

**HALLSVILLE
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2014

Introductory Section

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Hallsville Independent School District
Annual Financial Report
For The Year Ended August 31, 2014

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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) _____approved _____disapproved for the year ended August 31, 2014, at a meeting of the board of trustees of such school district on the _____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

If the board of trustees disapproved of the auditors' report, the reason(s) for disapproving it is (are):
(attach list as necessary)

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Financial Section

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KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

P.O. Box 3167
Longview, Texas 75606

Karen A. Jacks, CPA
Peggy J. Lantz, CPA
Sherry Davis, CPA

1501 Colony Circle
Longview, Texas 75604

Phone: 903•238•8822

Fax: 903•238•9838

Independent Auditors' Report

To the Board of Trustees
Hallsville Independent School District
PO Box 810
Hallsville, Texas 75650

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, and the respective changes in financial position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hallsville Independent School District's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The 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 also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2015 on our consideration of Hallsville Independent School District's internal control over financial reporting and on 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 internal

control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hallsville Independent School District's internal control over financial reporting and compliance.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
January 9, 2015

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HALLSVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Hallsville Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2014. Please read it in conjunction with the independent auditors' report on page 9, and the District's Basic Financial Statements, which begin on page 20.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$2.3 million as a result of this year's operations.
- During the year, the District's property tax revenues for governmental programs represented 61% of all revenue.
- Total cost of all of the District's programs increased by \$1.8 million over last year.
- The General Fund ended the year with a fund balance of \$8.3 million, some \$1.3 million more than the beginning fund balance of \$6.9 million.
- The resources available for appropriation were \$0.8 million more than budgeted for the General Fund.
- The expenditures were \$0.4 million less than budgeted for the General Fund.
- The District refinanced one of its bond issues to obtain a lower interest rate. This change resulted in a present value savings of \$214,762.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 20 and 21). 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 22) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For government 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 27) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The section labeled Other Supplementary Information contains 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 Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 20. 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 Position 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 statements 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 or 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.

These two statements report the District's net position and changes in it. The District's net position (the difference between assets and liabilities) provides one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are an 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 Position and the Statement of Activities, the following activities are presented.

- Governmental activities—Most of the District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community 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 22 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 or the Debt Service Fund required by bond covenants. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

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 difference between governmental activities (reported in the Statement of Net Position 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 and administrative personnel. These fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 26. 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

- Net position of the District's governmental activities increased from \$42.5 million to \$45.8 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$1.3 million to \$3.8 million at August 31, 2014.

The District's total expenses of \$5 million were funded by charges for services totaling \$2.5 million, operating grants of \$6.5 million, and general revenues of \$43.4 million. General revenues consist principally of state aid and contributions of \$10.8 million and tax revenue of \$31.9 million.

Table I
Hallsville Independent School District

NET POSITION in thousands

	Governmental Activities		% Change
	2014	2013	
Current and other assets	\$ 15,351	\$ 17,180	-10.6%
Capital assets	121,387	124,515	-2.5%
Total assets	<u>136,738</u>	<u>141,695</u>	-3.5%
Loss on defeasance of debt	<u>56</u>	<u>-</u>	100.0%
Long-term liabilities	86,405	90,869	-4.9%
Other liabilities	4,589	8,314	-44.8%
Total liabilities	<u>90,994</u>	<u>99,183</u>	-8.3%
Net position:			
Net investment in capital assets	40,679	40,291	1.0%
Restricted	1,278	913	40.0%
Unrestricted	3,844	1,308	193.9%
Total net position	<u>\$ 45,801</u>	<u>\$ 42,512</u>	7.7%

Table II
Hallsville Independent School District

CHANGES IN NET POSITION
in thousands

	Governmental Activities		
	2014	2013	% Change
Revenues:			
Program revenues:			
Charges for services	\$ 2,476	\$ 1,011	144.9%
Operating grants and contributions	6,543	7,033	-7.0%
General revenues:			
Maintenance and operations taxes	23,934	23,821	0.5%
Debt service taxes	7,985	7,926	0.7%
State aid - formula grants	10,816	9,615	12.5%
Investment earnings (losses)	(22)	38	-157.9%
Miscellaneous	716	199	259.8%
Total Revenues	<u>52,448</u>	<u>49,643</u>	5.7%
Expenses:			
Instruction, curriculum and media services	25,319	24,245	4.4%
Instructional and school leadership	3,197	3,100	3.1%
Student support services	4,020	3,890	3.3%
Child nutrition	1,568	1,726	-9.2%
Cocurricular activities	2,362	1,396	69.2%
General administration	1,397	1,404	-0.5%
Plant maintenance, security and data processing	6,243	6,378	-2.1%
Community services	132	17	676.5%
Debt services	4,500	4,723	-4.7%
Other intergovernmental charges	1,327	1,377	-3.6%
Total Expenses	<u>50,065</u>	<u>48,256</u>	3.7%
Increase in net position	<u>2,383</u>	<u>1,387</u>	71.8%
Net position at Beginning	<u>42,512</u>	<u>41,125</u>	
Prior period adjustment	906	-	
Net position at Beginning - As Restated	<u>43,418</u>	<u>41,125</u>	5.6%
Net position at Ending	<u>\$ 45,801</u>	<u>\$ 42,512</u>	7.7%

The District's total revenues increased by \$2.8 million over last year. This was primarily the result of \$1.2 million in increased combined state program revenue.

The net cost of all governmental activities this year was \$50 million. However, as shown in the Statement of Activities on page 21, the amount that our taxpayers ultimately financed for these activities through District taxes was \$31.9 million since some of the costs were paid by State and federal funding (\$17.4 million).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 22) reported a combined fund balance of \$15.9 million, which increased by \$858 thousand over last year. \$60 thousand of the net increase is due to refunding certain outstanding bonds. General Fund balance increased by \$1.35 million and the Debt Service Fund decreased by \$5 thousand.

The Board of Trustees revised the District's budget during the year. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved to reflect the actual beginning balances (versus the amounts we estimated in August 2013). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. The third category involved changes in state program revenues and local tax revenues.

The District's General Fund Balance of \$8.3 million reported on page 24 differs from the General Fund's budgetary fund balance of \$7.1 million reported in the budgetary comparison schedule on page 43, primarily due to increased State funding and operational savings in the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the District had \$121.4 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration and maintenance.

More detailed information about the District's capital assets is presented in Note D to the financial statements.

Debt

The District has \$81.1 million in general obligation debt at coupon interest rates ranging from 2.5% to 5.97% outstanding at year-end. The District had \$5.2 million outstanding in Maintenance Tax Obligations at a 5.65% interest rate at year end. The District's general obligation bonds carried the highest possible rating, according to national rating agencies.

