

HIGH ISLAND INDEPENDENT
SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2008

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT
Annual Financial Report
For The Year Ended August 31, 2008

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INTRODUCTORY SECTION

FINANCIAL SECTION

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2008

In this section of the Annual Financial Report, we, the managers of the High Island Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2008. We encourage readers to consider the information presented here in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements that begin on page 10.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$3,225,782 at August 31, 2008.
- During the year, the District's expenses were \$300,017 more than the \$3,152,665 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs increased from the period ended August 31, 2007 but no new programs were added this year.
- The general fund reported a fund balance this year of \$1,037,126. All of this is for unrestricted use by the District.
- The District attempted no major capital project initiatives in 2007-2008. The District had some improvements and was still making necessary repairs as a result of Hurricane Rita.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplementary information.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. They include the Statement of Net Assets and the Statement of Activities that 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.

The *Statement of Net Assets* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The *Statement of Activities* presents information showing how the government's net assets changed during the current fiscal year. All changes in net assets are reported for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide detailed information about the District's most significant funds, *not* the District as a whole.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- **Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term effort of the government's near-term effort of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds organized according to their type. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the District's most significant funds. The District's major governmental fund is the General Fund. Data for the remaining governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The Texas Education Agency also requires the District to present a budgetary comparison statement for one of its special revenue funds (food service) and the debt service fund.

- **Fiduciary Funds.** The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 16. 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.

Notes to the Financial Statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17-29 of this report.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on page 30 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Net Assets (Table I) and Changes in Net Assets (Table II) of the District's governmental activities.

The District's combined net assets were \$3,225,782 at August 31, 2008. (See Table I)

Table I
High Island Independent School District
Net Assets

	August 31, 2008	August 31, 2007
Current and Other Assets	\$ 1,882,509	\$ 2,248,438
Capital Assets	3,556,418	3,631,657
Total Assets	<u>5,438,927</u>	<u>5,880,095</u>
Long-term Liabilities	1,880,000	1,970,000
Other Liabilities	333,145	384,296
Total Liabilities	<u>2,213,145</u>	<u>2,354,296</u>
Net Assets:		
Invested in Capital Assets Net of Related Debt	1,676,418	1,661,656
Restricted for Debt Service	53,666	73,214
Unrestricted	<u>1,495,698</u>	<u>1,790,929</u>
Total Net Assets	<u>\$ 3,225,782</u>	<u>\$ 3,525,799</u>

Approximately \$1.67 million of the District's net assets represent investments in capital assets net of related debt. The \$1.5 million of unrestricted net assets represents resources available to fund the programs of the District next year.

Changes in net assets. The District's total revenues were \$3.1 million. A significant portion, 50 percent, of the District's revenue comes from local property taxes, 37 percent comes from grants and contributions, while only 3 percent relates to charges for services and the remaining 10 percent relates to investment earnings and other miscellaneous revenue.

Total Cost of all programs and services was \$3.45 million, of this amount \$1.3 million were instruction related costs.

Net assets of the District's governmental activities for the current year decreased \$300,017 (see Table II on page 7 of this report). This decrease was budgeted and anticipated by the District.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2008

Key elements of the governmental activities of the District are reflected in the following table.

Table II
High Island Independent School District
Changes in Net Assets

	August 31, 2008	August 31, 2007
Revenues:		
Program Revenues:		
Charges for Services	\$ 81,020	\$ 84,270
Operating Grants and Contributions	272,782	365,264
General Revenues:		
Maintenance and Operations Taxes	1,414,159	1,786,765
Debt Service Taxes	149,132	153,499
State Aid - Formula Grants		
Grants and Contributions - Not Restricted to Specific Functions	906,366	567,836
Investment Earnings	56,033	80,777
Miscellaneous	273,173	77,948
Total Revenue	<u>3,152,665</u>	<u>3,116,359</u>
Expenses:		
Instruction	1,300,010	1,317,790
Instructional Resources and Media Services	36,509	69,685
Curriculum/Instructional Development	12,841	14,428
Instructional Leadership	31,203	29,874
School Leadership	118,147	109,550
Guidance and Counseling Services	32,467	31,001
Health Services	10,325	9,841
Student (Pupil) Transportation	137,496	71,460
Food Services	149,230	132,963
Cocurricular/Extracurricular Activities	158,635	126,852
General Administration	229,977	241,699
Plant Maintenance and Operations	1,002,558	680,262
Security and Monitoring Services	614	630
Data Processing Services	58,833	58,850
Community Services	300	305
Debt Services - Interest on Long-Term Debt	76,764	79,663
Debt Services - Bond Issuance Cost & Fees	4,880	4,880
Payments to Fiscal Agent/Member Districts of SSA	68,282	77,011
Payments to Juvenile Justice Alternative Ed. Program	10,034	4,562
Other Intergovernmental Charges	13,577	-
Total Expenses	<u>3,452,682</u>	<u>3,061,306</u>
Increase (Decrease) in Net Assets	(300,017)	55,053
Net Assets - September 1 (Beginning)	3,525,799	3,563,851
Prior Period Adjustment	-	(93,105)
Net Assets - September 1 (Restated)	<u>3,525,799</u>	<u>3,470,746</u>
Net Assets - August 31 (Ending)	<u>\$ 3,225,782</u>	<u>\$ 3,525,799</u>

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2008

GOVERNMENTAL ACTIVITIES

- Property tax rates were set at \$1.17 per \$100 valuation for M&O and \$.13 for I&S. The rate for 2009 is set at \$1.17 for M&O and \$.13569 for I&S.
- The District did not borrow any funds. The District continues to pay down the \$2.05 million in bonds.

