

HALLSVILLE
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2013

By: **West, Davis & Company, LLP**
11824 Jollyville Road, Suite 100
Austin, Texas 78759
www.westdavis.com
Telephone: 512.340.0222
Email: gary@westdavis.com

Hallsville Independent School District
Annual Financial Report
For The Year Ended August 31, 2013

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board.....	1	
FINANCIAL SECTION		
Independent Auditors' Report.....	2	
Management's Discussion and Analysis (Required Supplementary Information).....	5	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	11	A-1
Statement of Activities.....	12	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	13	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	14	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	15	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	16	C-3
Statement of Fiduciary Net Position - Fiduciary Funds.....	17	E-1
Notes to the Financial Statements	18	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund.....	31	G-1
<u>Combining Statements as Supplementary Information:</u>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	33	H-1
Combining Statement of Revenues, Expenditures and Changes in		
Fund Balances - All Nonmajor Governmental Funds.....	34	H-2
Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	35	H-3
Combining Statement of Revenues, Expenditures and Changes		
in Fund Balances - Nonmajor Special Revenue Funds.....	38	H-4
Fiduciary Funds:		
Agency Funds:		
Combining Statement of Fiduciary Assets and Liabilities.....	41	H-5

Hallsville Independent School District
Annual Financial Report
For The Year Ended August 31, 2013

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	42	J-1
Indirect Cost Computation Schedule	44	J-2
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	45	J-3
Debt Service Fund.....	46	J-4
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47	
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133.....	49	
Schedule of Findings and Questioned Costs	51	
Schedule of Expenditures of Federal Awards	52	K-1
Notes to the Schedule of Expenditures of Federal Awards.....	53	
Schedule of Required Responses to Selected School First Indicators.....	54	K-2

Introductory Section

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, 2013, at a meeting of the board of trustees of such school district on the 21 day of January, 2014.



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)

Financial Section

West, Davis & Company, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759

Independent Auditors' Report

To the Board of Trustees
Hallsville Independent School District
Hallsville, Texas

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, 2013, 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, 2013, 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.

Emphasis of Matter

As described in Note A to the financial statements, in 2013, Hallsville Independent School District adopted new accounting guidance, Government Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to this matter.

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

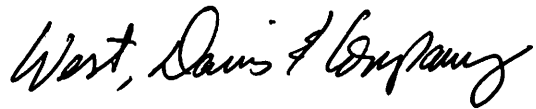
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hallsville Independent School District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes 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 and individual 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 and individual 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 10, 2014 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.

A handwritten signature in cursive script that reads "West, Davis & Company".

West, Davis & Company, LLP
Austin, Texas
January 10, 2014

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, 2013. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$1.4 million as a result of this year's operations.
- The District has substantially completed the process of settling the gas storage litigation claim (see Note L concerning Commitments and Contingencies)
- During the year, the District's property tax revenues for governmental programs represented 64% of all revenue.
- Total cost of all of the District's programs increased by \$1 million over last year.
- The General Fund ended the year with a fund balance of \$6.9 million, some \$0.6 million more than the beginning fund balance of \$6.3 million.
- The resources available for appropriation were \$0.6 million more than budgeted for the General Fund.
- The expenditures were \$0.4 million less than budgeted for the General Fund.

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 11 and 12). 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 13) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. 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 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 11. 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 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) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the following activities are presented.

- Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, 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 13 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net 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. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 17. 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 \$41.1 million to \$42.5 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased from \$.6 million to \$1.3 million at August 31, 2013.

The District's total expenses of \$48.3 million were funded by charges for services totaling \$1 million, operating grants of \$7 million, and general revenues of \$41.6 million. General revenues consist principally of state aid and contributions of \$9.6 million and tax revenue of \$31.7 million.

Table I
Hallsville Independent School District

NET POSITION		
in thousands		
	Governmental Activities	
	2013	2012
Current and other assets	17,180	18,465
Capital assets	124,515	126,978
Total assets	141,695	145,443
Long-term liabilities	90,869	95,171
Other liabilities	8,314	9,147
Total liabilities	99,183	104,318
Net position:		
Invested in capital assets, net of related debt	40,291	40,238
Restricted	913	587
Unrestricted	1,308	300
Total net position	42,512	41,125

Table II
Hallsville Independent School District

CHANGES IN NET POSITION

in thousands

	Governmental Activities	
	2013	2012
Revenues:		
Program revenues:		
Charges for services	1,011	868
Operating grants and contributions	7,033	6,250
General revenues:		
Maintenance and operations taxes	23,821	23,006
Debt service taxes	7,926	8,342
State aid - formula grants	9,615	10,019
Investment Earnings	38	157
Miscellaneous	199	1,360
Total Revenues	<u>49,643</u>	<u>50,002</u>
Expenses:		
Instruction, curriculum and media services	24,245	22,354
Instructional and school leadership	3,100	2,915
Student support services	3,890	4,205
Child nutrition	1,726	1,583
Cocurricular activities	1,396	1,183
General administration	1,404	1,396
Plant maintenance, security and data processing	6,378	7,359
Community services	17	47
Debt services	4,723	4,912
Other Intergovernmental charges	1,377	1,267
Total Expenses	<u>48,256</u>	<u>47,221</u>
Increase/Decrease in net position	<u>1,387</u>	<u>2,781</u>
Net position at Beginning	<u>41,125</u>	<u>38,666</u>
Prior Period Adjustment	<u>0</u>	<u>-322</u>
Net position at Beginning-As Restated	<u>41,125</u>	<u>38,344</u>
Net position at Ending	<u>42,512</u>	<u>41,125</u>

The District's total revenues decreased by \$359 thousand over last year. This was primarily the result of \$404 thousand in decreased combined state program revenue.

The net cost of all governmental activities this year was \$40.2 million. However, as shown in the Statement of Activities on page 12, the amount that our taxpayers ultimately financed for these activities through District taxes was \$31.7 million since some of the costs were paid by State funding (\$10.0 million).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$7.8 million, which decreased by \$542 thousand over last year. \$1.1 million of the net decrease is due to a bond building program. General Fund balance increased by \$615 thousand and the Debt Service Fund decreased by \$91 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 2012). 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 \$6.88 million reported on page 31 differs from the General Fund's budgetary fund balance of \$6.3 million reported in the budgetary comparison schedule primarily due to operational savings in the District.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the District had \$125 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 \$84.64 million in general obligation debt at coupon interest rates ranging from 2.5% to 5.97% outstanding at year-end. The District had \$5.94 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 2014 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.