More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2015 budget and tax rates. One of those factors is appraised and taxable property values. These values were considered in setting the tax rate. Another factor was the change in state funding promulgated by the actions of the state's 83rd legislative session. Additionally, the District revised the salary schedule for FY2015. This change will increase salaries for our teachers, counselors, librarians and nurses so that the salaries are more competitive with other districts in the area. The goal of this action is to increase staff retention and provide consistency in the instructional process. In response to the mandates of House Bill 5, the District has added staff members to ensure compliance with these new measures. Also, the District has added a new campus -- Hallsville Virtual High School. This public online high school is the only one of its kind in the state with its own teacher-written curriculum. The District will receive funding from the state for each enrollee, regardless of the student's location.

These factors were taken into account when adopting the General Fund budget for 2015. The District will continue to use its revenues to finance programs we currently offer and the innovative new programs mentioned above. If these estimates are realized, the District's budgetary General Fund Balance is expected to increase by \$244 or more by the close of 2015.

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 75650.

Basic Financial Statements

HALLSVILLE INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET POSITION**

AUGUST 31, 2014

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 11,611,883
1120	Current Investments	1,148,658
1225	Property Taxes Receivable (Net)	1,504,190
1240	Due from Other Governments	909,212
1300	Inventories	107,646
1410	Unrealized Expenses	69,670
	Capital Assets:	
1510	Land	4,759,235
1520	Buildings and Improvements, Net	114,925,725
1530	Furniture and Equipment, Net	1,701,986
1000	Total Assets	<u>136,738,205</u>
DEFERRED OUTFLOWS OF RESOURCES:		
	Loss on Defeasance of Debt	56,639
1700	Total Deferred Outflows of Resources	<u>56,639</u>
LIABILITIES:		
2110	Accounts Payable	210,628
2140	Interest Payable	344,980
2165	Accrued Liabilities	3,706,570
2177	Due to Fiduciary	1,110
2300	Unearned Revenue	325,287
	Noncurrent Liabilities:	
2501	Due Within One Year	4,575,000
2502	Due in More Than One Year	81,830,114
2000	Total Liabilities	<u>90,993,689</u>
NET POSITION:		
3200	Net Investment in Capital Assets	40,679,098
	Restricted For:	
3820	Federal and State Programs	330,953
3850	Debt Service	320,444
3860	Capital Projects	25,513
3870	Campus Activities	403,665
3890	Other Purposes	197,250
3900	Unrestricted	3,844,232
3000	Total Net Position	<u>\$ 45,801,155</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services			
						Governmental Activities
	Governmental Activities:					
11	Instruction	\$ 24,435,863	\$ 1,107,353	\$ 4,153,295	\$	(19,175,215)
12	Instructional Resources and Media Services	447,860	25,551	17,966		(404,343)
13	Curriculum and Staff Development	435,777	166	129,302		(306,309)
21	Instructional Leadership	1,045,560	114,587	105,455		(825,518)
23	School Leadership	2,151,684	--	110,487		(2,041,197)
31	Guidance, Counseling, & Evaluation Services	1,566,443	404,405	239,394		(922,644)
32	Social Work Services	84,392	--	4,110		(80,282)
33	Health Services	355,140	--	21,087		(334,053)
34	Student Transportation	2,014,323	--	87,778		(1,926,545)
35	Food Service	1,568,077	672,325	1,050,202		154,450
36	Cocurricular/Extracurricular Activities	2,361,874	151,188	45,140		(2,165,546)
41	General Administration	1,397,220	--	44,215		(1,353,005)
51	Facilities Maintenance and Operations	4,996,485	285	114,948		(4,881,252)
52	Security and Monitoring Services	498,702	--	28,493		(470,209)
53	Data Processing Services	747,808	--	36,473		(711,335)
61	Community Services	131,823	--	12,039		(119,784)
72	Interest on Long-term Debt	4,443,523	--	--		(4,443,523)
73	Bond Issuance Costs and Fees	56,354	--	--		(56,354)
81	Capital Outlay	31,357	--	--		(31,357)
93	Payments Related to Shared Services Arrangements	743,721	--	342,381		(401,340)
99	Other Intergovernmental Charges	551,610	--	--		(551,610)
TG	Total Governmental Activities	50,065,596	2,475,860	6,542,765		(41,046,971)
TP	Total Primary Government	\$ 50,065,596	\$ 2,475,860	\$ 6,542,765		(41,046,971)
	General Revenues:					
MT	Property Taxes, Levied for General Purposes					23,934,061
DT	Property Taxes, Levied for Debt Service					7,985,466
IE	Investment Earnings (Losses)					(22,273)
GC	Grants and Contributions Not Restricted to Specific Programs					10,816,423
MI	Miscellaneous					716,823
TR	Total General Revenues					43,430,500
CN	Change in Net Position					2,383,529
NB	Net Position - Beginning					42,511,900
PA	Prior Period Adjustment					905,726
	Net Position - Beginning, as Restated					43,417,626
NE	Net Position - Ending				\$	45,801,155

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 9,912,747	\$ 608,786	\$ 1,090,350	\$ 11,611,883
1120 Current Investments	1,148,658	--	--	1,148,658
1225 Taxes Receivable, Net	1,172,820	331,370	--	1,504,190
1240 Due from Other Governments	370,642	9,307	529,263	909,212
1260 Due from Other Funds	521,008	--	--	521,008
1300 Inventories	43,141	--	64,505	107,646
1410 Unrealized Expenditures	69,670	--	--	69,670
1000 Total Assets	<u>\$ 13,238,686</u>	<u>\$ 949,463</u>	<u>\$ 1,684,118</u>	<u>\$ 15,872,267</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 138,519	\$ --	\$ 72,108	\$ 210,627
2120 Short-Term Debt Payable	1,876,445	222,733	--	2,099,178
2150 Payroll Deductions & Withholdings	(222)	--	--	(222)
2160 Accrued Wages Payable	1,525,652	--	81,962	1,607,614
2170 Due to Other Funds	1,110	61,306	459,703	522,119
2300 Unearned Revenue	212,323	--	112,964	325,287
2000 Total Liabilities	<u>3,753,827</u>	<u>284,039</u>	<u>726,737</u>	<u>4,764,603</u>
DEFERRED INFLOWS OF RESOURCES:				
Deferred Property Taxes	1,172,820	331,370	--	1,504,190
2600 Total Deferred Inflows of Resources	<u>1,172,820</u>	<u>331,370</u>	<u>--</u>	<u>1,504,190</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 Inventories	43,141	--	35,086	78,227
3430 Prepaid Items	69,670	--	--	69,670
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	295,867	295,867
3470 Capital Acquisitions & Contractual Obligations	--	--	25,513	25,513
3480 Retirement of Long-Term Debt	--	334,054	--	334,054
3490 Other Restrictions of Fund Balance	--	--	197,250	197,250
Committed Fund Balances:				
3545 Other Committed Fund Balance	1,193,400	--	403,665	1,597,065
3600 Unassigned	7,005,828	--	--	7,005,828
3000 Total Fund Balances	<u>8,312,039</u>	<u>334,054</u>	<u>957,381</u>	<u>9,603,474</u>
Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 13,238,686</u>	<u>\$ 949,463</u>	<u>\$ 1,684,118</u>	<u>\$ 15,872,267</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2014