Table III presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all governmental activities this year was \$3.45 million.
- The amount that our taxpayers paid for these activities through property taxes was \$1.55 million.
- Some of the cost, \$81,020, was paid by those who directly benefited from the programs or by grants and contributions in the amount of \$272,782.

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Instruction	\$ 1,300,010	\$ 1,317,790	\$ 1,109,576	\$ 1,050,901
School Administration	229,977	241,699	223,485	232,242
School Leadership	118,147	109,550	113,219	105,217
Plant Maintenance & Operations	1,002,558	680,262	992,768	644,123
Cocurricular/Extracurricular Activities	158,635	126,852	149,363	113,780
Food Services	149,230	132,963	36,267	37,599

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The 2007-08 Budget was built on 227 ADA and was able to work within that budget however with a slight decrease in enrollment we will build the 2008-09 budget on 200 ADA. Crenshaw, a K-8 school in Galveston continues to affect our enrollment both in the elementary and middle school. The High Island High School continues to be stable with enrollment.

The district continues to recover from hurricanes 'Rita' and 'Humberto' which caused damages in excess of \$500,000. With the aid of insurance (\$511,000), the school facilities will be restored to pre-hurricane condition.

Capital Improvements for items other than hurricane related projects totaled \$157,509.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were several budget amendments for the 2007-2008 school year required to meet various needs throughout the District approved by the Board of Trustees.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2008

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets. At August 31, 2008 the District had \$3.6 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment used for instruction, transportation, athletics, administration, and maintenance. This amount represents a net decrease (including additions and deductions) of \$115,776 over last year.

**High Island Independent School District
Capital Assets
Governmental Activities**

	<u>August 31, 2008</u>	<u>August 31, 2007</u>
Land	\$ 314,140	\$ 314,140
Buildings and Improvements	9,812,224	9,670,223
Equipment	541,558	527,177
Vehicles	581,723	581,723
Infrastructure	<u>478,600</u>	<u>478,600</u>
Totals at Historical Cost	<u>11,728,245</u>	<u>11,571,863</u>
Less Accumulated Depreciation:		
Buildings and Improvements	(7,372,550)	(7,259,460)
Equipment	(353,771)	(227,988)
Vehicles	(279,990)	(311,172)
Infrastructure	<u>(165,516)</u>	<u>(141,586)</u>
Total Accumulated Depreciation	<u>(8,171,827)</u>	<u>(7,940,206)</u>
Net Capital Assets	<u><u>\$ 3,556,418</u></u>	<u><u>\$ 3,631,657</u></u>

Long-Term Debt. At year-end, the District had \$1,880,000 in bonds outstanding. More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

**High Island Independent School District
Outstanding Debt**

	<u>August 31, 2008</u>	<u>August 31, 2007</u>
Governmental activities:		
General Obligation Bonds	<u>\$ 1,880,000</u>	<u>\$ 1,970,000</u>
Total	<u><u>\$ 1,880,000</u></u>	<u><u>\$ 1,970,000</u></u>

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

The district is in an ongoing practice of conservative budgetary management, which includes staff downsizing, program consolidation, and close scrutiny of such factors as enrollment and ADA.

The District also continues to take advantage of shared service arrangements with the Education Service Center for our region and the Gulf Coast Special Education Co-op.

The District built a conservative budget based on 200 ADA which reflects a slight drop in enrollment. In addition, the District will continue to accept transfer students in an effort to raise enrollment. The District will continue to align staff to parallel student enrollment and program needs.

The Districts tax base remains constant with a slight drop in property values. This drop is mainly due to halt in development of a large sub-division.

The District facilities have been upgraded significantly through improvement projects and completion of hurricane 'Rita' repairs. The District also suffered another hurricane 'Humberto' this past fall causing the over \$500,000 in damages including the football field lights, baseball dugout and press box. Increased deductibles in Windstorm insurance will leave the District responsible for most of the repair costs.

We will persist in closely monitoring enrollment, program and staffing needs, and tax revenue to operate as efficiently as possible and continue to build a positive fund balance.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Superintendent, 2125 5th Street High Island, Texas 77623-0246.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