These factors were taken into account when adopting the General Fund budget for 2014. The District will continue to use its revenues to finance programs we currently offer. The District has added no major new programs or initiatives to the 2014 budget. If these estimates are realized, the District's budgetary General Fund Balance is expected to increase by \$50,000 or more by the close of 2014.

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, 2013

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 11,511,673
1120	Current Investments	2,597,438
1225	Property Taxes Receivable (Net)	1,394,836
1240	Due from Other Governments	1,140,385
1260	Internal Balances	--
1290	Other Receivables (Net)	106,689
1300	Inventories	137,283
1410	Unrealized Expenses	291,111
Capital Assets:		
1510	Land	4,759,234
1520	Buildings and Improvements, Net	117,817,912
1530	Furniture and Equipment, Net	1,933,540
1580	Construction in Progress	4,500
1000	Total Assets	<u>141,694,601</u>
LIABILITIES:		
2110	Accounts Payable	432,120
2140	Interest Payable	368,939
2165	Accrued Liabilities	4,065,471
2180	Due to Other Governments	2,719,918
2300	Unearned Revenue	727,325
Noncurrent Liabilities:		
2501	Due Within One Year	4,425,000
2502	Due in More Than One Year	86,443,926
2000	Total Liabilities	<u>99,182,699</u>
NET POSITION		
3200	Net Investment in Capital Assets	40,290,945
Restricted For:		
3820	Federal and State Programs	136,470
3850	Debt Service	360,381
3860	Capital Projects	415,759
3900	Unrestricted	1,308,347
3000	Total Net Position	<u>\$ 42,511,902</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2013

		1	3	4	Net (Expense) Revenue and Changes in Net Position
Data Control Codes	Functions/Programs	Expenses	Program Revenues		Governmental Activities
			Charges for Services	Operating Grants and Contributions	
	Governmental Activities:				
11	Instruction	\$ 23,484,178	\$ 150,716	\$ 4,496,457	\$ (18,837,005)
12	Instructional Resources and Media Services	416,965	--	--	(416,965)
13	Curriculum and Staff Development	343,788	--	130,208	(213,580)
21	Instructional Leadership	1,106,933	--	173,982	(932,951)
23	School Leadership	1,993,472	--	--	(1,993,472)
31	Guidance, Counseling, & Evaluation Services	1,634,659	--	669,303	(965,356)
32	Social Work Services	80,134	--	--	(80,134)
33	Health Services	336,362	--	188,108	(148,254)
34	Student Transportation	1,838,999	--	--	(1,838,999)
35	Food Service	1,726,453	732,913	1,002,816	9,276
36	Cocurricular/Extracurricular Activities	1,396,016	127,522	29,189	(1,239,305)
41	General Administration	1,403,761	--	991	(1,402,770)
51	Facilities Maintenance and Operations	5,318,811	--	404	(5,318,407)
52	Security and Monitoring Services	388,663	--	--	(388,663)
53	Data Processing Services	670,406	--	--	(670,406)
61	Community Services	16,534	--	1,899	(14,635)
72	Interest on Long-term Debt	4,720,575	--	--	(4,720,575)
73	Bond Issuance Costs and Fees	2,400	--	--	(2,400)
93	Payments Related to Shared Services Arrangements	898,195	--	339,336	(558,859)
99	Other Intergovernmental Charges	478,385	--	--	(478,385)
TG	Total Governmental Activities	48,255,689	1,011,151	7,032,693	(40,211,845)
TP	Total Primary Government	<u>\$ 48,255,837</u>	<u>\$ 1,011,151</u>	<u>\$ 7,032,693</u>	<u>(40,211,993)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				23,821,181
DT	Property Taxes, Levied for Debt Service				7,925,939
IE	Investment Earnings				38,052
GC	Grants and Contributions Not Restricted to Specific Programs				9,614,753
MI	Miscellaneous				199,112
TR	Total General Revenues				41,599,037
CN	Change in Net Position				1,387,044
NB	Net Position - Beginning				41,446,363
PA	Prior Period Adjustment				(321,505)
	Net Position - Beginning, as Restated				41,124,858
NE	Net Position - Ending				<u>\$ 42,511,902</u>

The accompanying notes are an integral part of this statement.

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

AUGUST 31, 2013

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 <i>Cash and Cash Equivalents</i>	\$ 10,343,005	\$ 531,114	\$ 637,554	\$ 11,511,673
1120 <i>Current Investments</i>	2,585,481	11,958	(1)	2,597,438
1225 <i>Taxes Receivable, Net</i>	1,092,758	302,078	--	1,394,836
1240 <i>Due from Other Governments</i>	505,786	18,983	615,616	1,140,385
1260 <i>Due from Other Funds</i>	--	--	--	--
1290 <i>Other Receivables</i>	106,689	--	--	106,689
1300 <i>Inventories</i>	73,405	--	63,878	137,283
1410 <i>Unrealized Expenditures</i>	291,111	--	--	291,111
1000 Total Assets	<u>14,998,235</u>	<u>864,133</u>	<u>1,317,047</u>	<u>17,179,415</u>
LIABILITIES:				
Current Liabilities:				
2110 <i>Accounts Payable</i>	\$ 314,626	\$ --	\$ 117,494	\$ 432,120
2120 <i>Short-Term Debt Payable</i>	1,898,207	222,733	--	2,120,940
2150 <i>Payroll Deductions & Withholdings</i>	3,698	--	--	3,698
2160 <i>Accrued Wages Payable</i>	1,883,341	--	57,492	1,940,833
2180 <i>Due to Other Governments</i>	2,719,918	--	--	2,719,918
2300 <i>Unearned Revenue</i>	1,294,129	302,078	525,954	2,122,161
2000 Total Liabilities	<u>8,113,919</u>	<u>524,811</u>	<u>700,940</u>	<u>9,339,670</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 <i>Inventories</i>	73,406	--	63,878	137,284
3430 <i>Prepaid Items</i>	291,111	--	--	291,111
Restricted Fund Balances:				
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	136,470	136,470
3470 <i>Capital Acquisitions & Contractual Obligations</i>	--	--	415,759	415,759
3480 <i>Retirement of Long-Term Debt</i>	--	339,322	--	339,322
3490 <i>Other Restrictions of Fund Balance</i>	--	--	--	--
Committed Fund Balances:				
3545 <i>Other Committed Fund Balance</i>	1,193,400	--	--	1,193,400
3600 <i>Unassigned</i>	5,326,399	--	--	5,326,399
3000 Total Fund Balances	<u>6,884,316</u>	<u>339,322</u>	<u>616,107</u>	<u>7,839,745</u>
4000 Total Liabilities and Fund Balances	<u>\$ 14,998,235</u>	<u>\$ 864,133</u>	<u>\$ 1,317,047</u>	<u>\$ 17,179,415</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, 2013*