Total fund balances - governmental funds balance sheet	\$ 9,603,474
--	--------------

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not reported in the funds.	121,386,946
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,504,190
Payables for bond and tax note principal which are not due in the current period are not reported in the funds.	(86,015,000)
Payables for bond and tax note interest which are not due in the current period are not reported in the funds.	(344,980)
Premium on issuance of bonds is not reported in the funds.	(390,114)
The deferred loss on defeasance of debt is not reported in the funds.	56,639

Net position of governmental activities - Statement of Net Position	\$ <u>45,801,155</u>
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The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 24,284,065	\$ 7,987,910	\$ 2,609,386	\$ 34,881,361
5800 State Program Revenues	12,578,426	--	508,987	13,087,413
5900 Federal Program Revenues	1,342,261	--	3,028,736	4,370,997
5020 Total Revenues	<u>38,204,752</u>	<u>7,987,910</u>	<u>6,147,109</u>	<u>52,339,771</u>
EXPENDITURES:				
Current:				
0011 Instruction	19,873,264	--	2,243,716	22,116,980
0012 Instructional Resources and Media Services	378,856	--	35,340	414,196
0013 Curriculum and Staff Development	302,062	--	132,374	434,436
0021 Instructional Leadership	714,134	--	254,570	968,704
0023 School Leadership	1,914,881	--	--	1,914,881
0031 Guidance, Counseling, & Evaluation Services	779,638	--	697,322	1,476,960
0032 Social Work Services	75,176	--	--	75,176
0033 Health Services	317,659	--	--	317,659
0034 Student Transportation	1,776,100	--	--	1,776,100
0035 Food Service	--	--	1,591,741	1,591,741
0036 Cocurricular/Extracurricular Activities	1,399,167	--	886,403	2,285,570
0041 General Administration	1,286,441	--	1,384	1,287,825
0051 Facilities Maintenance and Operations	4,807,778	--	374	4,808,152
0052 Security and Monitoring Services	446,387	--	--	446,387
0053 Data Processing Services	711,199	--	--	711,199
0061 Community Services	67,253	--	57,792	125,045
0071 Principal on Long-term Debt	715,000	3,785,000	--	4,500,000
0072 Interest on Long-term Debt	335,610	4,212,745	--	4,548,355
0073 Bond Issuance Costs and Fees	500	55,854	--	56,354
0081 Capital Outlay	--	--	391,138	391,138
0093 Payments to Shared Service Arrangements	401,334	--	342,387	743,721
0099 Other Intergovernmental Charges	551,610	--	--	551,610
6030 Total Expenditures	<u>36,854,049</u>	<u>8,053,599</u>	<u>6,634,541</u>	<u>51,542,189</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>1,350,703</u>	<u>(65,689)</u>	<u>(487,432)</u>	<u>797,582</u>
Other Financing Sources and (Uses):				
7911 Capital-Related Debt Issued (Refunding Bonds)	--	3,735,000	--	3,735,000
7916 Premium or Discount on Issuance of Bonds	--	210,380	--	210,380
8949 Other Uses - Payment to Bond Escrow Agent	--	(3,884,959)	--	(3,884,959)
7080 Total Other Financing Sources and (Uses)	--	60,421	--	60,421
1200 Net Change in Fund Balances	<u>1,350,703</u>	<u>(5,268)</u>	<u>(487,432)</u>	<u>858,003</u>
0100 Fund Balances - Beginning	6,884,316	339,322	616,107	7,839,745
1300 Prior Period Adjustment	77,020	--	828,706	905,726
Fund Balances - Beginning, as Restated	6,961,336	339,322	1,444,813	8,745,471
3000 Fund Balances - Ending	<u>\$ 8,312,039</u>	<u>\$ 334,054</u>	<u>\$ 957,381</u>	<u>\$ 9,603,474</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

Net change in fund balances - total governmental funds	\$ 858,003
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	469,232
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,597,471)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	109,354
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	7,585,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	715,000
Loss on defeasance of long-term debt is amortized in the SOA.	56,639
(Increase) decrease in accrued interest from beginning of period to end of period.	23,959
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(3,735,000)
Bond premiums are amortized in the SOA.	(101,187)
Change in net position of governmental activities - Statement of Activities	\$ <u>2,383,529</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2014

Data Control Codes		Agency Funds
ASSETS:		
1110	Cash and Cash Equivalents	\$ 32,731
1260	Due from Other Funds	1,110
1000	Total Assets	<u>33,841</u>
LIABILITIES:		
Current Liabilities:		
2190	Due to Student and District Groups	\$ 33,841
2000	Total Liabilities	<u>33,841</u>
NET POSITION:		
3000	Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

A. Summary of Significant Accounting Policies

The basic financial statements of Hallsville Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: The District accounts for resources used to repay debt of the District in the Debt Service Fund.

In addition, the District reports the following fund types:

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. 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. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Amounts

a. 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 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 1 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 when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon 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. The allowance for uncollectible property taxes at August 31, 2014 is \$27,243.

b. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	30 - 50
Building Improvements	10 - 20
Vehicles	5
Office Equipment	10
Computer Equipment	10

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The only deferred outflow of resources reported in this year's financial statements is a deferred amount arising from the refunding of general obligation bonds in the prior year. This deferred refunding amount is being amortized over the remaining life of the refunded bonds as part of interest expense. No deferred outflows of resources affect the governmental funds financial statements in the current year.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item which occurs because governmental fund revenues are not recognized until available under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, deferred property taxes are reported in the governmental funds balance sheet. The District did not have deferred inflows of resources to report in its government-wide financial statements for the current year.

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances"

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

line of the government-wide statement of net positions.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

The District's Board of Trustees has adopted a resolution which sets a policy to maintain a total fund balance in the District's General Fund of at least 20% of total annual operating expenditures in that fund and an unassigned fund balance of at least 15% of total annual operating expenditures.

j. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

k. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
Expenditures exceeded budget appropriations in four functions of the General Fund, and debt service function in the Debt Service Fund.	District administrators will more closely monitor expenditures in relation to budget and will submit budget amendments to the Board of Trustees for approval in a timely manner, as needed.

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,047,166 and the bank balance was \$1,695,025. The District's cash deposits at August 31, 2014 and during the year ended August 31, 2014, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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)

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2014 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Lone Star Investment Pool	Avg 63 days	\$ 1,115,657
Cash	N/A	26,985
Certificate of Deposit	12/16/14	6,016
Total Investments		\$ 1,148,658

During the year, the District invested in the following types of investments which were not held at August 31, 2014.