AUGUST 31, 2008

Data Control Codes	<u>Primary Government</u> Governmental Activities
Assets	
1110 Cash and Cash Equivalents	\$ 1,329,313
1220 Property Taxes Receivable (Delinquent)	500,173
1230 Allowance for Uncollectible Taxes	(75,026)
1240 Due from Other Governments	2,459
1290 Other Receivables	743
1410 Deferred Expenses	84,510
1420 Capital Bond and Other Debt Issuance Costs	58,643
1430 Premium and Discount on Issuance of Bonds	(18,306)
Capital Assets (Net of Accumulated Depreciation):	
1510 Land	314,140
1520 Buildings and Improvements, Net	2,439,674
1530 Furniture and Equipment, Net	489,520
1590 Infrastructure, Net	313,084
1000 Total Assets	<u>5,438,927</u>
Liabilities	
2110 Accounts Payable and Accrued Expenses	6,093
2160 Accrued Wages Payable	58,913
2180 Due to Other Governments	254,843
2200 Accrued Expenditures	13,296
Long Term Liabilities:	
2501 Due Within One Year	95,000
2502 Due in More Than One Year	1,785,000
2000 Total Liabilities	<u>2,213,145</u>
Net Assets	
3200 Invested in Capital Assets, Net of Related Debt	1,676,418
3850 Restricted for Debt Service	53,666
3900 Unrestricted Net Assets	1,495,698
3000 Total Net Assets	<u>\$ 3,225,782</u>

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

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Data Control Codes	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities					
0011	Instruction	\$ 1,300,010	\$ 18,510	\$ 171,924	\$ (1,109,576)
0012	Instructional Resources & Media Services	36,509	-	458	(36,051)
0013	Curriculum/Instructional Development	12,841	-	10,480	(2,361)
0021	Instructional Leadership	31,203	-	1,297	(29,906)
0023	School Leadership	118,147	-	4,928	(113,219)
0031	Guidance and Counseling Services	32,467	-	1,304	(31,163)
0033	Health Services	10,325	-	568	(9,757)
0034	Student (Pupil) Transportation	137,496	-	3,305	(134,191)
0035	Food Services	149,230	56,302	56,661	(36,267)
0036	Cocurricular/Extracurricular Activities	158,635	6,208	3,064	(149,363)
0041	General Administration	229,977	-	6,492	(223,485)
0051	Plant Maintenance and Operations	1,002,558	-	9,790	(992,768)
0052	Security and Monitoring Services	614	-	-	(614)
0053	Data Processing Services	58,833	-	2,511	(56,322)
0061	Community Services	300	-	-	(300)
0072	Debt Service - Interest on Long Term Debt	76,764	-	-	(76,764)
0073	Debt Service - Bond Issuance Cost & Fees	4,880	-	-	(4,880)
0093	Payments to Fiscal Agent/Member Districts of SSA	68,282	-	-	(68,282)
0095	Payments to Juvenile Justice Alternative Ed. Prg.	10,034	-	-	(10,034)
0099	Other Intergovernmental Charges	13,577	-	-	(13,577)
TP	Total Primary Government:	<u>\$ 3,452,682</u>	<u>\$ 81,020</u>	<u>\$ 272,782</u>	<u>(3,098,880)</u>
Data	General Revenues:				
Control	Taxes:				
Codes	MT	Property Taxes, levied for general purposes		1,414,159	
	DT	Property Taxes, levied for debt service		149,132	
	GC	Grants and Contributions not restricted		906,366	
	IE	Investment Earnings		56,033	
	MI	Miscellaneous Local and Intermediate		273,173	
	TR	Total General Revenues		<u>2,798,863</u>	
	CN	Change in Net Assets		(300,017)	
	NB	Net Assets - September 1 (Beginning)		<u>3,525,799</u>	
	NE	Net Assets - August 31 (Ending)		<u>\$ 3,225,782</u>	

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

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-1

BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2008

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
Assets				
1110	Cash and Temporary Investments (market)	\$ 1,267,837	\$ 61,476	\$ 1,329,313
1220	Property Taxes - Delinquent	471,420	28,753	500,173
1230	Allowance for Uncollectible Taxes (credit)	(70,713)	(4,313)	(75,026)
1240	Due from Other Governments	-	2,459	2,459
1260	Due from Other Funds	907	-	907
1290	Other Receivables	743	-	743
1410	Deferred Expenditures	84,510	-	84,510
1000	Total Assets	\$ 1,754,704	\$ 88,375	\$ 1,843,079
Liabilities and Fund Balances				
Liabilities:				
2110	Accounts Payable and Accrued Expenditures	\$ 6,093	\$ -	\$ 6,093
2160	Accrued Wages Payable	54,859	4,054	58,913
2170	Due to Other Funds	-	907	907
2180	Due to State	254,843	-	254,843
2200	Accrued Expenditures	13,120	176	13,296
2300	Unearned Revenues	388,663	23,300	411,963
2000	Total Liabilities	\$ 717,578	\$ 28,437	\$ 746,015
Fund Balances:				
Reserved Fund Balance				
3420	Retirement of Long-Term Debt	\$ -	\$ 53,666	\$ 53,666
Unreserved Designated For:				
3510	Construction	-	-	-
Unreserved Fund Balance				
3600	General Fund	1,037,126	-	1,037,126
3610	Reported in Special Revenue Funds	-	6,272	6,272
3000	Total Fund Balances	\$ 1,037,126	\$ 59,938	\$ 1,097,064
4000	Total Liabilities and Fund Balances	\$ 1,754,704	\$ 88,375	\$ 1,843,079