Total fund balances - governmental funds balance sheet	\$ 7,839,745
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	124,515,187
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,394,836
Payables for bond principal which are not due in the current period are not reported in the funds.	(84,640,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(187,802)
Payables for tax notes which are not due in the current period are not reported in the funds.	(5,940,000)
Payables for tax note interest which are not due in the current period are not reported in the funds.	(181,137)
Bond premiums are deferred in the SNA but not in the funds.	(288,926)
Rounding difference	(1)
Net position of governmental activities - Statement of Net Position	\$ <u>42,511,902</u>

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, 2013**

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 24,291,893	\$ 7,907,922	\$ 1,619,560	\$ 33,819,375
5800 <i>State Program Revenues</i>	11,138,652	--	236,582	11,375,234
5900 <i>Federal Program Revenues</i>	1,525,665	--	2,861,869	4,387,534
5020 Total Revenues	<u>36,956,210</u>	<u>7,907,922</u>	<u>4,718,011</u>	<u>49,582,143</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	19,494,415	--	1,645,652	21,140,067
0012 <i>Instructional Resources and Media Services</i>	382,804	--	--	382,804
0013 <i>Curriculum and Staff Development</i>	203,525	--	137,393	340,918
0021 <i>Instructional Leadership</i>	818,142	--	182,110	1,000,252
0023 <i>School Leadership</i>	1,784,210	--	--	1,784,210
0031 <i>Guidance, Counseling, & Evaluation Services</i>	802,270	--	669,482	1,471,752
0032 <i>Social Work Services</i>	71,798	--	--	71,798
0033 <i>Health Services</i>	302,516	--	--	302,516
0034 <i>Student Transportation</i>	1,703,925	--	--	1,703,925
0035 <i>Food Service</i>	5,890	--	1,727,672	1,733,562
0036 <i>Cocurricular/Extracurricular Activities</i>	1,313,408	--	--	1,313,408
0041 <i>General Administration</i>	1,295,033	--	1,000	1,296,033
0051 <i>Facilities Maintenance and Operations</i>	4,824,557	--	404	4,824,961
0052 <i>Security and Monitoring Services</i>	350,305	--	--	350,305
0053 <i>Data Processing Services</i>	616,660	--	--	616,660
0061 <i>Community Services</i>	14,649	--	1,885	16,534
0071 <i>Principal on Long-term Debt</i>	680,000	3,590,000	--	4,270,000
0072 <i>Interest on Long-term Debt</i>	374,030	4,407,964	--	4,781,994
0073 <i>Bond Issuance Costs and Fees</i>	1,500	900	--	2,400
0081 <i>Capital Outlay</i>	267,779	--	1,075,707	1,343,486
0093 <i>Payments to Shared Service Arrangements</i>	555,808	--	342,387	898,195
0099 <i>Other Intergovernmental Charges</i>	478,385	--	--	478,385
6030 Total Expenditures	<u>36,341,609</u>	<u>7,998,864</u>	<u>5,783,692</u>	<u>50,124,165</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	614,601	(90,942)	(1,065,681)	(542,022)
1200 Net Change in Fund Balances	<u>614,601</u>	<u>(90,942)</u>	<u>(1,065,681)</u>	<u>(542,022)</u>
0100 Fund Balances - Beginning	6,269,715	430,264	1,681,788	8,381,767
3000 Fund Balances - Ending	<u>\$ 6,884,316</u>	<u>\$ 339,322</u>	<u>\$ 616,107</u>	<u>\$ 7,839,745</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, 2013*

Net change in fund balances - total governmental funds	\$ (542,022)
--	--------------

Amounts reported for governmental activities in the Statement of Activities
("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	1,173,154
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,636,245)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	60,738
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,590,000
Repayment of tax note principal is an expenditure in the funds but is not an expense in the SOA.	680,000
(Increase) decrease in accrued interest from beginning of period to end of period.	8,272
The net revenue (expense) of certain activities of internal service funds is reported with governmental activities	22,786
Bond premiums are reported in the funds but not in the SOA.	30,361

Change in net position of governmental activities - Statement of Activities	\$ <u>1,387,044</u>
---	---------------------

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT*STATEMENT OF FIDUCIARY NET POSITION**FIDUCIARY FUNDS**AUGUST 31, 2013*

Data Control Codes		Agency Funds
ASSETS:		
1110	<i>Cash and Cash Equivalents</i>	\$ 773,425
1000	Total Assets	<u>773,425</u>
LIABILITIES:		
Current Liabilities:		
2190	<i>Due to Student Groups</i>	\$ 773,425
2000	Total Liabilities	<u>773,425</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, 2013

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" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No.39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net assets 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: This fund accounts for the legally obligated payment of principal and interest on outstanding debt as it matures.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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.

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.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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.

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>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. 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.

e. 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" line of the government-wide statement of net assets.

f. Use of Estimates

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

g. 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

h. 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 convey 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.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

i. 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.

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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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.

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>
None reported	Not applicable

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

Following are funds having deficit fund balances or fund net assets 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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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, 2013, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$11,511,673 and the bank balance was \$2,791,495. The District's cash deposits at August 31, 2013 and during the year ended August 31, 2013, 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) 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, 2013 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity in Years</u>	<u>Rating</u>	<u>Fair Value</u>	<u>%</u>
Cash	N/A	N/A	\$ 487,044	18.75%
Mutual Funds	Less than 1	AAA	300	0.01%
Certificates of Deposit	Less than 1	FDIC Insured	81,678	3.14%
Government Securities	Less than 1	A+/AAA/AAA	1,256,640	48.38%
Municipal Bonds	Less than 1	AAA/AA1/AA2/AA:	771,776	29.71%
Total Investments			<u>\$ 2,597,438</u>	<u>100.00%</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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, 2013, 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:

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.

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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2013

D. Capital Assets

Capital asset activity for the year ended August 31, 2013, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 4,759,234	\$ --	\$ --	\$ 4,759,234
Construction in progress	--	4,500	--	4,500
Total capital assets not being depreciated	<u>4,759,234</u>	<u>4,500</u>	<u>--</u>	<u>4,763,734</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	139,544,543	1,071,207	152,200	140,463,550
Equipment	4,678,325	97,447	--	4,775,772
Vehicles	4,726,854	--	--	4,726,854
Total capital assets being depreciated	<u>148,949,722</u>	<u>1,168,654</u>	<u>152,200</u>	<u>149,966,176</u>
Less accumulated depreciation for:				
Buildings and improvements	(19,589,184)	(3,208,653)	(152,200)	(22,645,637)
Equipment	(2,696,224)	(302,795)	--	(2,999,019)
Vehicles	(4,445,271)	(124,796)	--	(4,570,067)
Total accumulated depreciation	<u>(26,730,679)</u>	<u>(3,636,244)</u>	<u>(152,200)</u>	<u>(30,214,723)</u>
Total capital assets being depreciated, net	<u>122,219,043</u>	<u>(2,467,590)</u>	<u>--</u>	<u>119,751,453</u>
Governmental activities capital assets, net	<u>\$ 126,978,277</u>	<u>\$ (2,463,090)</u>	<u>\$ --</u>	<u>\$ 124,515,187</u>

Depreciation was charged to functions as follows:

Instruction	\$ 2,344,258
Instructional Resources and Media Services	34,161
Curriculum and Staff Development	2,870
Instructional Leadership	106,681
School Leadership	209,262
Guidance, Counseling, & Evaluation Services	162,907
Social Work Services	8,336
Health Services	33,846
Student Transportation	147,074
Food Services	29,908
Extracurricular Activities	82,608
General Administration	107,728
Plant Maintenance and Operations	274,501
Security and Monitoring Services	38,358
Data Processing Services	53,746
	<u>\$ 3,636,244</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

E. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2013, consisted of the following:

There were no interfund receivables or payables at year end.

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

2. Transfers To and From Other Funds

There were no transfers during the year.

F. Long-Term Obligations

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, 2013, are as follows:

Series	Original Issue Millions	Interest	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:							
General obligation bonds							
2004	11	3-5%	\$ 6,085,000	\$ --	\$ 1,120,000	\$ 4,965,000	\$ 1,165,000
2010A	14	2.5-4%	10,420,000	--	2,470,000	7,950,000	2,545,000
2010B	72	4.27-5.97%	71,725,000	--	--	71,725,000	--
Total Unlimited Debt			88,230,000	--	3,590,000	84,640,000	3,710,000
Maintenance tax obligation							
2010	7	5.65%	6,620,000	--	680,000	5,940,000	715,000
Total Limited Debt			6,620,000	--	680,000	5,940,000	715,000
Bond Premium			319,287	--	30,361	288,926	--
Total business-type activities			\$ 95,169,287	\$ --	\$ 4,300,361	\$ 90,868,926	\$ 4,425,000
Statement of Net Assets							
Due Within One Year						\$ 4,425,000	
Due in More Than One Year						86,443,926	
						<u>\$ 90,868,926</u>	

* Other long-term liabilities

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2013

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2013, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2014	\$ 3,710,000	\$ 4,284,230	\$ 7,994,230
2015	3,860,000	4,135,252	7,995,252
2016	4,020,000	3,975,317	7,995,317
2017	4,175,000	3,799,342	7,974,342
2018	4,310,000	3,610,090	7,920,090
2019-2023	23,655,000	14,812,933	38,467,933
2024-2028	28,100,000	7,969,433	36,069,433
2029-2033	12,810,000	771,702	13,581,702
Totals	\$ 84,640,000	\$ 43,358,299	\$ 127,998,299

Year Ending August 31,	Maintenance Tax Obligations		
	Principal	Interest	Total
2014	\$ 715,000	\$ 335,610	\$ 1,050,610
2015	755,000	295,213	1,050,213
2016	800,000	252,555	1,052,555
2017	845,000	207,355	1,052,355
2018	890,000	159,612	1,049,612
2019-2023	1,935,000	165,545	2,100,545
Totals	\$ 5,940,000	\$ 1,415,890	\$ 7,355,890

G. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2013, as follows:

<u>Year Ending August 31,</u>	
2014	\$ 136,837
2015	51,679
2016	49,241
2017	28,805
Total Minimum Rentals	\$ 266,562

H. 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 2013, 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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

I. 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 2013, 2012, and 2011, and a state contribution rate of 6.644% for fiscal year 2011 and 6% for 2012 and 6.4% for 2013. In certain instances the reporting district is required to make all or a portion of the state's current contribution. This includes the rates as of 6.644%, 6.00% and 6.4%, respectively, for 2013, 2012 and 2011 through year end. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2013, 2012 and 2011 were \$1,572,965, \$1,561,121 and \$1,617,389, respectively. The District paid additional state contributions for the years ending August 31, 2013, 2012 and 2011 in the amount of \$119,791, \$179,156 and \$237,512, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

J. Retiree Health Care Plan

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 System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

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. The State of Texas and active public school employee contribution rates were 0.5% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2013, 2012 and 2011. 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. For the years ended August 31, 2013, 2012, and 2011, the State's contributions to TRS-Care were \$245,775, \$242,346, and \$254,544, respectively, the active member contributions were \$159,754, \$157,516, and \$165,454, respectively, and the District's contributions were \$135,176, \$133,282, and \$139,999, 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, 2013, 2012, and 2011, the subsidy payments received by TRS-Care on behalf of the District were \$67,435, \$62,759, and \$67,495, respectively.

K. **Employee Health Care Coverage**

During the period ended August 31, 2013, employees of the District were covered by a state-wide plan, TRS Active Care. The District paid premiums of \$150 per month per employee to the Plan with the State providing an additional \$75. Employees, at their option may authorize payroll withholdings to pay premiums for dependent coverage. The Teacher Retirement System of Texas (TRS) manages TRS Active Care. The Plan is administered by Blue Cross and Blue Shield of Texas for the medical plan while Medco Health was assigned the prescription drug plan.

The District's participation is renewable annually.

The latest financial information on the state-wide plan is available from TRS (see note G1).

L. **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 entered into settlement agreements with all but two of the affected taxpayers.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2013

The remaining two affected taxpayers, which 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 booked a contingent liability in the amount of its settlement offer, i.e., \$1.8 million. According to legal counsel, there is substantial case law that supports 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.

M. 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 a special revenue fund 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>
Hallsville ISD	\$ 534,839
Harleton ISD	101,435
Karnack ISD	27,664
Waskom ISD	101,435
Elysian Fields ISD	156,763
Total	<u>\$ 922,136</u>

N. Prior Period Adjustment

GASB Statement No. 65, Items Previously Reported as Assets and Liabilities

This resulted in an adjustment to the beginning net position in the amount of \$321,505 to remove deferred charges no longer required to be capitalized in accordance with GASB 65.

With the exception of prepaid insurance costs, costs related to the issuance of debt will be recorded as an expense in the period incurred. These include, but are not limited to, legal costs, costs of printing, insurance costs and various fees such as rating agency fees, trustee fees and administrative fees.

O. Subsequent Events

In November 2013 (subsequent to year end) the District issued \$3.735 million in Unlimited Tax Refunding Bonds, Series 2013 to refund certain outstanding Building Bonds Series 2004. The proceeds of the refunding net of debt issuance costs of \$57 thousand amounted to \$3.9 million and was deposited with an escrow agent to purchase direct obligations of the United States. As a result of the refunding, the District decreased its aggregate debt service payment to maturity by \$280 thousand and realized an economic gain (difference between the present value of debt service payments on the old debt and new debt) of \$215 thousand.

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, 2013

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 24,014,369	\$ 24,136,432	\$ 24,291,893	\$ 155,461
5800	State Program Revenues	10,932,379	11,143,072	11,138,652	(4,420)
5900	Federal Program Revenues	1,459,482	1,484,482	1,525,665	41,183
5020	Total Revenues	36,406,230	36,763,985	36,956,210	192,225
	DOES NOT FOOT BY THIS AMOUNT--->	--	1	--	
EXPENDITURES:					
Current:					
	Instruction & Instructional Related Services:				
0011	Instruction	19,217,931	19,510,088	19,494,415	15,673
0012	Instructional Resources and Media Services	428,080	401,380	382,804	18,576
0013	Curriculum and Staff Development	258,134	226,479	203,525	22,954
	Total Instruction & Instr. Related Services	19,904,145	20,137,947	20,080,744	57,203
	Instructional and School Leadership:				
0021	Instructional Leadership	768,038	830,638	818,142	12,496
0023	School Leadership	1,788,216	1,815,191	1,784,210	30,981
	Total Instructional & School Leadership	2,556,254	2,645,829	2,602,352	43,477
	Support Services - Student (Pupil):				
0031	Guidance, Counseling and Evaluation Services	794,183	850,413	802,270	48,143
0032	Social Work Services	72,499	78,549	71,798	6,751
0033	Health Services	294,317	316,917	302,516	14,401
0034	Student (Pupil) Transportation	1,788,828	1,704,953	1,703,925	1,028
0035	Food Services	--	11,900	5,890	6,010
0036	Cocurricular/Extracurricular Activities	1,034,916	1,332,343	1,313,408	18,935
	Total Support Services - Student (Pupil)	3,984,743	4,295,075	4,199,807	95,268
	Administrative Support Services:				
0041	General Administration	1,355,648	1,303,647	1,295,033	8,614
	Total Administrative Support Services	1,355,648	1,303,647	1,295,033	8,614
	Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	5,501,591	4,914,401	4,824,557	89,844
0052	Security and Monitoring Services	240,301	375,381	350,305	25,076
0053	Data Processing Services	596,812	619,280	616,660	2,620
	Total Support Services - Nonstudent Based	6,338,704	5,909,062	5,791,522	117,540
	Ancillary Services:				
0061	Community Services	16,780	20,780	14,649	6,131
	Total Ancillary Services	16,780	20,780	14,649	6,131
	Debt Service:				
0071	Principal on Long-Term Debt	680,000	680,000	680,000	--
0072	Interest on Long-Term Debt	374,030	374,030	374,030	--
0073	Bond Issuance Costs and Fees	5,000	1,500	1,500	--
	Total Debt Service	1,059,030	1,055,530	1,055,530	--
	Capital Outlay:				
0081	Capital Outlay	89,002	294,192	267,779	26,413
	Total Capital Outlay	89,002	294,192	267,779	26,413

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget
		Budgeted Amounts		Actual	Positive
		Original	Final		(Negative)
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	555,808	555,808	555,808	--
0099	Other Intergovernmental Charges	510,257	510,257	478,385	31,872
	Total Intergovernmental Charges	1,066,065	1,066,065	1,034,193	31,872
6030	Total Expenditures	36,370,371	36,728,127	36,341,609	386,518
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	35,859	35,858	614,601	578,743
1200	Net Change in Fund Balance	35,859	35,858	614,601	578,743
0100	Fund Balance - Beginning	6,269,715	6,269,715	6,269,715	--
3000	Fund Balance - Ending	\$ 6,305,574	\$ 6,305,573	\$ 6,884,316	\$ 578,743

*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 are presented for purposes of additional analysis.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET****NONMAJOR GOVERNMENTAL FUNDS**