Government securities
Municipal bonds

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At August 31, 2014, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

<u>Investment</u>	<u>S & P Rating</u>
Lone Star Investment Pool - Corporate Overnight Plus	AAAm
Texpool Investment Pool	AAAm
TexStar	AAAm

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. **Concentration of Credit Risk**

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. **Interest Rate Risk**

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. **Foreign Currency Risk**

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

D. Capital Assets

Capital asset activity for the year ended August 31, 2014, was as follows:

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 4,759,234	\$ --	\$ --	\$ 4,759,234
Construction in progress	4,500	--	4,500	--
Total capital assets not being depreciated	4,763,734	--	4,500	4,759,234
Capital assets being depreciated:				
Buildings and improvements	140,463,550	364,281	--	140,827,831
Furniture and equipment	4,775,772	97,750	--	4,873,522
Vehicles	4,726,853	11,700	--	4,738,553
Total capital assets being depreciated	149,966,175	473,731	--	150,439,906
Less accumulated depreciation for:				
Buildings and improvements	(22,645,637)	(3,256,468)	--	(25,902,105)
Furniture and equipment	(2,999,019)	(268,102)	--	(3,267,121)
Vehicles	(4,570,067)	(72,901)	--	(4,642,968)
Total accumulated depreciation	(30,214,723)	(3,597,471)	--	(33,812,194)
Total capital assets being depreciated, net	119,751,452	(3,123,740)	--	116,627,712
Governmental activities capital assets, net	\$ 124,515,186	\$ (3,123,740)	\$ 4,500	\$ 121,386,946

Depreciation was charged to functions as follows:

Instruction	\$ 2,331,184
Instructional Resources and Media Services	33,664
Curriculum and Staff Development	1,341
Instructional Leadership	76,856
School Leadership	236,803
Guidance, Counseling, & Evaluation Services	89,483
Social Work Services	9,216
Health Services	37,481
Student Transportation	251,723
Extracurricular Activities	86,729
General Administration	109,395
Plant Maintenance and Operations	209,120
Security and Monitoring Services	52,315
Data Processing Services	65,383
Community Services	6,778
	<u>\$ 3,597,471</u>

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2014, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 459,702	Short-term loan
General Fund	Debt Service Fund	61,306	Short-term loan
Agency Funds	General Fund	1,110	Short term loan
	Total	<u>\$ 522,118</u>	

All amounts due are scheduled to be repaid within one year.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

F. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2014, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
Unlimited tax & refunding bonds	\$ 84,640,000	\$ 3,735,000	\$ 7,585,000	\$ 80,790,000	\$ 3,820,000
Limited tax refunding bonds	5,940,000	--	715,000	5,225,000	755,000
Unamortized bond premium	288,926	210,380	109,193	390,113	--
Total governmental activities	<u>\$ 90,868,926</u>	<u>\$ 3,945,380</u>	<u>\$ 8,409,193</u>	<u>\$ 86,405,113</u>	<u>\$ 4,575,000</u>

2. Bonds Payable

Bonds payable currently outstanding are as follows:

	Interest Rates	Maturity Date	Amount
Series 2010A Unlimited Tax School Building Bonds	2.50-4.00%	4/27/2016	\$ 5,405,000
Series 2010B Unlimited Tax School Building Bonds	4.272-5.966%	2/15/2030	71,725,000
Series 2013 Unlimited Tax Refunding Bonds	2.00-4.00%	2/15/2017	3,660,000
			<u>80,790,000</u>
Series 2010 Limited Tax Refunding Bonds	5.65%	2/15/2020	5,225,000
			<u>\$ 86,015,000</u>

3. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2014, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2015	\$ 4,575,000	\$ 4,356,855	\$ 8,931,855
2016	4,780,000	4,197,197	8,977,197
2017	4,960,000	3,992,547	8,952,547
2018	5,200,000	3,769,702	8,969,702
2019	5,380,000	3,522,712	8,902,712
2020-2024	25,430,000	13,666,669	39,096,669
2025-2029	29,160,000	6,335,442	35,495,442
2030	6,530,000	194,790	6,724,790
Totals	<u>\$ 86,015,000</u>	<u>\$ 40,035,914</u>	<u>\$ 126,050,914</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

4. Advance Refunding of Debt

During the year ended August 31, 2014, the District issued \$3,735,000 of tax refunding bonds to provide resources to purchase U.S. Government State and Local Governmental Series securities that were placed in an escrow account for the purpose of generating resources for all future debt service payments of \$3,800,000 in school building bonds. As a result, certain maturities of the refunded issues were considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$84,959. This amount is being netted against the new debt and amortized over the life of the old debt. This advance refunding resulted in an economic gain of \$214,762 and was undertaken to reduce future interest payments.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2014, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. Plan Description

The 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 downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' 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 law provides for a member contribution rate of 6.4% for fiscal years 2014, 2013 and 2012, and a state contribution rate of 6.8% for fiscal year 2014, 6.4 % for fiscal year 2013, and 6.0% for fiscal year 2012. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2014, 2013 and 2012 were \$1,797,198, \$1,572,965 and \$1,561,121, respectively. The District paid additional state contributions for the years ending August 31, 2014, 2013 and 2012 in the amount of \$125,257, \$119,791 and \$179,156, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS web site at www.trs.state.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 0.5% for fiscal year 2014, 0.5% for fiscal year 2013 and 1.0% for fiscal year 2012 of the active public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2014, 2013 and 2012. For the years ended August 31, 2014, 2013, and 2012, the State's contributions to TRS-Care were \$249,727, \$245,775, and \$242,346, respectively, the active member contributions were \$162,323, \$159,754, and \$157,516, respectively, and the District's contributions were \$137,350, \$135,176, and \$133,282, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$67,730, \$67,435, and \$62,759, respectively.

J. Employee Health Care Coverage

During the year ended August 31, 2014, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2014, and terms of coverage and premium costs are included in the contractual provisions.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED AUGUST 31, 2014**

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by 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, refunds of any money received may be required and the collectibility of any related receivable may 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 provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

On April 18, 2011, the Harrison Central Appraisal District (CAD) lost its appeal of a lawsuit challenging the assessment of ad valorem taxes on natural gas stored in a reservoir located within the District's boundaries. As a result, the District has finalized settlement agreements with all but two of the affected taxpayers.

The two remaining affected taxpayers, who paid approximately \$3 million of property taxes to the District for the tax years involved in the lawsuit, have neither accepted nor rejected the District's bona fide settlement offer of \$1.8 million made in November, 2011, and have not prosecuted their claims since then. The District has recorded a contingent liability in the amount of its settlement offer, i.e., \$1.8 million, which is reported in the accompanying financial statements as Short-Term Debt Payable. According to legal counsel, there is substantial case law to support the position that, even if the companies were to sue and obtain judgments against the District, they could not legally place a lien on District property or funds.

L. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides special education services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund 313, SSA-IDEA-B Formula; Special Revenue Fund 314, SSA-IDEA-B Preschool; Special Revenue Fund 434, SSA State Supplemental Visually Impaired; and Special Revenue Fund 437, SSA 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:

<u>Member Districts</u>	<u>Expenditures</u>
Elysian Fields ISD	\$ 356,767
Harleton ISD	245,277
Karnack ISD	66,894
Waskom ISD	267,575
Hallsville ISD	1,293,281
Total	\$ <u>2,229,794</u>

M. Subsequent Events

Management has evaluated subsequent events through January 9, 2015, the date on which the financial statements were available to be issued.