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Total Fund Balances - Governmental Funds	\$ 1,097,064
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	3,556,418
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	411,963
Bond discounts and issuance costs in governmental activities are not recognized in the funds.	40,337
Notes payable which are not due in the current period are not reported in the funds.	<u>(1,880,000)</u>
Net Assets of Governmental Activities	<u><u>\$ 3,225,782</u></u>

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

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

GOVERNMENTAL FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
Revenues			
5700	\$ 1,734,882	\$ 205,374	\$ 1,940,256
5800	1,000,914	42,141	1,043,055
5900	-	136,093	136,093
5020	<u>2,735,796</u>	<u>383,608</u>	<u>3,119,404</u>
Expenditures			
Current			
0011	1,091,868	114,461	1,206,329
0012	33,572	306	33,878
0013	1,436	10,480	11,916
0021	28,954	-	28,954
0023	109,633	-	109,633
0031	30,127	-	30,127
0033	9,581	-	9,581
0034	127,588	-	127,588
0035	3,674	142,291	145,965
0036	147,203	-	147,203
0041	213,404	-	213,404
0051	926,378	-	926,378
0052	570	-	570
0053	54,593	-	54,593
0061	278	-	278
Debt Service			
0071	-	90,000	90,000
0072	-	78,120	78,120
0073	-	500	500
Capital Outlay			
0081	157,509	-	157,509
Intergovernmental			
0093	68,282	-	68,282
0095	10,034	-	10,034
0099	13,577	-	13,577
6030	<u>3,028,261</u>	<u>436,158</u>	<u>3,464,419</u>
1100	Excess (Deficiency) of Revenues Over (Under)		
	Expenditures	<u>(292,465)</u>	<u>(345,015)</u>
Other Financing Sources (Uses):			
7915	-	33,002	33,002
8911	(33,002)	-	(33,002)
7080	<u>(33,002)</u>	<u>33,002</u>	<u>-</u>
1200	(325,467)	(19,548)	(345,015)
0100	<u>1,362,593</u>	<u>79,486</u>	<u>1,442,079</u>
3000	<u>\$ 1,037,126</u>	<u>\$ 59,938</u>	<u>\$ 1,097,064</u>

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Total Net Change in Fund Balances - Governmental Funds	\$ (345,016)
Capital outlays are not reported as expenses in the statement of activities.	172,644
Disposal of assets and the related accumulated depreciation are not recognized in the funds but are included in the government-wide statements.	(10,860)
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.	(237,023)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	33,262
Repayment of loan principal and accreted interest is an expenditure in the funds but is not an expense in the statement of activities.	90,000
Bond issuance costs and premiums are amortized in the statement of activities but not in the funds.	(3,024)
Change in Net Assets of Governmental Activities	<u><u>\$ (300,017)</u></u>

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

STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2008

	<u>Agency Fund</u>
Assets	
Cash and Cash Equivalents	<u>\$ 12,875</u>
Total Assets	<u><u>\$ 12,875</u></u>
Liabilities	
Due to Student Groups	<u>12,875</u>
Total Liabilities	<u><u>\$ 12,875</u></u>

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

High Island Independent School District (District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with Generally Accepted Accounting Principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

A. 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" and there are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the nonfiduciary activities of the primary government. 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 demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function. They also include grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues as reported as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, if applicable, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation, Continued

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., both measurable and available to finance expenditures of the fiscal period. Revenues are considered available when they are collectible within the current period or soon enough thereafter to be pay liabilities of the current period. For this purpose, the government considers revenues available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded only when the payment is due.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept and so have been recognized as revenues of the current fiscal period. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until the related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

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.

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.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash, Cash Equivalents and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, money market bank sweep accounts, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

For cash management purposes, the District's funds must be deposited and invested under the terms of a depository contract, contents of which are set out in the Depository Contract Law. 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

Property taxes are levied by October 1, on the assessed value listed as of the prior January 1, for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the following year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General Fund 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.

3. Inventories and Deferred Expenditures

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 deferred expenditures.

4. Capital Assets

Capital assets which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years.

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

D. Assets, Liabilities, and Net Assets or Equity, Continued

4. Capital Assets, Continued

Buildings, furniture and equipment and vehicles of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Infrastructure	20
Buildings	30
Building Improvements	20-30
Vehicles	10
Office Equipment	10
Computer Equipment	10

6. Compensated Absences

No compensated absences are allowed under the District's personnel policies.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide data base for policy development and funding plans.

Note 2: COMPLIANCE AND ACCOUNTABILITY

A. Finance-Related Legal and Contractual Provisions

1. 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

The District did not have any deficit fund balances or negative fund net assets for the fiscal year ended August 31, 2008.

Note 3: DEPOSITS AND INVESTMENTS

At August 31, 2008, the carrying amount of the District's demand deposits and cash on hand was \$226,714. The \$344,095 bank balance was covered by federal deposit insurance through the FDIC and was collateralized by securities held by the District or by the District's agent in name of the District.

The District was not exposed to custodial credit risk at any point during the fiscal year ended August 31, 2008.

All cash balances and investments are held separately in each of its funds. Funds held at the depository bank were properly secured at all times, and the following was disclosed:

- a. Name of depository bank: Texas First Bank
- b. Amount of bond or securities pledged as of the date of the highest combined balance on deposit was \$1,000,000.
- c. Highest cash balance amounted to \$206,394 and occurred during the month of April, 2008.
- d. Total amount of Federal Deposit Insurance Corporation ("FDIC") coverage at the time of the highest combined balance was \$250,000.

Investments

The State Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. It requires the District to adopt, implement, and publicize an investment policy. The investment 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.

Statutes authorize the District to invest in (1) obligations of the United States Treasury, certain United States agencies, and obligations of the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. Management of the District believes it is in compliance with the requirements of the Act and with local policies. The District's investments in public funds investment pools and money market mutual funds include those with the Lone Star Investment Pool (LSIP).

LSIP is a public funds investment pool administered by First Public (formerly known as the Texas Association of School Board Financial Service). LSIP is a public funds investment pool created under the authorization of the Interlocal Cooperation Act of the State of Texas, Article 4413 (32c), Vernon's Texas Civil Statutes, as amended. It is designed to provide participating local governments with investment vehicles for (1) local funds that are not required to be spent immediately and are available for investment in securities with maturities and returns generally greater than those for money market instruments and (2) local funds which provide daily liquidity. The objective of the LSIP is to provide participating local governments with the highest possible rate of return for such funds, while maintaining safety of principal.

Note 3: DEPOSITS AND INVESTMENTS, CONTINUED

Investments, Continued

To achieve its objective, the LSIP invests primarily in obligations issued or secured by the U.S. Government, its agencies and instrumentalities, and in commercial paper. Standish Mellon Asset Management and AMR Investments provide investment advisory services. Each fund within the Pool has received the highest rating, AAA, from Standard & Poor's as required by the Public Funds Investment Act

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. 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.

The overall objective of the District's investment policy is to ensure that District financial assets are properly safeguarded, provide sufficient liquidity, and produce a reasonable rate of return while enabling the District to react to changes in economic conditions.

The District's investments at August 31, 2008 are shown below:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Investments not subject to categorization			
LoneStar	<u>\$ 1,115,474</u>	<u>\$ 1,115,474</u>	Weighted average < 120 days
Total Investments	<u><u>\$ 1,115,474</u></u>	<u><u>\$ 1,115,474</u></u>	

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:

Credit Risk: Credit Ratings

District investments conform to the District's banking and investment policies and are in accordance with laws and regulations of the State of Texas and TEA. Statutes of the State of Texas and policies mandated by the District's Board authorize the District to invest in obligations of the U.S. Government or its agencies, repurchase agreements, commercial paper, public funds investment pools, mutual funds and money market accounts. As stated above, Lonestar has received the highest rating, AAA, from Standard & Poor's. At year end, the District was not significantly exposed to credit risk.

Custodial Credit Risk

Deposits are exposed to custodial 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.

Note 3: DEPOSITS AND INVESTMENTS, CONTINUED

Custodial Credit Risk, Continued

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.

The District was not exposed to custodial credit risk during the course of the fiscal year.

Concentration of Credit Risk

It is the policy of the District to reduce risk associated with investments by diversification of the portfolio.

Concentration of Credit Risk, Continued

The District was not exposed to concentration of credit risk during the course of the fiscal year

Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District concentrates its investment portfolio in short and intermediate term securities to limit market risk caused by changes in interest rates. At year end, the District was not exposed to interest rate risk.

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.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

Note 3: CAPITAL ASSETS

Prior to GASB Statement No. 34, the District was not required to calculate depreciation expense for reporting capital assets. In accordance with the implementation of GASB Statement No. 34, capital assets have been adjusted to reflect historical cost for the purpose of calculating depreciation.

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 314,140	\$ -	\$ -	\$ 314,140
Construction in Progress	-	-	-	-
Total Capital Assets, Not Being Depreciated	314,140	-	-	314,140
Capital Assets, Being Depreciated:				
Buildings & Improvements	9,670,223	157,509	(15,508)	9,812,224
Equipment	527,177	15,135	(754)	541,558
Vehicles	581,723	-	-	581,723
Infrastructure	478,600	-	-	478,600
Total Capital Assets, Being Depreciated:	11,257,723	172,644	(16,262)	11,414,105
Less Accumulated Depreciation:				
Buildings & Improvements	(7,259,460)	(118,065)	4,975	(7,372,550)
Equipment	(227,988)	(52,429)	427	(279,990)
Vehicles	(311,172)	(42,599)	-	(353,771)
Infrastructure	(141,586)	(23,930)	-	(165,516)
Total Accumulated Depreciation	(7,940,206)	(237,023)	5,402	(8,171,827)
Total Capital Assets, Being Depreciated, Net	3,317,517	(64,379)	(10,860)	3,242,278
Governmental Activities Capital Assets, Net	\$ 3,631,657	\$ (64,379)	\$ (10,860)	\$ 3,556,418

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

Note 3: CAPITAL ASSETS, CONTINUED

At September 1, 2001, the District also implemented a capitalization policy for assets, defined as assets with an initial, individual cost of \$5,000 or more and an estimated useful life in excess of two years. The District will continue to maintain a controllable asset inventory for items not capitalized in order to safeguard district assets.

Depreciation expense of the governmental activities was charged to functions/programs as follows:

Instruction	\$	93,681
Instructional Resources & Media Services		2,631
Current Development and Staff Development		925
Instructional leadership		2,249
School Leadership		8,514
Guidance, Counseling & Evaluation Services		2,340
Health Services		744
Student (Pupil) Transportation		9,908
Food Services		11,335
Cocurricular Activities		11,432
General Administration		16,573
Plant Maintenance & Operations		72,385
Security and Monitoring Services		44
Data Processing Services		4,240
Community Services		22
Total Depreciation Expense	\$	<u>237,023</u>

Note 4: INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivables and payables are short-term transactions between funds that are accounted for in the appropriate interfund receivable and payable accounts. Interfund balances at August 31, 2008 consisted of the following individual fund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Other Special Revenue	\$ 907
		<u>\$ 907</u>

The receivables in the general fund totaling \$907 due from special revenue funds represent amounts due for reimbursement of expenditures paid by the general fund.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
General	Special Revenue	\$ 33,002
		<u>\$ 33,002</u>

The transfer from the General Fund in the amount of \$33,002 to the Special Revenue Fund was to supplement operations.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

Note 5: SHORT-TERM DEBT ACTIVITY

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources. There was no short-term debt activity during the year ended August 31, 2008.

Note 6: LONG-TERM DEBT

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for only governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. Current principal and interest requirements are payable solely from future revenues of the debt service fund which consists principally of property taxes collected by the District and interest earnings. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indentures. The District has never defaulted on any principal or interest payment.

General obligation bonds payable at August 31, 2008, are summarized as follows:

<u>Date of Issue</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Annual Installments</u>	<u>% Rate</u>	<u>Outstanding Balance</u>
2004	2,170,000	2022	\$9,997 to \$180,000	2.5%-4.3%	\$ 1,880,000
					<u>\$ 1,880,000</u>

Changes in long-term liabilities

Long-term liability activity for the year ended August 31, 2008, was as follows

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Payments</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds Payable:					
General obligations bonds	\$ 1,970,000	\$ -	\$ 90,000	\$ 1,880,000	\$ 95,000
Total governmental activities	<u>\$ 1,970,000</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 1,880,000</u>	<u>\$ 95,000</u>

Annual debt service requirements to maturity for the bonds are as follows:

<u>Year Ending August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	95,000	74,420	169,420
2010	100,000	70,520	170,520
2011	110,000	66,320	176,320
2012	110,000	61,920	171,920
2013	120,000	57,320	177,320
2014-2018	680,000	208,200	888,200
2019-2022	<u>665,000</u>	<u>58,000</u>	<u>723,000</u>
Total	<u>\$ 1,880,000</u>	<u>\$ 596,700</u>	<u>\$ 2,476,700</u>

Note 7: RETIREMENT BENEFITS

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. TRS operates primarily under the provision 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 legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees.

TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy

State law provides for fiscal years 2008, 2007 and 2006 a state contribution rate of 6%, a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6% contribution.

Contribution requirements are not actuarially determined but are legally 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 10.0% 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 the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary for 2008, 2007, and 2006 and a state contribution rate of 6.58% for fiscal year 2008 and 6.0% for fiscal years 2007 and 2006. In certain instances the reporting district is required to make all or a portion of the state's 6.58% contribution for fiscal year 2008 and 6.00% for fiscal years 2007 and 2006. The amount contributed by the State on behalf of the District for the years ended August 31, 2008 and 2007 was \$94,548 and \$89,047 respectively.

Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2008, 2007 and 2006 were \$8,997, \$7,597 and \$6,857, respectively. The District's employees' contributions to the System for the fiscal periods ending in 2008, 2007, and 2006 were \$100,204, \$99,159 and \$97,388, respectively.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2008

Note 8: HEALTH CARE COVERAGE

During the year ended August 31, 2008, the employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$200 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

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

Latest financial statements for the plan have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Note 9: RISK MANAGEMENT

Property, Casualty and Liability Insurance

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of property; errors and omissions; and natural disasters for which the District carries commercial insurance. Settled claims have not exceeded insurance coverage in any of the previous three years. There has not been any significant reduction in insurance coverage from that of the previous year. With respect to property insurance, the District retains the risk of the first \$1,000 for property coverage all perils (excluding windstorm), and the first \$75,000 per location for windstorm and hail damage after which insurance is purchased.

Workman's Compensation

Effective September 1, 2000, the District contracted with the East Texas Insurance Association for the administration of the worker's compensation program. Claims are paid through Claims Administrative Services, Inc., the third party administrator.

The claims liability recorded in the general ledger includes an estimate for claims incurred but not recorded, based on the District's historical claims experience. The District is protected against unanticipated catastrophic loss by stop-loss coverage carried through Safety National Casualty Corporation, a commercial insurer licenses or eligible to do business in Texas in accordance with the Texas Insurance Code. Stop-loss coverage in effect was for annual individual claims exceeding \$500,000. There have been no claims against the stop-loss coverage since the effective date of the coverage.

The following is a summary of the changes in the balances of claims liabilities for worker's compensation for the year ended August 31, 2008:

Liability for claims September 1	\$	24,229
Current year claims and changes in estimates		8,547
Claim payments		<u>(20,704)</u>
Liability for claims August 31	\$	<u>12,072</u>

Note 10: COMMITMENTS AND CONTINGENCIES

During the year, the District received financial assistance from federal and state governmental agencies in the form of grants. The disbursements of funds received under these programs generally require compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies and the TEA. Any disallowed claims resulting from such audits could become a liability of the General Fund. However, in the opinion of management, such disallowed claims, if any, will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at August 31, 2008.

As of August 31, 2008, there was no pending litigation against the District.

Note 11: SHARED SERVICE ARRANGEMENTS

The District participates in a Shared Service Arrangement (“SSA”) for a federal program with the following school districts:

Member Districts

Hardin Jefferson Independent School District
Dickinson Independent School District
Region V Service Center

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal contingencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

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.

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL - GENERAL FUND

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)	
	Original	Final			
	Revenues				
5700	Local Sources	\$ 1,477,950	\$ 1,533,121	\$ 1,734,882	\$ 201,761
5800	State Program Revenues	909,928	918,260	1,000,914	82,654
5020	Total Revenues	2,387,878	2,451,381	2,735,796	284,415
	Expenditures				
	Current				
0011	Instruction	1,103,653	1,093,627	1,091,868	1,759
0012	Instructional Resources & Media Svcs	45,429	38,172	33,572	4,600
0013	Curriculum and Instructional Development	2,550	2,550	1,436	1,114
0021	Instructional Leadership	28,867	28,961	28,954	7
0023	School Leadership	104,319	109,671	109,633	38
0031	Guidance and Counseling Services	30,429	30,529	30,127	402
0033	Health Services	10,154	10,198	9,581	617
0034	Student (Pupil) Transportation	144,999	138,576	127,588	10,988
0035	Food Services	4,224	3,674	3,674	-
0036	Cocurricular/Extracurricular Activities	130,500	155,868	147,203	8,665
0041	General Administration	234,935	223,226	213,404	9,822
0051	Plant Maintenance and Operations	447,775	963,226	926,378	36,848
0052	Security and Monitoring Services	1,000	1,000	570	430
0053	Data Processing Services	58,946	58,982	54,593	4,389
0061	Community Services	300	300	278	22
0081	Facilities Acquisition and Construction	-	158,135	157,509	626
0093	Payments to Fiscal Agent/Member Districts of SSA	83,467	77,932	68,282	9,650
0095	Payments to Juvenile Justice Alternative Ed. Prg.	4,500	10,035	10,034	1
0099	Other Intergovernmental Charges	-	20,900	13,577	7,323
6030	Total Expenditures	2,436,047	3,125,562	3,028,261	97,301
	Excess (Deficiency) of Revenues				
1100	Over (Under) Expenditures	(48,169)	(674,181)	(292,465)	381,716
	Other Financing Sources (Uses):				
7915	Operating Transfers In	-	209,768	-	(209,768)
8911	Operating Transfers Out	(74,765)	(260,476)	(33,002)	227,474
7080	Total Other Financing Sources (Uses)	(74,765)	(50,708)	(33,002)	17,706
1200	Net Changes in Fund Balance	(122,934)	(724,889)	(325,467)	399,422
0100	Fund Balance - September 1 (Beginning)	1,362,593	1,362,593	1,362,593	-
3000	Fund Balance - August 31 (Ending)	\$ 1,239,659	637,704	\$ 1,037,126	\$ 399,422

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.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Last Ten Years Ended August 31	Tax Rate*		Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
1999 and prior years	Various	Various	Various
2000	1.50	-	55,361,603
2001	1.50	-	51,683,654
2002	1.50	-	59,676,217
2003	1.50	-	62,063,820
2004	1.50	0.27	61,817,450
2005	1.50	0.2091	74,537,251
2006	1.50	0.20	78,724,416
2007	1.50	0.13	87,455,117
2008	1.17	0.13	120,002,692
1000 Totals			

* - Per \$100 of assessed valuation

10 Beginning Balance 09/01/07	20 Current Year's Total Levy	30 Maintenance Total Collections	30a Debt Service Total Collections	40 Entire Year's Adjustments	50 Ending Balance 08/31/08
\$ 178,543	\$ -	\$ 13,799	\$ -	\$ (2,236)	\$ 162,508
15,700	-	1,371	-	(339)	13,990
17,051	-	1,463	-	(339)	15,249
19,180	-	1,417	-	(339)	17,424
23,495	-	1,928	-	(338)	21,229
36,624	-	2,433	441	(400)	33,350
40,616	-	5,702	795	(1,183)	32,936
48,572	-	11,703	1,560	(1,203)	34,106
105,034	-	34,932	3,027	(735)	66,340
-	1,560,035	1,316,319	146,258	5,583	103,041
<u>\$ 484,815</u>	<u>\$ 1,560,035</u>	<u>\$ 1,391,067</u>	<u>\$ 152,081</u>	<u>(\$1,529)</u>	<u>\$ 500,173</u>

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2009-2010

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Function 41 and Related Function 53 - General Administration

Account Number		1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Miscel- laneous	7 Total
611X-6146	Payroll Costs	\$ -	\$ -	\$ 97,753	\$ 82,015	\$ -	\$ -	\$ 277,521
6149	Leave for Separating Employees in Fn 41 & 53				-			-
6149	Leave - Separating Employees not in 41 & 53				-			-
6211	Legal Services	-	-	-	2,021	-	-	2,021
6212	Audit Services				11,000			11,000
6213	Tax Appraisal and Collection							-
621X	Other Professional Services	-	-	9,000	11,250	-	-	20,250
6220	Tuition and Transfer Payments							-
6230	Education Service Centers	-	-	-	5,494	-	-	5,494
6240	Contr. Maint. and Repair							-
6250	Utilities							-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contracted	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	658	-	-	5,124	-	-	5,782
6410	Travel, Subsistence, Stipends	6,631	-	3,149	1,625	-	-	11,405
6420	Insurance and Bonding Costs	3,500	-	-	50	-	-	3,550
6430	Election Costs	-			5,351			5,351
6490	Miscellaneous Operating	-	-	-	2,784	-	-	2,784
6500	Debt Service							-
6600	Capital Outlay							-
6000- TOTAL		<u>\$ 10,789</u>	<u>\$ -</u>	<u>\$ 109,902</u>	<u>\$ 126,714</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 345,158</u>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 3,301,510

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 34,438
Total Debt & Lease (6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	925,022
Food (Function 35, 6341 and 6499)	(13)	67,698
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		<u>126,714</u>

Subtotal:

Net Allowed Direct Cost \$ 2,147,638

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 9,812,224
Historical Cost of Buildings over 50 years old	(16)	\$ 4,520,828
Amount of Federal Money in Building Cost (Net of Above)	(17)	-
Total cost of Furniture & Equipment before Depreciation (1530 & 154)	(18)	\$ 1,123,281
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 61,730
Amount of Federal Money in Furniture & Equipment (Net of Above)	(20)	\$ -

(8) Note A: \$34,002 IN Function 53 expenditures are included in this report on administrative costs.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2008
 (Unaudited)

EXHIBIT J-3

1	Total General Fund Balance 8/31/08 (Exhibit B-1 object 3000 for General Fund only)		<u>\$ 1,037,126</u>
2	Total Reserved Fund Balance (Exhibit B-1 total of object 3400s for the General Fund only)	<u>\$ -</u>	
3	Total Designated Fund Balance (from Exhibit B-1 total of object 3500s for the General Fund only)	<u>\$ -</u>	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues)	<u>\$ 250,000</u>	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/08 - 5/31/09)	<u>\$ 260,000</u>	
6	Estimate of delayed payments from state sources (58XX) including August payment delays	<u>\$ 2,500</u>	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	<u>\$ -</u>	
8	Estimate of delayed payments from federal sources (59XX)	<u>\$ -</u>	
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	<u>\$ -</u>	
10	Optimum Fund Balance and Cash Flow 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9		<u>\$ 512,500</u>
11	Excess/Deficit Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)		<u>\$ 524,626</u>

If item 11 is a positive number

These funds are necessary to continue necessary repairs and improvements to district property due to Hurricanes Rita and Humberto.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
	Revenues				
5700	Local Sources	\$ 40,000	\$ 40,000	\$ 56,302	\$ 16,302
5800	State Program Revenues	-	-	651	651
5900	Federal Program Revenues	51,000	51,000	52,336	1,336
5020	Total Revenues	91,000	91,000	109,289	18,289
	Expenditures				
0035	Food Services	142,638	150,708	142,291	8,417
6030	Total Expenditures	142,638	150,708	142,291	8,417
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(51,638)	(59,708)	(33,002)	26,706
	Other Financing Sources (Uses):				
7915	Transfers In	55,862	59,708	33,002	(26,706)
	Total Other Financing Sources (Uses)	55,862	59,708	33,002	(26,706)
1200	Net Changes in Fund Balance	4,224	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	6,272	6,272	-
3000	Fund Balance - August 31 (Ending)	\$4,224	\$6,272	\$ 6,272	\$ -

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-5

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
	Revenues				
5700	Local Sources	\$ 171,620	\$ 171,620	\$ 149,073	\$ (22,547)
5020	Total Revenues	<u>171,620</u>	<u>171,620</u>	<u>149,073</u>	<u>(22,547)</u>
	Expenditures				
	Debt Service:				
0071	Debt Service - Principal on Long Term Debt	90,000	90,000	90,000	-
0072	Debt Service - Interest on Long Term Debt	78,120	78,120	78,120	-
0073	Debt Service - Bond Issuance Cost and Fees	3,500	3,500	500	3,000
6030	Total Expenditures	<u>171,620</u>	<u>171,620</u>	<u>168,620</u>	<u>3,000</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(19,547)</u>	<u>(19,547)</u>
1200	Net Changes in Fund Balance	-	-	(19,547)	(19,547)
0100	Fund Balance - September 1 (Beginning)	<u>73,213</u>	<u>73,213</u>	<u>73,213</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 73,213</u>	<u>\$ 73,213</u>	<u>\$ 53,666</u>	<u>\$ (19,547)</u>

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2008

Data
Control
Codes

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 unqualified 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	Total Accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$ --