AUGUST 31, 2013

Data Control Codes		Special Revenue Funds	Capital Projects Fund 2010 Bond Fund	Total Nonmajor Governmental Funds (See Exhibit C-1)
ASSETS:				
1110	Cash and Cash Equivalents	\$ 213,219	\$ 424,335	\$ 637,554
1120	Current Investments	--	(1)	(1)
1240	Due from Other Governments	615,616	--	615,616
1260	Due from Other Funds	--	--	--
1300	Inventories	63,878	--	63,878
1000	Total Assets	<u>892,713</u>	<u>424,334</u>	<u>1,317,047</u>
LIABILITIES:				
Current Liabilities:				
2110	Accounts Payable	\$ 108,919	\$ 8,575	\$ 117,494
2160	Accrued Wages Payable	57,492	--	57,492
2300	Unearned Revenue	525,954	--	525,954
2000	Total Liabilities	<u>692,365</u>	<u>8,575</u>	<u>700,940</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410	Inventories	63,878	--	63,878
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	136,470	--	136,470
3470	Capital Acquisitions & Contractual Obligations	--	415,759	415,759
3490	Other Restrictions of Fund Balance	--	--	--
3000	Total Fund Balances	<u>200,348</u>	<u>415,759</u>	<u>616,107</u>
4000	Total Liabilities and Fund Balances	<u>\$ 892,713</u>	<u>\$ 424,334</u>	<u>\$ 1,317,047</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Special Revenue Funds	Capital Projects Fund 2010 Bond Fund	Total Nonmajor Governmental Funds (See Exhibit C-2)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 1,617,635	\$ 1,925	\$ 1,619,560
5800 <i>State Program Revenues</i>	236,582	--	236,582
5900 <i>Federal Program Revenues</i>	2,861,869	--	2,861,869
5020 <i>Total Revenues</i>	<u>4,716,086</u>	<u>1,925</u>	<u>4,718,011</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	1,645,652	--	1,645,652
0013 <i>Curriculum and Staff Development</i>	137,393	--	137,393
0021 <i>Instructional Leadership</i>	182,110	--	182,110
0031 <i>Guidance, Counseling, & Evaluation Services</i>	669,482	--	669,482
0035 <i>Food Service</i>	1,727,672	--	1,727,672
0041 <i>General Administration</i>	1,000	--	1,000
0051 <i>Facilities Maintenance and Operations</i>	404	--	404
0061 <i>Community Services</i>	1,885	--	1,885
0081 <i>Capital Outlay</i>	--	1,075,707	1,075,707
0093 <i>Payments to Shared Service Arrangements</i>	342,387	--	342,387
6030 <i>Total Expenditures</i>	<u>4,707,985</u>	<u>1,075,707</u>	<u>5,783,692</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	8,101	(1,073,782)	(1,065,681)
1200 <i>Net Change in Fund Balances</i>	<u>8,101</u>	<u>(1,073,782)</u>	<u>(1,065,681)</u>
0100 <i>Fund Balances - Beginning</i>	192,247	1,489,541	1,681,788
3000 <i>Fund Balances - Ending</i>	<u>\$ 200,348</u>	<u>\$ 415,759</u>	<u>\$ 616,107</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2013

Data Control Codes		211 ESEA Title I Improving Basic Programs	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant	255 ESEA Title II Training & Recruiting
ASSETS:					
1110	Cash and Cash Equivalents	\$ (136,785)	\$ 258,998	\$ (14)	\$ (14,000)
1240	Due from Other Governments	159,831	23,083	14	21,000
1260	Due from Other Funds	--	--	--	--
1300	Inventories	--	63,878	--	--
1000	Total Assets	<u>23,046</u>	<u>345,959</u>	<u>--</u>	<u>7,000</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ --	\$ 98,282	\$ --	\$ 7,000
2160	Accrued Wages Payable	23,046	--	--	--
2300	Unearned Revenue	--	47,329	--	--
2000	Total Liabilities	<u>23,046</u>	<u>145,611</u>	<u>--</u>	<u>7,000</u>
FUND BALANCES:					
Nonspendable Fund Balances:					
3410	Inventories	--	63,878	--	--
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	136,470	--	--
3490	Other Restrictions of Fund Balance	--	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>200,348</u>	<u>--</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 23,046</u>	<u>\$ 345,959</u>	<u>\$ --</u>	<u>\$ 7,000</u>

313	314	381	397	404
IDEA-B	IDEA-B	Adult Basic	Advanced	Student
Formula	Preschool	Education	Placement	Success
		State	Incentives	Initiative
\$ (371,485)	\$ (4,240)	\$ (240)	\$ 5,819	\$ (1,215)
400,195	5,838	240	--	1,215
--	--	--	--	--
--	--	--	--	--
<u>28,710</u>	<u>1,598</u>	<u>--</u>	<u>5,819</u>	<u>--</u>
\$ 190	\$ --	\$ --	\$ --	\$ --
28,520	1,598	--	--	--
--	--	--	5,819	--
<u>28,710</u>	<u>1,598</u>	<u>--</u>	<u>5,819</u>	<u>--</u>
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 28,710</u>	<u>\$ 1,598</u>	<u>\$ --</u>	<u>\$ 5,819</u>	<u>\$ --</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET****NONMAJOR SPECIAL REVENUE FUNDS**

AUGUST 31, 2013

Data Control Codes		410 State Textbook Fund	429 State Funded Special Revenue Fund	437 Special Education	Total Nonmajor Special Revenue Funds (See Exhibit H-1)
ASSETS:					
1110	Cash and Cash Equivalents	\$ 56,823	\$ 1,254	\$ 418,304	\$ 213,219
1240	Due from Other Governments	4,200	--	--	615,616
1260	Due from Other Funds	--	--	--	--
1300	Inventories	--	--	--	63,878
1000	Total Assets	<u>61,023</u>	<u>1,254</u>	<u>418,304</u>	<u>892,713</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ 3,304	\$ --	\$ 143	\$ 108,919
2160	Accrued Wages Payable	--	--	4,328	57,492
2300	Unearned Revenue	57,719	1,254	413,833	525,954
2000	Total Liabilities	<u>61,023</u>	<u>1,254</u>	<u>418,304</u>	<u>692,365</u>
FUND BALANCES:					
Nonspendable Fund Balances:					
3410	Inventories	--	--	--	63,878
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	--	136,470
3490	Other Restrictions of Fund Balance	--	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>--</u>	<u>--</u>	<u>200,348</u>
4000	Total Liabilities and Fund Balances	<u>\$ 61,023</u>	<u>\$ 1,254</u>	<u>\$ 418,304</u>	<u>\$ 892,713</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		211 ESEA Title I Improving Basic Programs	214 ESEA Title I Part A Capital Expenses	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
REVENUES:					
5700	Local and Intermediate Sources	\$ --	\$ --	\$ 732,957	\$ --
5800	State Program Revenues	--	--	12,492	--
5900	Federal Program Revenues	461,751	74,385	990,324	43,694
5020	Total Revenues	<u>461,751</u>	<u>74,385</u>	<u>1,735,773</u>	<u>43,694</u>
EXPENDITURES:					
Current:					
0011	Instruction	439,137	74,385	--	40,280
0013	Curriculum and Staff Development	12,000	--	--	500
0021	Instructional Leadership	8,729	--	--	200
0031	Guidance, Counseling, & Evaluation Services	--	--	--	2,714
0035	Food Service	--	--	1,727,672	--
0041	General Administration	--	--	--	--
0051	Facilities Maintenance and Operations	--	--	--	--
0061	Community Services	1,885	--	--	--
0093	Payments to Shared Service Arrangements	--	--	--	--
6030	Total Expenditures	<u>461,751</u>	<u>74,385</u>	<u>1,727,672</u>	<u>43,694</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	8,101	--
1200	Net Change in Fund Balances	--	--	8,101	--
0100	Fund Balances - Beginning	--	--	192,247	--
3000	Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 200,348</u>	<u>\$ --</u>

1	255 ESEA Title II Training & Recruiting	313 IDEA-B Formula	314 IDEA-B Preschool	381 Adult Basic Education State	404 Student Success Initiative
	\$ --	\$ --	\$ --	\$ --	\$ --
	--	--	--	2,880	12,015
	93,581	1,173,517	24,617	--	--
	<u>93,581</u>	<u>1,173,517</u>	<u>24,617</u>	<u>2,880</u>	<u>12,015</u>
	--	727,498	24,617	2,880	12,015
	93,581	30,927	--	--	--
	--	51,716	--	--	--
	--	19,989	--	--	--
	--	--	--	--	--
	--	1,000	--	--	--
	--	--	--	--	--
	--	--	--	--	--
	--	342,387	--	--	--
	<u>93,581</u>	<u>1,173,517</u>	<u>24,617</u>	<u>2,880</u>	<u>12,015</u>
	--	--	--	--	--
	--	--	--	--	--
	--	--	--	--	--
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		410 State Textbook Fund	434 Supplemental Visually Impaired	437 Special Education	Total Nonmajor Special Revenue Funds (See Exhibit H-2)
REVENUES:					
5700	Local and Intermediate Sources	\$ --	\$ --	\$ 884,678	\$ 1,617,635
5800	State Program Revenues	169,812	1,925	37,458	236,582
5900	Federal Program Revenues	--	--	--	2,861,869
5020	Total Revenues	<u>169,812</u>	<u>1,925</u>	<u>922,136</u>	<u>4,716,086</u>
EXPENDITURES:					
Current:					
0011	Instruction	169,812	1,925	153,103	1,645,652
0013	Curriculum and Staff Development	--	--	385	137,393
0021	Instructional Leadership	--	--	121,465	182,110
0031	Guidance, Counseling, & Evaluation Services	--	--	646,779	669,482
0035	Food Service	--	--	--	1,727,672
0041	General Administration	--	--	--	1,000
0051	Facilities Maintenance and Operations	--	--	404	404
0061	Community Services	--	--	--	1,885
0093	Payments to Shared Service Arrangements	--	--	--	342,387
6030	Total Expenditures	<u>169,812</u>	<u>1,925</u>	<u>922,136</u>	<u>4,707,985</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	--	8,101
1200	Net Change in Fund Balances	--	--	--	8,101
0100	Fund Balances - Beginning	--	--	--	192,247
3000	Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 200,348</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
AUGUST 31, 2013

Data Control Codes		865 Activity Accounts	894 Other Activity Funds	895 Flower and Gift Administration HISD	Total Agency Funds (See Exhibit E-1)
ASSETS:					
1110	<i>Cash and Cash Equivalents</i>	\$ 405,585	\$ 355,674	\$ 12,166	\$ 773,425
1000	Total Assets	<u>405,585</u>	<u>355,674</u>	<u>12,166</u>	<u>773,425</u>
LIABILITIES:					
Current Liabilities:					
2190	<i>Due to Student Groups</i>	\$ 405,585	\$ 355,674	\$ 12,166	\$ 773,425
2000	Total Liabilities	<u>405,585</u>	<u>355,674</u>	<u>12,166</u>	<u>773,425</u>
NET POSITION:					
3000	Total Net Position	<u>\$ -</u>	<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, 2013*

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2004 and Prior Years	\$	Various	\$	Various	\$	Various
2005		1.485		.14		1,643,540,890
2006		1.473		.114		1,912,229,172
2007		1.346		.094		2,311,097,511
2008		1.02		.339		2,447,413,116
2009		1.02		.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 (School Year Under Audit)		1.04		.35		2,260,174,748

1000 Totals

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

10 Beginning Balance 9/1/12	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/13
\$ 224,855	\$ --	\$ 12,204	\$ 1,265	\$ (20,758)	\$ 190,628
38,773	--	2,127	200	(1,038)	35,408
45,645	--	3,416	264	(1,014)	40,951
50,551	--	4,766	333	(920)	44,532
62,153	--	6,111	2,031	(1,044)	52,967
98,160	--	12,726	3,493	(1,440)	80,501
137,061	--	20,197	6,079	(2,047)	108,738
209,899	--	44,715	13,457	(2,188)	149,539
542,165	--	182,210	67,102	(15,390)	277,463
--	31,416,429	23,208,573	7,810,578	91,995	489,273
<u>\$ 1,409,262</u>	<u>\$ 31,416,429</u>	<u>\$ 23,497,044</u>	<u>\$ 7,904,803</u>	<u>\$ 46,156</u>	<u>\$ 1,470,000</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2014-2015 GENERAL AND SPECIAL REVENUE FUNDS FOR THE YEAR ENDED AUGUST 31, 2013

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 199,452	\$ 286,702	\$ 346,722	\$ 66,347	\$ 899,223
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	--	--	47,165	--	1,000	--	48,165
6212	Audit Services	--	--	--	24,650	--	--	24,650
6213	Tax Appraisal and Collection	--	575,601	--	--	--	--	575,601
621X	Other Prof. Services	--	--	--	--	--	--	--
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	600	5,351	3,165	--	9,116
6240	Contr. Maint. and Repair	--	--	--	--	3,756	--	3,756
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	60,020	--	--	60,020
6290	Miscellaneous Contr.	2,524	--	110	33,655	1,700	150	38,139
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	--	--	135	--	135
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	4,255	--	386	28,354	51,878	1,177	86,050
6410	Travel, Subsistence, Stipends	5,313	--	1,426	5,934	500	--	13,173
6420	Ins. and Bonding Costs	--	--	--	--	8,116	--	8,116
6430	Election Costs	--	--	--	--	--	--	--
6490	Miscellaneous Operating	13,316	--	1,204	7,672	5,830	3,502	31,524
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	--	--

Total \$ 25,408 \$ 575,601 \$ 250,343 \$ 452,338 \$ 422,802 \$ 71,176 \$ 1,797,668

Total Expenditures for General and Special Revenue Funds (9) \$ 41,049,594

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 333,680
Total Debt & Lease (6500)	(11)	\$ 1,055,530
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 4,780,879
Food (Function 35, 6341 and 6499)	(13)	\$ 652,466
Stipends (6413)	(14)	\$ --
Column 4 (above) - Total Indirect Cost		\$ 452,338

Subtotal 7,274,893

Net Allowed Direct Cost \$ 33,774,701

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$ 140,463,550
Historical Cost of Buildings over 50 years old	(16)	1,226,225
Amount of Federal Money in Building Cost (Net of #16)	(17)	--
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)	9,502,626
Historical Cost of Furniture & Equipment over 16 years old	(19)	--
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 417,183

(8) Note A - \$23,250 in Function 53 expenditures and \$478,385 in Function 99 expenditures are included in this report on administrative costs.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT**EXHIBIT J-3**

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
REVENUES:				
5700	Local and Intermediate Sources	\$ 799,161	\$ 732,957	\$ (66,204)
5800	State Program Revenues	10,234	12,492	2,258
5900	Federal Program Revenues	1,000,076	990,324	(9,752)
5020	Total Revenues	1,809,471	1,735,773	(73,698)
EXPENDITURES:				
Current:				
Support Services - Student (Pupil):				
0035	Food Services	1,809,471	1,727,672	81,799
	Total Support Services - Student (Pupil)	1,809,471	1,727,672	81,799
6030	Total Expenditures	1,809,471	1,727,672	81,799
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	--	8,101	8,101
1200	Net Change in Fund Balance	--	8,101	8,101
0100	Fund Balance - Beginning	192,247	192,247	--
3000	Fund Balance - Ending	\$ 192,247	\$ 200,348	\$ 8,101

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		1	2	3
		Budget	Actual	Variance Positive (Negative)
REVENUES:				
5700	Local and Intermediate Sources	\$ 7,858,562	\$ 7,907,922	\$ 49,360
5020	Total Revenues	7,858,562	7,907,922	49,360
EXPENDITURES:				
Debt Service:				
0071	Principal on Long-Term Debt	3,590,000	3,590,000	--
0072	Interest on Long-Term Debt	4,407,964	4,407,964	--
0073	Bond Issuance Costs and Fees	900	900	--
	Total Debt Service	7,998,864	7,998,864	--
6030	Total Expenditures	7,998,864	7,998,864	--
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	(140,302)	(90,942)	49,360
1200	Net Change in Fund Balance	(140,302)	(90,942)	49,360
0100	Fund Balance - Beginning	430,264	430,264	--
3000	Fund Balance - Ending	\$ 289,962	\$ 339,322	\$ 49,360

West, Davis & Company, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759

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
Hallsville, Texas

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, 2013, 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 10, 2014.

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.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

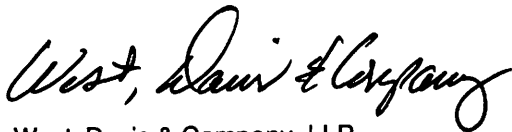
As part of obtaining reasonable assurance about whether Hallsville Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



West, Davis & Company, LLP
Austin, Texas
January 10, 2014

West, Davis & Company, LLP
11824 Jollyville Road, Suite 100
Austin, Texas 78759

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
Hallsville, Texas

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, 2013. 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, 2013.

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.



West, Davis & Company, LLP
Austin, Texas
January 10, 2014

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? Yes X 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 auditor's 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:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	ESEA Title I Part A - Improving Basic Programs
84.010A	ESEA Title I Part D, Subpart 2 - Delinquent Programs
84.027A	SSA IDEA-B Formula
84.367A	SSA IDEA-B Preschool

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

NONE

C. Federal Award Findings and Questioned Costs

NONE

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

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 EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	12610101102904	\$ (11,500)
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	1361013102904	450,205
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	14610103102904	23,046
<i>ESEA Title I Part D, Subpart 2 - Delinquent Programs *</i>	84.010A	13610103102904	74,385
Total CFDA Number 84.010A			<u>536,136</u>
<i>SSA IDEA-B Formula *</i>	84.027A	126600011029046600	(25)
<i>SSA IDEA-B Formula *</i>	84.027A	136600011029046600	1,165,714
<i>SSA IDEA-B Formula *</i>	84.027A	146600011029046600	7,828
Total CFDA Number 84.027A			<u>1,173,517</u>
<i>Career and Technical - Basic Grant</i>	84.048A	13420006102904	43,694
Total CFDA Number 84.048A			<u>43,694</u>
<i>SSA IDEA-B Preschool *</i>	84.173A	136610011029046610	24,617
Total CFDA Number 84.173A			<u>24,617</u>
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	13694501102904	93,581
Total CFDA Number 84.367A			<u>93,581</u>
Total Passed Through State Department of Education			<u>1,871,545</u>
Total U. S. Department of Education			<u>1,871,545</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	71401301	221,100
National School Lunch Program (Non-cash) *	10.555	102-904	96,734
National School Lunch Program *	10.555	71301301	672,490
Total CFDA Number 10.555			<u>769,224</u>
Total Passed Through State Department of Education			<u>990,324</u>
Total U. S. Department of Agriculture			<u>990,324</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 2,861,869</u></u>

* 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, 2013

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.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2013*

<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?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ --