</u>	<u>2,771,885</u>	<u>_____</u>
State Investment Pools:					
TexPool (2a7-Like Pool)	AAAm (S&P)	.09%	13,556	13,556	-
TexSTAR (2a7-Like Pool)	AAAm (S&P)	1.71%	247,043	247,043	-
Lone Star Investment Pool - Liquidity Corporate Fund (2a7-Like Pool)	AAAf (S&P)	67.51%	9,753,293	9,753,293	-
Lone Star Investment Pool - Liquidity Plus (2a7-Like Pool)	AAAf (S&P)	<u>11.50%</u>	<u>1,661,085</u>	<u>1,661,085</u>	<u>_____</u>
TOTAL		<u>80.81%</u>	<u>11,674,977</u>	<u>11,674,977</u>	<u>_____</u>
GRAND TOTAL		<u>100.00%</u>	<u>\$14,446,862</u>	<u>\$14,446,862</u>	<u>\$ _____</u>

Some investments maintained by the District are invested in pools managed by other governments. During the fiscal year ended for 2008, 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, 2008.

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 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

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, 2008, consisted of the following amounts:

Due to General Fund (Major Governmental Fund #1) From:

Debt Service Fund (Major Governmental Fund #2)	<u>\$ 74,757</u>
Total Due to General Fund From Major Governmental Funds	<u>\$ 74,757</u>

Due to Nonmajor Governmental Fund From:

General Fund (Major Governmental Fund #1)	<u>\$ 1,759</u>
Total Due to Nonmajor Governmental Fund	<u>\$ 1,759</u>

Interfund transfers for the year ended August 31, 2008, consisted of the following individual amounts:

Transfers to Nonmajor Governmental Funds From:

General Fund (Major Governmental Fund #1)	<u>\$612,900</u>
Total Transferred to Nonmajor Governmental Fund	<u>\$612,900</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES:

Receivables at August 31, 2008, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
<u>Governmental Activities:</u>					
General Fund (Major Gov. Fund #1)	\$2,911,492	\$2,581,407	\$74,757	\$40,051	\$5,607,707
Debt Service Fund (Major Gov. Fund #2)	333,473	-	-	-	333,473
Nonmajor Gov. Funds	-	167,711	1,759	-	169,470
Total - Gov. Activities	<u>\$3,244,965</u>	<u>\$2,749,118</u>	<u>\$76,516</u>	<u>\$40,051</u>	<u>\$6,110,650</u>
Amounts Not Scheduled for Collection During the Subsequent Year	<u>\$ 648,993</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 648,993</u>

Payables at August 31, 2008, 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)	\$305,823	\$825,751	\$ 1,759	\$2,863,696	\$3,997,029
Debt Service Fund (Major Gov. Fund #2)	-	-	74,757	-	74,757
Nonmajor Gov. Funds	28,300	75,390	-	7,140	110,830
Total - Gov. Activities	<u>\$334,123</u>	<u>\$901,141</u>	<u>\$76,516</u>	<u>\$2,870,836</u>	<u>\$4,182,616</u>

F. CAPITAL ASSET ACTIVITY:

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

	<u>Beginning Balance</u>	<u>Primary Government</u>		<u>Ending Balance</u>
		<u>Additions</u>	<u>Retirements</u>	
Governmental Activities:				
Land	\$ 545,844	\$2,595,676	\$ -	\$ 3,141,520
Buildings and Improvements	42,453,975	1,389,842	-	43,843,817
Furniture and Equipment	6,305,944	1,484,701	-	7,790,645
Construction in Progress	309,144	308,421	(309,144)	308,421
Totals at Historic Cost	<u>49,614,907</u>	<u>5,778,640</u>	<u>(309,144)</u>	<u>55,084,403</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(13,608,828)	(955,269)	-	(14,564,097)
Furniture and Equipment	(5,082,857)	(612,360)	-	(5,695,217)
Total Accumulated Depreciation	<u>(18,691,685)</u>	<u>(1,567,629)</u>	<u>-</u>	<u>(20,259,314)</u>
Governmental Activities Capital Assets, Net	<u>\$30,923,222</u>	<u>\$4,211,011</u>	<u>\$(309,144)</u>	<u>\$34,825,089</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 783,811
Instructional Resources and Media Services	6,124
Student (Pupil) Transportation	244,944
Food Services	53,765
Cocurricular/Extracurricular Activities	284,377
General Administration	67,360
Plant Maintenance and Operations	108,878
Data Processing Services	<u>18,370</u>
Total Depreciation Expense	<u>\$1,567,629</u>

G. 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 range from 3.00% to 5.00% on the Series 2004 bonds and 3.76% on the Series 2007 bonds.

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.

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, 2008, \$15,325,000 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, 2008.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

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

<u>Date of Issue</u>	<u>09/08/04</u>	<u>08/15/07</u>
<u>Description</u>	Series 2004, Unlimited Tax Refunding Bonds	Series 2007, Unlimited Tax Refunding Bonds
<u>Interest Rate Payable</u>	3.00% - 5.00%	3.760%
<u>Amounts Original Issue</u>	<u>\$11,345,000</u>	<u>\$5,085,000</u>
<u>Amounts Outstanding 9/1/07</u>	\$11,120,000	\$5,085,000
<u>Issued Current Year</u>	-	-
<u>Retired Current Year</u>	(955,000)	(4,985,000)
<u>Refunded Current Year</u>	<u>-</u>	<u>-</u>
<u>Amounts Outstanding 8/31/08</u>	<u>\$10,165,000</u>	<u>\$ 100,000</u>
<u>Interest Current Year</u>	<u>\$ 422,234</u>	<u>\$ 96,436</u>

Debt service requirements are as follows:

<u>Year Ending</u> <u>August 31,</u>	<u>General</u> <u>Obligations</u>		<u>Total</u> <u>Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
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	1,120,000	238,359	1,358,359
2014 - 2017	<u>4,965,000</u>	<u>464,228</u>	<u>5,429,228</u>
	<u>\$10,265,000</u>	<u>\$2,056,622</u>	<u>\$12,321,622</u>

H. COMMITMENTS UNDER OPERATING LEASES:

The District has entered into six non-cancelable operating leases for copy machines. The commitment under the operating (noncapitalized) lease agreements provides for minimum future rental payments as of August 31, 2008, as follows:

<u>Year Ending</u> <u>August 31,</u>	
2009	\$162,602
2010	152,479
2011	152,479
2012	<u>131,419</u>
TOTAL MINIMUM PAYMENTS REQUIRED	<u>\$598,979</u>
RENTAL EXPENDITURES IN FISCAL YEAR 2008	<u>\$244,259</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

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, 2008, as follows:

Year Ending	
<u>August 31,</u>	
2009	\$36,000
2010	<u>36,000</u>
TOTAL MINIMUM PAYMENTS REQUIRED	<u>\$72,000</u>
RENTAL EXPENDITURES IN FISCAL YEAR 2008	<u>\$36,000</u>

I. 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 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, 2008, the District was responsible for the first \$220,923 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, 2008, the amount of unpaid claims including estimated incurred, but not reported claims (IBNR) is approximately \$157,965 which has been recorded as a fund liability of the General Fund for the year ended August 31, 2008.

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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

J. 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. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. 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 2006, 2007, and 2008 a state contribution rate of 6.00%, 6.00%, and 6.58%, respectively, and a member contribution rate of 6.40% for fiscal years 2006, 2007, and 2008. 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 6.00% 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 6.00% of the member's annual compensation and a state contribution rate of not less than 6.00% and not more than 10.00% 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.

State contributions to TRS made on behalf of Hallsville Independent School District's employees for the years ended August 31, 2006, 2007, and 2008 were \$1,044,378, \$1,210,938, and \$1,264,875, respectively. Hallsville Independent School District paid additional state contributions for the years ended August 31, 2006, 2007, and 2008 in the amount of \$81,206, \$109,809, and \$165,503, respectively, on the portion of the employees' salaries that exceeded the statutory minimum. Also, the Medicare Part D payments to TRS made on behalf of Hallsville Independent School District for the years ended August 31, 2006, 2007, and 2008 were \$25,999, \$43,272, and \$50,624, respectively.

K. HEALTH CARE COVERAGE:

During the year ended August 31, 2008, 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

L. CHANGES IN LONG-TERM LIABILITIES:

Long-term activity for the year ended August 31, 2008, 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:					
General Obligation Bonds	\$16,205,000	\$ -	\$(5,940,000)	\$10,265,000	\$1,070,000
Premium	132,489	-	(13,248)	119,241	-
Less: Deferred Refunding Amount	<u>(57,209)</u>	<u>-</u>	<u>57,209</u>	<u>-</u>	<u>-</u>
Total Governmental Activities Long-Term Liabilities	<u>\$16,280,280</u>	<u>\$ -</u>	<u>\$(5,896,039)</u>	<u>\$10,384,241</u>	<u>\$1,070,000</u>

M. 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	\$2,329,194	\$ -	\$266,778	\$2,595,972
Vocational Ed. Technical Prep.	-	585	-	585
Adult Basic Education State	-	2,286	-	2,286
Visually Impaired	-	31	-	31
Advanced Placement Incentives	-	2,538	-	2,538
Technology Allotment	-	31,560	-	31,560
Accelerated Reading Program	-	1,876	-	1,876
Shared Service Arrangements				
Special Education	<u>-</u>	<u>570,696</u>	<u>-</u>	<u>570,696</u>
TOTAL DEFERRED REVENUES	<u>\$2,329,194</u>	<u>\$609,572</u>	<u>\$266,778</u>	<u>\$3,205,544</u>

N. 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, 2008, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$2,581,407	\$ -	\$2,581,407
Special Revenue	<u>44,511</u>	<u>123,200</u>	<u>167,711</u>
TOTAL	<u>\$2,625,918</u>	<u>\$123,200</u>	<u>\$2,749,118</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

O. 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	\$25,655,103	\$ -	\$8,221,523	\$33,876,626
Penalties, Interest and Other Tax-Related Income	352,463	-	-	352,463
Tuition and Fees	3,200	-	-	3,200
Investment Income	775,344	-	59,363	834,707
Food Sales	-	739,845	-	739,845
Athletic Activities	120,810	-	-	120,810
Other	34,385	35,000	-	69,385
Shared Service Arrangements	<u>-</u>	<u>852,327</u>	<u>-</u>	<u>852,327</u>
TOTAL	<u>\$26,941,305</u>	<u>\$1,627,172</u>	<u>\$8,280,886</u>	<u>\$36,849,363</u>

P. LITIGATION:

Hallsville Independent School District was contingently liable to refund prior period property taxes in a lawsuit filed by certain taxpayers in a case styled as -

Cause No. 06-07-00103-CV, The People's Gas Light and Coke Company vs. Harrison Central Appraisal District.

The case concerns the taxability of an enormous reservoir of stored gas at the North Lansing Storage Field near Hallsville in Harrison County, Texas. The Plaintiff in that case, The People's Gas Light and Coke Company, contends that the gas is not taxable for a variety of reasons, including interstate commerce and intangibility.

The case is being defended by attorneys for Harrison Central Appraisal District and they have reported that the case is now on appeal to the Texas Court of Appeals. It is their opinion that whatever the outcome, the ultimate decision will be appealed to the Texas Supreme Court. The attorneys have reported they are optimistic about a resolution sometime in 2011. The taxes paid, which might have to be refunded, are approximately \$14.7 million plus interest as of August 31, 2008. The District estimates that it should be able to recover part of the taxes refunded from the Texas Education Agency through the State of Texas.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008**

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

Q. 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	\$449,798
Harleton ISD	98,699
Karnack ISD	32,218
Waskom ISD	126,289
Elysian Fields ISD	<u>145,323</u>
TOTAL	<u>\$852,327</u>

R. 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, 2008. Funds for these contracts will be provided by the proceeds of bond funds and local funds. (See Note IV. S – Subsequent Event)

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.

S. SUBSEQUENT EVENT:

On September 5, 2008, the District issued \$10,000,000 of Unlimited Tax School Building Bonds, Series 2008 with interest rates of 1.550% to 3.013%. The proceeds of the bonds will be used for construction of the new high school, new north elementary, and east elementary (intermediate renovation) and will be paid back over the next 2 years from property tax levied revenue.

COMBINING SCHEDULES

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2008

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	243 Vocational Ed Technical Preparation
ASSETS				
1110 Cash and Cash Equivalents	\$ (286)	\$ (15,379)	\$ 353,099	\$ 585
1240 Due from Other Governments	587	28,479	15,044	-
1260 Due from Other Funds	-	-	-	-
1000 Total Assets	<u>\$ 301</u>	<u>\$ 13,100</u>	<u>\$ 368,143</u>	<u>\$ 585</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ 16,572	\$ -
2160 Accrued Wages Payable	301	13,100	28,156	-
2180 Due to Other Governments	-	-	7,140	-
2300 Deferred Revenues	-	-	-	585
2000 Total Liabilities	<u>301</u>	<u>13,100</u>	<u>51,868</u>	<u>585</u>
Fund Balances:				
Reserved For:				
3450 Food Service	-	-	316,275	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>316,275</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 301</u>	<u>\$ 13,100</u>	<u>\$ 368,143</u>	<u>\$ 585</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	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	381 Adult Basic Education State	385 Visually Impaired
\$ -	\$ (6,317)	\$ -	\$ -	\$ (48,336)	\$ (4,157)	\$ 527	\$ 31
-	8,419	-	-	64,985	5,686	-	-
-	-	-	-	-	-	1,759	-
<u>\$ -</u>	<u>\$ 2,102</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,649</u>	<u>\$ 1,529</u>	<u>\$ 2,286</u>	<u>\$ 31</u>
\$ -	\$ -	\$ -	\$ -	\$ 5,217	\$ -	\$ -	\$ -
-	2,102	-	-	11,432	1,529	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,286	31
<u>-</u>	<u>2,102</u>	<u>-</u>	<u>-</u>	<u>16,649</u>	<u>1,529</u>	<u>2,286</u>	<u>31</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 2,102</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,649</u>	<u>\$ 1,529</u>	<u>\$ 2,286</u>	<u>\$ 31</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2008

Data Control Codes	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	428 High School Allotment Fund
ASSETS				
1110 Cash and Cash Equivalents	\$ 2,538	\$ (44,511)	\$ 31,560	\$ -
1240 Due from Other Governments	-	44,511	-	-
1260 Due from Other Funds	-	-	-	-
1000 Total Assets	<u>\$ 2,538</u>	<u>\$ -</u>	<u>\$ 31,560</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	-	-	-	-
2180 Due to Other Governments	-	-	-	-
2300 Deferred Revenues	2,538	-	31,560	-
2000 Total Liabilities	<u>2,538</u>	<u>-</u>	<u>31,560</u>	<u>-</u>
Fund Balances:				
Reserved For:				
3450 Food Service	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 2,538</u>	<u>\$ -</u>	<u>\$ 31,560</u>	<u>\$ -</u>

429 Accelerated Reading Program	434 SSA Visually Impaired	437 SSA Special Education	499 Technology Consortium Grant	Total Nonmajor Special Revenue Funds	699 Capital Project Fund	Total Nonmajor Governmental Funds
\$ 5,084	\$ -	\$ 592,769	\$ -	\$ 867,207	\$ -	\$ 867,207
-	-	-	-	167,711	-	167,711
-	-	-	-	1,759	-	1,759
<u>\$ 5,084</u>	<u>\$ -</u>	<u>\$ 592,769</u>	<u>\$ -</u>	<u>\$ 1,036,677</u>	<u>\$ -</u>	<u>\$ 1,036,677</u>
\$ 3,208	\$ -	\$ 3,303	\$ -	\$ 28,300	\$ -	\$ 28,300
-	-	18,770	-	75,390	-	75,390
-	-	-	-	7,140	-	7,140
1,876	-	570,696	-	609,572	-	609,572
<u>5,084</u>	<u>-</u>	<u>592,769</u>	<u>-</u>	<u>720,402</u>	<u>-</u>	<u>720,402</u>
-	-	-	-	316,275	-	316,275
-	-	-	-	316,275	-	316,275
<u>\$ 5,084</u>	<u>\$ -</u>	<u>\$ 592,769</u>	<u>\$ -</u>	<u>\$ 1,036,677</u>	<u>\$ -</u>	<u>\$ 1,036,677</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	243 Vocational Ed Technical Preparation
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 739,845	\$ -
5800 State Program Revenues	-	-	8,827	-
5900 Federal Program Revenues	9,473	428,446	660,288	715
5020 Total Revenues	<u>9,473</u>	<u>428,446</u>	<u>1,408,960</u>	<u>715</u>
EXPENDITURES:				
Current:				
0011 Instruction	-	322,506	-	-
0013 Curriculum and Instructional Staff Development	-	105,940	-	-
0021 Instructional Leadership	9,473	-	-	715
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0035 Food Services	-	-	1,686,877	-
0051 Facilities Maintenance and Operations	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	-	-	-	-
6030 Total Expenditures	<u>9,473</u>	<u>428,446</u>	<u>1,686,877</u>	<u>715</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(277,917)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	435,000	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>435,000</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	157,083	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>159,192</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,275</u>	<u>\$ -</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	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	381 Adult Basic Education State	385 Visually Impaired
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	1,759	-
33,468	115,839	1,034	6,728	1,092,573	30,319	-	-
<u>33,468</u>	<u>115,839</u>	<u>1,034</u>	<u>6,728</u>	<u>1,092,573</u>	<u>30,319</u>	<u>1,759</u>	<u>-</u>
33,468	7,807	-	-	676,923	30,319	1,759	-
-	95,222	1,034	6,728	-	-	-	-
-	-	-	-	-	-	-	-
-	12,810	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	415,650	-	-	-
<u>33,468</u>	<u>115,839</u>	<u>1,034</u>	<u>6,728</u>	<u>1,092,573</u>	<u>30,319</u>	<u>1,759</u>	<u>-</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, 2008

Data Control Codes	397 Advanced Placement Incentives	404 Student Success Initiative	411 Technology Allotment	428 High School Allotment Fund
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	1,876	44,511	105,000	307,970
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>1,876</u>	<u>44,511</u>	<u>105,000</u>	<u>307,970</u>
EXPENDITURES:				
Current:				
0011 Instruction	1,876	44,511	105,000	254,379
0013 Curriculum and Instructional Staff Development	-	-	-	51,286
0021 Instructional Leadership	-	-	-	2,305
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0035 Food Services	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	-	-	-	-
6030 Total Expenditures	<u>1,876</u>	<u>44,511</u>	<u>105,000</u>	<u>307,970</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
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>

429 Accelerated Reading Program	434 SSA Visually Impaired	437 SSA Special Education	499 Technology Consortium Grant	Total Nonmajor Special Revenue Funds	699 Capital Project Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 852,327	\$ 35,000	\$ 1,627,172	\$ -	\$ 1,627,172
-	7,775	-	-	477,718	-	477,718
-	-	-	-	2,378,883	-	2,378,883
-	7,775	852,327	35,000	4,483,773	-	4,483,773
-	7,775	440,142	35,000	1,961,465	-	1,961,465
-	-	-	-	260,210	-	260,210
-	-	95,416	-	107,909	-	107,909
-	-	-	-	12,810	-	12,810
-	-	315,830	-	315,830	-	315,830
-	-	-	-	1,686,877	-	1,686,877
-	-	939	-	939	-	939
-	-	-	-	-	177,900	177,900
-	-	-	-	415,650	-	415,650
-	7,775	852,327	35,000	4,761,690	177,900	4,939,590
-	-	-	-	(277,917)	(177,900)	(455,817)
-	-	-	-	435,000	177,900	612,900
-	-	-	-	435,000	177,900	612,900
-	-	-	-	157,083	-	157,083
-	-	-	-	159,192	-	159,192
\$ -	\$ -	\$ -	\$ -	\$ 316,275	\$ -	\$ 316,275

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2008

	BALANCE SEPTEMBER 1 2007	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2008
STUDENT ACTIVITY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 271,224	\$ 1,004,062	\$ 1,027,635	\$ 247,651
Liabilities:				
Due to Student Groups	\$ 271,224	\$ 1,004,062	\$ 1,027,635	\$ 247,651
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 271,224	\$ 1,004,062	\$ 1,027,635	\$ 247,651
Liabilities:				
Due to Student Groups	\$ 271,224	\$ 1,004,062	\$ 1,027,635	\$ 247,651

REQUIRED TEA SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1999 and prior years	Various	Various	\$ Various
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	1.346000	0.094000	2,311,097,511
2008 (School year under audit)	1.020000	0.339000	2,447,413,116
1000 TOTALS			

(10) Beginning Balance 9/1/2007	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2008
\$ 212,881	\$ -	\$ 10,078	\$ 1,207	\$ (28,023)	\$ 173,573
53,433	-	1,435	174	(3,542)	48,282
52,267	-	1,893	230	(2,313)	47,831
69,666	-	2,684	276	(2,215)	64,491
81,887	-	10,849	1,117	(2,270)	67,651
152,315	-	14,195	1,467	1,936	138,589
1,149,906	-	22,952	2,164	3,177	1,127,967
585,796	-	(46,716)	(3,436)	(101,545)	534,403
2,032,200	-	1,152,125	80,461	(394,309)	405,305
-	33,260,344	24,485,608	8,137,863	-	636,873
<u>\$ 4,390,351</u>	<u>\$ 33,260,344</u>	<u>\$ 25,655,103</u>	<u>\$ 8,221,523</u>	<u>\$ (529,104)</u>	<u>\$ 3,244,965</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2009-2010
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2008

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 154,416	\$ 665,935	\$ 2,361	\$ -	\$ 822,712
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	15,011	-	-	-	15,011
6212	Audit Services	-	-	-	20,000	-	-	20,000
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	586,945	-	-	-	-	586,945
621X	Other Professional Services	-	-	850	20,760	-	-	21,610
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	58,619	-	-	58,619
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	106	1,665	-	-	1,771
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	2,612	64,647	-	-	67,259
6410	Travel, Subsistence, Stipends	3,711	-	11,663	11,181	-	-	26,555
6420	Ins. and Bonding Costs	-	-	-	14,510	-	-	14,510
6430	Election Costs	7,296	-	-	-	-	-	7,296
6490	Miscellaneous Operating	3,958	-	11,622	90,789	-	-	106,369
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	160,981	160,981
6000	TOTAL	\$ 14,965	\$ 586,945	\$ 196,280	\$ 948,106	\$ 2,361	\$ 160,981	\$ 1,909,638

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 46,222,610

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 6,740,330
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	4,613,032
Food (Function 35, 6341 and 6499)	(13)	523,599
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		948,106

SubTotal:

12,825,067

Net Allowed Direct Cost

\$ 33,397,543

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 43,843,817
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)	\$ 7,790,645
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 Function 53 expenditures are included in this report on administrative costs.
 \$524,420 in Function 99 expenditures for appraisal district costs 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, 2008

UNAUDITED

1	Total General Fund Balance as of 8/31/08 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 10,404,259
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 120,450	
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.)	6,692,970	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/08-5/31/09).	3,346,485	
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>10,159,905</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ 244,354</u>

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

The District's Administration 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, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget
	Original	Final	See Note III A	Positive or (Negative)
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 871,136	\$ 680,000	\$ 739,845	\$ 59,845
5800 State Program Revenues	-	-	8,827	8,827
5900 Federal Program Revenues	499,864	585,000	660,288	75,288
5020 Total Revenues	1,371,000	1,265,000	1,408,960	143,960
EXPENDITURES:				
0035 Food Services	1,381,645	1,690,000	1,686,877	3,123
6030 Total Expenditures	1,381,645	1,690,000	1,686,877	3,123
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(10,645)	(425,000)	(277,917)	147,083
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	425,000	435,000	10,000
7080 Total Other Financing Sources (Uses)	-	425,000	435,000	10,000
1200 Net Change in Fund Balances	(10,645)	-	157,083	157,083
0100 Fund Balance - September 1 (Beginning)	159,192	159,192	159,192	-
3000 Fund Balance - August 31 (Ending)	\$ 148,547	\$ 159,192	\$ 316,275	\$ 157,083

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, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS) See Note III A	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 5,670,568	\$ 8,000,000	\$ 8,280,886	\$ 280,886
5020	Total Revenues	5,670,568	8,000,000	8,280,886	280,886
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	4,670,568	6,000,000	5,940,000	60,000
0072	Debt Service - Interest on Long Term Debt	999,325	999,325	518,670	480,655
0073	Debt Service - Bond Issuance Cost and Fees	675	675	675	-
6030	Total Expenditures	5,670,568	7,000,000	6,459,345	540,655
1200	Net Change in Fund Balances	-	1,000,000	1,821,541	821,541
0100	Fund Balance - September 1 (Beginning)	488,853	488,853	488,853	-
3000	Fund Balance - August 31 (Ending)	\$ 488,853	\$ 1,488,853	\$ 2,310,394	\$ 821,541

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) 938-0334

**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, 2008, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 1, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 1, 2008.

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 SIGNATURE ON FILE WITH TEA

Certified Public Accountants

December 1, 2008

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

204 S. WELLINGTON STREET
POST OFFICE BOX 1315
MARSHALL, TEXAS 75670
(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, 2008. 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, 2008.

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 SIGNATURE ON FILE WITH TEA

Certified Public Accountants

December 1, 2008

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2008

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) No significant deficiencies relating to the audit of financial statements are 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 financial statements of Hallsville Independent School District were disclosed during the audit.
- d) There were no significant deficiencies disclosed 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 2008 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, 2008

N/A

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2008**

N/A

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	08610101102904	\$ 356,389
ESEA, Title I, Part A - Improving Basic Programs	84.010A	09610101102904	28,479
ESEA Title I, Part D, Subpart 2-Delinquent Program	84.010A	08610103102904	43,578
Total CFDA Number 84.010A			428,446
SSA - IDEA - Part B, Formula	84.027	086600011029046600	1,027,587
SSA - IDEA - Part B, Formula	84.027	096600011029046600	64,986
Total CFDA Number 84.027			1,092,573
Career and Technical - Basic Grant	84.048	08420006102904	33,468
SSA - IDEA - Part B, Preschool	84.173	086610011029046610	24,633
SSA - IDEA - Part B, Preschool	84.173	096610011029046610	5,686
Total CFDA Number 84.173			30,319
ESEA Title IV - Safe and Drug-Free Schools	84.186A	08691001102904	8,886
ESEA Title IV - Safe and Drug-Free Schools	84.186A	09691001102904	587
Total CFDA Number 84.186A			9,473
Career and Technical - Technical Preparation	84.243A	08-102904	715
Title V, Part A - Innovative Programs	84.298	08685001102904	6,728
Title II, Part D -Enhancing Ed. Through Technology	84.318	08630001102904	1,034
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	08694501102904	107,420
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	09694501102904	8,419
Total CFDA Number 84.367A			115,839
Total Passed Through State Department of Education			\$ 1,718,595
TOTAL DEPARTMENT OF EDUCATION			\$ 1,718,595
 U.S. DEPARTMENT OF AGRICULTURE			
<u>Direct Programs</u>			
Food Distribution	10.550	08-102904	\$ 57,043
Total Direct Programs			\$ 57,043
<u>Passed Through the State Department of Education</u>			
National School Breakfast & Lunch Program*	10.555	08-102904	\$ 603,245
Total Passed Through the State Department of Education			\$ 603,245
TOTAL DEPARTMENT OF AGRICULTURE			\$ 660,288
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 \$ 2,378,883

*Clustered Programs as required by Compliance Supplement March, 2008

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

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

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types 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.