On September 18, 2014, the District issued refunding bonds in the amount of \$5,610,000 for the purpose of defeasing Series 2010 Limited Tax Refunding Bonds and paying costs related thereto. The refunding was undertaken to obtain more favorable interest rates and resulted in a net present value savings of \$118,062.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

N. Prior Period Adjustments

Prior period adjustments were made to correct beginning balances as follow:

General Fund:

Record Workers' Comp bank account	\$	3,090
Adjust workers' comp claim liability to estimate at August 31, 2013		37,511
Recognize 2013-2014 State funding earned in August, 2013		306,147
Correct duplication of prior year accounts payable and related expenditures		55,272
Write off uncollectible receivable from Texas Education Agency		(325,000)
	\$	<u>77,020</u>

Other Governmental Funds:

Fund 240 - Correct duplication of prior year accounts payable and related expenditures	\$	47,647
Fund 240 - Correct unearned commodities recognized as revenue in prior year		(46,387)
Fund 437 - Recognize prior year member district contributions in shared services arrangement and establish fund balance as appropriate		413,833
Fund 461 - Properly report campus activity funds, originally reported in Fund 865		413,613
	\$	<u>828,706</u>

O. Workers' Compensation Coverage

The District joined together with other districts in the East Texas area to form the East Texas Education Insurance Association, a public entity risk pool currently operating a workers' compensation risk management and insurance program for various member school districts. During the 2013-2014 school year, the District paid a fixed cost in the amount of \$59,535 for administration of claims, loss control, recordkeeping, and the cost of stop-loss insurance.

Total workers' compensation claims and loss fund sharing payments were \$93,625 for the year. The District may be required to pay and retains the risk of loss for workers' compensation claims up to its loss fund maximum. When and if other schools in the Association exceed their loss fund maximum, the District will be required to pay a percentage share of the excess. A reconciliation of claims activity for the past two fiscal years is provided below:

	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance
Year ended August 31, 2014	\$ 238,840	\$ 109,374	(93,625)	\$ 254,589
Year ended August 31, 2013	276,351	78,287	(115,798)	238,840

P. Other Restrictions/Assignments of Fund Balance

Other restrictions of fund balance consist of the following:

Other Governmental Funds:

Restricted for Special Education	\$	<u>197,250</u>
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Other commitments of fund balance consist of the following:

General Fund:

Committed for settlement of property tax litigation	\$	1,143,400
Committed for insurance deductibles		50,000
		<u>1,193,400</u>

Other Governmental Funds:

Committed for campus activity funds	\$	<u>403,665</u>
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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with
		Budgeted Amounts		Actual	Final Budget Positive (Negative)
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 24,136,363	\$ 24,171,287	\$ 24,284,065	\$ 112,778
5800	State Program Revenues	11,871,652	11,871,652	12,578,426	706,774
5900	Federal Program Revenues	1,389,482	1,389,482	1,342,261	(47,221)
5020	Total Revenues	37,397,497	37,432,421	38,204,752	772,331
	EXPENDITURES:				
	Current:				
	Instruction & Instructional Related Services:				
0011	Instruction	19,741,745	19,397,817	19,873,264	(475,447)
0012	Instructional Resources and Media Services	427,239	427,385	378,856	48,529
0013	Curriculum and Staff Development	320,774	328,705	302,062	26,643
	Total Instruction & Instr. Related Services	20,489,758	20,153,907	20,554,182	(400,275)
	Instructional and School Leadership:				
0021	Instructional Leadership	790,673	787,302	714,134	73,168
0023	School Leadership	1,936,519	1,927,902	1,914,881	13,021
	Total Instructional & School Leadership	2,727,192	2,715,204	2,629,015	86,189
	Support Services - Student (Pupil):				
0031	Guidance, Counseling and Evaluation Services	761,123	810,852	779,638	31,214
0032	Social Work Services	74,850	74,850	75,176	(326)
0033	Health Services	323,274	323,274	317,659	5,615
0034	Student (Pupil) Transportation	1,732,458	1,782,561	1,776,100	6,461
0036	Cocurricular/Extracurricular Activities	1,270,803	1,322,625	1,399,167	(76,542)
	Total Support Services - Student (Pupil)	4,162,508	4,314,162	4,347,740	(33,578)
	Administrative Support Services:				
0041	General Administration	1,459,758	1,440,895	1,286,441	154,454
	Total Administrative Support Services	1,459,758	1,440,895	1,286,441	154,454
	Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	4,998,555	5,249,806	4,807,778	442,028
0052	Security and Monitoring Services	477,777	477,277	446,387	30,890
0053	Data Processing Services	775,708	743,611	711,199	32,412
	Total Support Services - Nonstudent Based	6,252,040	6,470,694	5,965,364	505,330
	Ancillary Services:				
0061	Community Services	49,066	66,083	67,253	(1,170)
	Total Ancillary Services	49,066	66,083	67,253	(1,170)
	Debt Service:				
0071	Principal on Long-Term Debt	715,000	715,000	715,000	--
0072	Interest on Long-Term Debt	335,610	335,610	335,610	--
0073	Bond Issuance Costs and Fees	5,000	5,000	500	4,500
	Total Debt Service	1,055,610	1,055,610	1,051,110	4,500
	Intergovernmental Charges:				
0093	Payments to Fiscal Agent/Member Dist.-SSA	510,334	510,334	401,334	109,000
0099	Other Intergovernmental Charges	537,397	551,697	551,610	87
	Total Intergovernmental Charges	1,047,731	1,062,031	952,944	109,087
6030	Total Expenditures	37,243,663	37,278,587	36,854,049	424,538

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	153,834	153,834	1,350,703	1,196,869
1200	Net Change in Fund Balance	153,834	153,834	1,350,703	1,196,869
0100	Fund Balance - Beginning	6,961,336	6,961,336	6,884,316	(77,020)
1300	Prior Period Adjustment	--	--	77,020	77,020
0100	Fund Balance - Beginning, as Restated	6,961,336	6,961,336	6,961,336	--
3000	Fund Balance - Ending	\$ 7,115,170	\$ 7,115,170	\$ 8,312,039	\$ 1,196,869

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Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but which are presented for purposes of additional analysis.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

AUGUST 31, 2014

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HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

FOR THE YEAR ENDED AUGUST 31, 2014			
Data Control Codes	Special Revenue Funds	Capital Projects Fund 2010 Bond Fund	Total Nonmajor Governmental Funds (See Exhibit C-2)
REVENUES:			
5700 Local and Intermediate Sources	\$ 2,608,494	\$ 892	\$ 2,609,386
5800 State Program Revenues	508,987	--	508,987
5900 Federal Program Revenues	3,028,736	--	3,028,736
5020 Total Revenues	<u>6,146,217</u>	<u>892</u>	<u>6,147,109</u>
EXPENDITURES:			
Current:			
0011 Instruction	2,243,716	--	2,243,716
0012 Instructional Resources and Media Services	35,340	--	35,340
0013 Curriculum and Staff Development	132,374	--	132,374
0021 Instructional Leadership	254,570	--	254,570
0031 Guidance, Counseling, & Evaluation Services	697,322	--	697,322
0035 Food Service	1,591,741	--	1,591,741
0036 Cocurricular/Extracurricular Activities	886,403	--	886,403
0041 General Administration	1,384	--	1,384
0051 Facilities Maintenance and Operations	374	--	374
0061 Community Services	57,792	--	57,792
0081 Capital Outlay	--	391,138	391,138
0093 Payments to Shared Service Arrangements	342,387	--	342,387
6030 Total Expenditures	<u>6,243,403</u>	<u>391,138</u>	<u>6,634,541</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(97,186)</u>	<u>(390,246)</u>	<u>(487,432)</u>
1200 Net Change in Fund Balances	<u>(97,186)</u>	<u>(390,246)</u>	<u>(487,432)</u>
0100 Fund Balances - Beginning	200,348	415,759	616,107
1300 Prior Period Adjustment	828,706	--	828,706
Fund Balances - Beginning, as Restated	1,029,054	415,759	1,444,813
3000 Fund Balances - Ending	<u>\$ 931,868</u>	<u>\$ 25,513</u>	<u>\$ 957,381</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2014

Data Control Codes		211 ESEA Title I Improving Basic Programs	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
ASSETS:				
1110	Cash and Cash Equivalents	\$ --	\$ 388,382	\$ --
1240	Due from Other Governments	190,946	24,422	229
1300	Inventories	--	64,505	--
1000	Total Assets	<u>190,946</u>	<u>477,309</u>	<u>229</u>
LIABILITIES:				
Current Liabilities:				
2110	Accounts Payable	\$ --	\$ 66,344	\$ --
2160	Accrued Wages Payable	36,105	5,619	--
2170	Due to Other Funds	154,841	--	229
2300	Unearned Revenue	--	74,393	--
2000	Total Liabilities	<u>190,946</u>	<u>146,356</u>	<u>229</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410	Inventories	--	35,086	--
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	295,867	--
3490	Other Restrictions of Fund Balance	--	--	--
Committed Fund Balances:				
3545	Other Committed Fund Balance	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>330,953</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 190,946</u>	<u>\$ 477,309</u>	<u>\$ 229</u>

255 ESEA Title II Training & Recruiting	313 IDEA-B Formula	314 IDEA-B Preschool	410 State Textbook Fund
\$ --	\$ --	\$ --	\$ 40,816
13,445	291,301	8,920	--
--	--	--	--
<u>13,445</u>	<u>291,301</u>	<u>8,920</u>	<u>40,816</u>
\$ --	\$ 809	\$ --	\$ 2,245
--	26,270	1,733	--
13,445	264,222	7,187	--
--	--	--	38,571
<u>13,445</u>	<u>291,301</u>	<u>8,920</u>	<u>40,816</u>
--	--	--	--
--	--	--	--
--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
\$ 13,445	\$ 291,301	\$ 8,920	\$ 40,816

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2014

Data Control Codes	437 Special Education	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-1)
ASSETS:			
1110 Cash and Cash Equivalents	\$ 212,195	\$ 423,444	\$ 1,064,837
1240 Due from Other Governments	--	--	529,263
1300 Inventories	--	--	64,505
1000 Total Assets	<u>212,195</u>	<u>423,444</u>	<u>1,658,605</u>
LIABILITIES:			
Current Liabilities:			
2110 Accounts Payable	\$ 2,710	\$ --	\$ 72,108
2160 Accrued Wages Payable	12,235	--	81,962
2170 Due to Other Funds	--	19,779	459,703
2300 Unearned Revenue	--	--	112,964
2000 Total Liabilities	<u>14,945</u>	<u>19,779</u>	<u>726,737</u>
FUND BALANCES:			
Nonspendable Fund Balances:			
3410 Inventories	--	--	35,086
Restricted Fund Balances:			
3450 Federal/State Funds Grant Restrictions	--	--	295,867
3490 Other Restrictions of Fund Balance	197,250	--	197,250
Committed Fund Balances:			
3545 Other Committed Fund Balance	--	403,665	403,665
3000 Total Fund Balances	<u>197,250</u>	<u>403,665</u>	<u>931,868</u>
4000 Total Liabilities and Fund Balances	<u>\$ 212,195</u>	<u>\$ 423,444</u>	<u>\$ 1,658,605</u>

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HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	211 ESEA Title I Improving Basic Programs	215 ESEA Title I Part D, Subpart 2 Delinquent Program	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
REVENUES:				
5700 Local and Intermediate Sources	\$ --	\$ --	\$ 672,396	\$ --
5800 State Program Revenues	--	--	10,627	--
5900 Federal Program Revenues	516,519	77,425	1,038,063	39,752
5020 Total Revenues	<u>516,519</u>	<u>77,425</u>	<u>1,721,086</u>	<u>39,752</u>
EXPENDITURES:				
Current:				
0011 Instruction	495,211	77,425	--	33,211
0012 Instructional Resources and Media Services	--	--	--	--
0013 Curriculum and Staff Development	5,300	--	--	1,500
0021 Instructional Leadership	8,729	--	--	2,088
0031 Guidance, Counseling, & Evaluation Services	--	--	--	2,953
0035 Food Service	--	--	1,591,741	--
0036 Cocurricular/Extracurricular Activities	--	--	--	--
0041 General Administration	--	--	--	--
0051 Facilities Maintenance and Operations	--	--	--	--
0061 Community Services	7,279	--	--	--
0093 Payments to Shared Service Arrangements	--	--	--	--
6030 Total Expenditures	<u>516,519</u>	<u>77,425</u>	<u>1,591,741</u>	<u>39,752</u>
1100 Excess (Deficiency) of Revenues Over (Under)	--	--	129,345	--
1100 Expenditures	--	--	129,345	--
1200 Net Change in Fund Balances	--	--	--	--
0100 Fund Balances - Beginning	--	--	200,348	--
1300 Prior Period Adjustment	--	--	1,260	--
Fund Balances - Beginning, as Restated	--	--	201,608	--
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 330,953</u>	<u>\$ --</u>

255 ESEA Title II Training & Recruiting	313 IDEA-B Formula	314 IDEA-B Preschool	381 Adult Basic Education State	397 Advanced Placement Incentives
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	1,954	5,819
76,529	1,250,327	21,695	926	--
76,529	1,250,327	21,695	2,880	5,819
--	679,707	21,695	2,880	--
--	--	--	--	--
76,529	39,386	--	--	5,819
--	53,967	--	--	--
--	133,496	--	--	--
--	--	--	--	--
--	--	--	--	--
--	1,384	--	--	--
--	--	--	--	--
--	--	--	--	--
--	342,387	--	--	--
76,529	1,250,327	21,695	2,880	5,819
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
\$ --	\$ --	\$ --	\$ --	\$ --

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		410 State Textbook Fund	434 Supplemental Visually Impaired
	REVENUES:		
5700	Local and Intermediate Sources	\$ --	\$ --
5800	State Program Revenues	448,850	--
5900	Federal Program Revenues	--	7,500
5020	Total Revenues	<u>448,850</u>	<u>7,500</u>
	EXPENDITURES:		
	Current:		
0011	Instruction	448,850	7,500
0012	Instructional Resources and Media Services	--	--
0013	Curriculum and Staff Development	--	--
0021	Instructional Leadership	--	--
0031	Guidance, Counseling, & Evaluation Services	--	--
0035	Food Service	--	--
0036	Cocurricular/Extracurricular Activities	--	--
0041	General Administration	--	--
0051	Facilities Maintenance and Operations	--	--
0061	Community Services	--	--
0093	Payments to Shared Service Arrangements	--	--
6030	Total Expenditures	<u>448,850</u>	<u>7,500</u>
1100	Excess (Deficiency) of Revenues Over (Under)	--	--
1100	Expenditures	--	--
1200	Net Change in Fund Balances	--	--
0100	Fund Balances - Beginning	--	--
1300	Prior Period Adjustment	--	--
	Fund Balances - Beginning, as Restated	--	--
3000	Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>

437 Special Education	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-2)
\$ 691,952	\$ 1,244,146	\$ 2,608,494
41,737	--	508,987
--	--	3,028,736
<u>733,689</u>	<u>1,244,146</u>	<u>6,146,217</u>
234,109	243,128	2,243,716
--	35,340	35,340
218	3,622	132,374
154,698	35,088	254,570
560,873	--	697,322
--	--	1,591,741
--	886,403	886,403
--	--	1,384
374	--	374
--	50,513	57,792
--	--	342,387
<u>950,272</u>	<u>1,254,094</u>	<u>6,243,403</u>
(216,583)	(9,948)	(97,186)
<u>(216,583)</u>	<u>(9,948)</u>	<u>(97,186)</u>
--	--	200,348
413,833	413,613	828,706
413,833	413,613	1,029,054
\$ <u>197,250</u>	\$ <u>403,665</u>	\$ <u>931,868</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
AUGUST 31, 2014

Data Control Codes	865 Student Activity	895 HISD Activity	Total Agency Funds (See Exhibit E-1)
ASSETS:			
1110 Cash and Cash Equivalents	\$ 23,935	\$ 8,796	\$ 32,731
1260 Due from Other Funds	--	1,110	1,110
1000 Total Assets	<u>23,935</u>	<u>9,906</u>	<u>33,841</u>
LIABILITIES:			
Current Liabilities:			
2190 Due to Student and District Groups	\$ 23,935	\$ 9,906	\$ 33,841
2000 Total Liabilities	<u>23,935</u>	<u>9,906</u>	<u>33,841</u>
NET POSITION:			
3000 Total Net Position	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2014

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
	\$	Various	\$	Various	\$	Various
2005 and Prior Years						
2006		1.385		.114		1,912,229,171
2007		1.4445		.094		2,311,097,511
2008		1.32		.339		2,447,413,116
2009		1.04		.28		2,779,886,230
2010		1.04		.313		2,563,762,443
2011		1.04		.313		2,094,590,522
2012		1.04		.383		2,170,797,892
2013		1.04		.35		2,260,174,748
2014 (School Year Under Audit)		1.04		.353		2,276,705,675

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/13	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/14
\$ 226,036	\$ --	\$ 7,201	\$ 707	\$ (15,261)	\$ 202,867
40,951	--	2,456	190	(1,988)	36,317
44,532	--	2,163	151	(2,053)	40,165
52,967	--	3,422	1,137	(2,013)	46,395
80,501	--	7,446	2,044	(2,126)	68,885
108,738	--	13,105	3,944	(2,252)	89,437
149,539	--	24,346	7,327	1,048	118,914
277,463	--	66,218	9,901	(1,410)	199,934
489,273	--	165,377	55,656	(13,901)	254,339
--	31,714,510	23,256,480	7,893,786	(90,064)	474,180
<u>\$ 1,470,000</u>	<u>\$ 31,714,510</u>	<u>\$ 23,548,214</u>	<u>\$ 7,974,843</u>	<u>\$ (130,020)</u>	<u>\$ 1,531,433</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT J-2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 721,080	\$ 721,080	\$ 672,396	\$ (48,684)
5800	State Program Revenues	10,234	10,234	10,627	393
5900	Federal Program Revenues	983,643	983,643	1,038,063	54,420
5020	Total Revenues	1,714,957	1,714,957	1,721,086	6,129
	EXPENDITURES:				
	Current:				
	Support Services - Student (Pupil):				
0035	Food Services	1,699,935	1,699,935	1,591,741	108,194
	Total Support Services - Student (Pupil)	1,699,935	1,699,935	1,591,741	108,194
6030	Total Expenditures	1,699,935	1,699,935	1,591,741	108,194
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	15,022	15,022	129,345	114,323
1200	Net Change in Fund Balance	15,022	15,022	129,345	114,323
0100	Fund Balance - Beginning	201,608	201,608	200,348	(1,260)
1300	Prior Period Adjustment	--	--	1,260	1,260
0100	Fund Balance - Beginning, as Restated	201,608	201,608	201,608	--
3000	Fund Balance - Ending	\$ 216,630	\$ 216,630	\$ 330,953	\$ 114,323

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 7,999,960	\$ 7,999,960	\$ 7,987,910	\$ (12,050)
5020	Total Revenues	7,999,960	7,999,960	7,987,910	(12,050)
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	3,710,000	3,710,000	3,785,000	(75,000)
0072	Interest on Long-Term Debt	4,284,230	4,284,230	4,212,745	71,485
0073	Bond Issuance Costs and Fees	900	55,854	55,854	--
	Total Debt Service	7,995,130	8,050,084	8,053,599	(3,515)
6030	Total Expenditures	7,995,130	8,050,084	8,053,599	(3,515)
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	4,830	(50,124)	(65,689)	(15,565)
	Other Financing Sources (Uses):				
7911	Capital-Related Debt Issued (Refunding Bonds)	--	3,735,000	3,735,000	--
7916	Premium or Discount on Issuance of Bonds	--	--	210,380	210,380
8949	Other Uses - Payment to Bond Escrow Agent	--	(3,884,959)	(3,884,959)	--
7080	Total Other Financing Sources and (Uses)	--	(149,959)	60,421	210,380
1200	Net Change in Fund Balance	4,830	(200,083)	(5,268)	194,815
0100	Fund Balance - Beginning	339,322	339,322	339,322	--
3000	Fund Balance - Ending	\$ 344,152	\$ 139,239	\$ 334,054	\$ 194,815

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KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

Karen A. Jacks, CPA
Peggy J. Lantz, CPA
Sherry Davis, CPA

P.O. Box 3167
Longview, Texas 75606

1501 Colony Circle
Longview, Texas 75604

Phone: 903•238•8822

Fax: 903•238•9838

Independent Auditors' 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

Board of Trustees
Hallsville Independent School District
PO Box 810
Hallsville, Texas 75650

Members of the Board of Trustees:

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Hallsville Independent School District's basic financial statements, and have issued our report thereon dated January 9, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hallsville Independent School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hallsville Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hallsville Independent School District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2014-2 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hallsville Independent School District's financial statements are free from 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2014-1.

Hallsville Independent School District's Response to Findings

Hallsville Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hallsville Independent School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
January 9, 2015

KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

Karen A. Jacks, CPA
Peggy J. Lantz, CPA
Sherry Davis, CPA

P.O. Box 3167
Longview, Texas 75606

1501 Colony Circle
Longview, Texas 75604

Phone: 903•238•8822

Fax: 903•238•9838

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

Board of Trustees
Hallsville Independent School District
PO Box 810
Hallsville, Texas 75650

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Hallsville Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hallsville Independent School District's major federal programs for the year ended August 31, 2014. Hallsville Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hallsville Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of Hallsville Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Hallsville Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2014.

Report on Internal Control Over Compliance

Management of Hallsville Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hallsville Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hallsville Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
January 9, 2015

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2014

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? X Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditors' report issued on compliance for major programs: Unmodified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	National School Lunch Program (Non-cash)

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

Finding 2014-1:

Criteria:

Budget amendments must be approved by the District's Board of Trustees by the last day of the fiscal year as prescribed by the Financial Accountability System Resource Guide promulgated by the Texas Education Agency.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2014

Condition:

The District did not anticipate actual expenditures with sufficient accuracy and lead time to secure Board approval for the final budget amendment prior to the last day of the fiscal year. The final budget amendment for FY2014 was approved by the Board of Trustees on September 15, 2014.

Cause:

District administrators were not familiar with the budget amendment guidelines set forth in the Financial Accountability System Resource Guide.

Effect:

Expenditures exceeded appropriations in the General Fund in the following functions and amounts:

11 - Instruction	\$ 475,447
32 - Social Work Services	326
36 - Cocurricular/Extracurricular Activities	76,542
61 - Community Services	1,170

Expenditures exceeded appropriations in the Debt Service Fund in the the following function and amount:

Debt Service	\$ 3,515
--------------	----------

Recommendation:

The District should monitor expenditures routinely throughout the year and prepare projections of year- end results of operations in time for amendment of the budget prior to August 31 of each year.

Finding 2014-2:

Criteria:

A properly designed internal control structure provides for systems and procedures such that District employees, in the normal course of performing their assigned duties, will prevent, or detect and correct misstatements of the District's financial data on a timely basis.

Condition:

The District does not have a systematic and routine year-end closing process to insure that all material financial statement account balances are accurate and that all significant accounts are reconciled as necessary.

Cause:

The District's business manager position was vacant for approximately 8 months for the FY2014 year and the accounting coordinator position was vacant for two months following promotion of the prior accounting coordinator to the business manager position. Those key position vacancies along with the related learning curve as District staff accepted new positions with the District were the primary contributing factor to the conditions reported in this finding.

Effect:

Cash accounts were not fully reconciled at year-end, and interfund receivable and payable accounts were not in agreement between funds. State and federal revenues and receivables were not fully reconciled and adjusted to actual. Material audit adjustments were required to properly report the District's financial statements as of and for the year ended August 31, 2014.

Recommendation:

The District may consider providing additional training and mentoring for its business office, to assist in the development of appropriate year-end closing and reconciliation procedures.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2014

C. Federal Award Findings and Questioned Costs

NONE

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2014

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
None		

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2014

The corrective action plan is the responsibility of the District's business manager, Trish Hall. In response to the findings, the District offers the following corrective action plan:

Finding 2014-1:

- Develop and implement procedures for continual monitoring of periodic and end of year expenditures.
- Business Manager will develop mentoring relationships with other business managers to develop these methodologies.

Implementation Note:

Beginning in September, 2014, the Business Manager began reviewing the budget on a weekly basis to monitor expenditures and spending patterns. Also, the Business Manager has joined TASBO's New Business Manager Mentoring program which provides support and timely access for everyday school district operations.

Finding 2014-2:

- Develop routine year end closing processes.
- Obtain additional training for Business Manager and associated staff for software processes and accounting procedures best practices.

Implementation Note:

The District has filled all of the positions and continues to provide training for those employees in new positions. Additionally, having these positions filled has enabled the work processes to be divided for improved internal control of banking practices. We have obtained a framework for year-end closing processes and will be working closely with mentors and auditors to ensure that all processes have tighter controls.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT K-1

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF LABOR			
Passed Through Texas Workforce Commission:			
WIA Dislocated Worker Formula Grant *	17.278	0814ATP000	\$ 926
Total U. S. Department of Labor			926
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs *	84.010a	14610101102904	501,374
ESEA Title I Part A - Improving Basic Programs *	84.010a	15610101102904	15,145
ESEA Title I Part D *	84.010a	14610103102904	77,425
Total CFDA Number 84.010a			593,944
SSA IDEA-B Formula *	84.027	146600011029046600	1,224,057
SSA IDEA-B Formula *	84.027	156600011029046600	26,270
Total CFDA Number 84.027			1,250,327
Career and Technical - Basic Grant	84.048	14420006102904	39,523
Career and Technical - Basic Grant	84.048	15420006102904	229
Total CFDA Number 84.048			39,752
SSA IDEA-B Preschool *	84.173	146610011029046610	19,962
SSA IDEA-B Preschool *	84.173	156610011029046610	1,733
Total CFDA Number 84.173			21,695
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	14694501102904	76,529
Total CFDA Number 84.367a			76,529
Total Passed Through State Department of Education			1,982,247
Total U. S. Department of Education			1,982,247
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	102-904	227,823
National School Lunch Program *	10.555	102-904	691,052
National School Lunch Program (Non-cash) *	10.555	102-904	119,188
Total CFDA Number 10.555			810,240
Total Passed Through State Department of Education			1,038,063
Total U. S. Department of Agriculture			1,038,063
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,021,236

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

Note A - Basis of Presentation

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

Note B - Reconciliation of Federal Revenues to Federal Expenditures

Federal revenues in the accompanying financial statements include federal source revenues which are not considered federal assistance for purposes of the Schedule of Expenditures of Federal Awards. A reconciliation follows:

Total Federal Expenditures, Exhibit K-1	\$	3,021,236
Other Federal Revenues:		
Build America Bonds - Interest Subsidy		1,243,039
School Health and Related Services (SHARS)		106,722
Total Federal Revenues, Exhibit C-2	\$	<u>4,370,997</u>

Note C - Subrecipients

The Hallsville ISD provided federal awards to subrecipients as follows:

Program Title		
IDEA-B Formula	\$	<u>342,387</u>

Note D - Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of commodities received and consumed. At August 31, 2014, the District had food commodities in inventory totaling \$29,420.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2014

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	Yes
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ --