

HIGH ISLAND INDEPENDENT
SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2009

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT
Annual Financial Report
For The Year Ended August 31, 2009

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INTRODUCTORY SECTION

CERTIFICATE OF BOARD

High Island Independent School District
Name of School District

Galveston
County

084-903
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district was reviewed and approved disapproved for the year ended August 31, 2009 at a meeting of the board of school trustees of such school district on the 11th day of January, 2010.

Kathy Meyer
Board Secretary

Benny Barrow
Board President

If the Board of Trustees disapproved the auditor's report, the reason(s) for disapproving it is (are):
(attach list as necessary)

FINANCIAL SECTION

J. R. Edwards & Associates, LLC

Certified Public Accountants

January 5, 2010

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
High Island Independent School District
2113 6th Street
High Island, TX 77623

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of High Island Independent School District (the "District") as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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 High Island Independent School District as of August 31, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated January 5, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the Budgetary Comparison Schedules are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents is presented for additional analysis and is not a required part of the basic financial statements. This information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

J.R. Edwards & Associates, LLC

4349 Crow Road • Beaumont, Texas 77706
Phone (409) 924-9100 • Fax (409) 924-0990

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2009

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, 2009. 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 \$7,014,740 at August 31, 2009.
- During the year, the District's expenses were \$3,788,950 less than the \$7,722,978 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 \$4,503,081. Of this amount, \$2,003,081 is for unrestricted use by the District.
- The District had some improvements and was still making necessary repairs as a result of Hurricane Ike.

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, 2009

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 \$7,014,740 at August 31, 2009. (See Table I)

Table I
High Island Independent School District
Net Assets

	August 31, 2009	August 31, 2008
Current and Other Assets	\$ 6,580,201	\$ 1,882,509
Capital Assets	3,668,644	3,556,418
Total Assets	10,248,845	5,438,927
Long-term Liabilities	1,701,950	1,880,000
Other Liabilities	1,532,155	333,145
Total Liabilities	3,234,105	2,213,145
Net Assets:		
Invested in Capital Assets Net of Related Debt	1,866,694	1,676,418
Restricted for Debt Service	93,270	53,666
Unrestricted	5,054,776	1,495,698
Total Net Assets	\$ 7,014,740	\$ 3,225,782

Approximately \$1.86 million of the District's net assets represent investments in capital assets net of related debt. The \$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 \$7.7 million. A significant portion, 51 percent, of the District's revenue comes for the current year from insurance proceeds related to Hurricane Ike and other miscellaneous revenue, 21 percent comes from property taxes, 27 percent comes from grants and contributions, while less than 1 percent relates to charges for services.

Total Cost of all programs and services was \$3.9 million, of this amount \$1.2 million were instruction related costs.

Net assets of the District's governmental activities for the current year increased \$3.8 (see Table II on page 7 of this report).

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2009

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, 2009	August 31, 2008
Revenues:		
Program Revenues:		
Charges for Services	\$ 52,751	\$ 81,020
Operating Grants and Contributions	842,534	272,782
General Revenues:		
Maintenance and Operations Taxes	1,520,533	1,414,159
Debt Service Taxes	175,646	149,132
State Aid - Formula Grants		
Grants and Contributions - Not Restricted to Specific Functions	1,289,050	906,366
Investment Earnings	15,226	56,033
Miscellaneous	3,827,238	273,173
Total Revenue	<u>7,722,978</u>	<u>3,152,665</u>
Expenses:		
Instruction	1,222,348	1,300,010
Instructional Resources and Media Services	39,528	36,509
Curriculum/Instructional Development	18,767	12,841
Instructional Leadership	33,772	31,203
School Leadership	124,319	118,147
Guidance and Counseling Services	35,619	32,467
Health Services	9,799	10,325
Student (Pupil) Transportation	93,192	137,496
Food Services	130,403	149,230
Cocurricular/Extracurricular Activities	159,407	158,635
General Administration	279,686	229,977
Plant Maintenance and Operations	1,547,268	1,002,558
Security and Monitoring Services	2,381	614
Data Processing Services	54,577	58,833
Community Services	355	300
Debt Services - Interest on Long-Term Debt	73,064	76,764
Debt Services - Bond Issuance Cost & Fees	6,078	4,880
Payments to Fiscal Agent/Member Districts of SSA	78,282	68,282
Payments to Juvenile Justice Alternative Ed. Program	4,973	10,034
Other Intergovernmental Charges	20,202	13,577
Total Expenses	<u>3,934,020</u>	<u>3,452,682</u>
Increase (Decrease) in Net Assets	3,788,958	(300,017)
Net Assets - September 1 (Beginning)	<u>3,225,782</u>	<u>3,525,799</u>
Net Assets - August 31 (Ending)	<u>\$ 7,014,740</u>	<u>\$ 3,225,782</u>

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2009

GOVERNMENTAL ACTIVITIES

- Property tax rates were set at \$1.17 per \$100 valuation for M&O and \$.13569 for I&S. The rate for 2010 is set at \$1.17 for M&O and \$.43 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 \$3.9 million.
- The amount that our taxpayers paid for these activities through property taxes was \$1.7 million.
- Some of the cost, \$52,751, was paid by those who directly benefited from the programs or by grants and contributions in the amount of \$842,534.

	Total Cost of Services		Net Cost of Services	
	2009	2008	2009	2008
Instruction	\$ 1,222,348	\$ 1,300,010	\$ 1,020,160	\$ 1,109,576
School Administration	279,686	229,977	242,524	223,485
School Leadership	124,319	118,147	91,452	113,219
Plant Maintenance & Operations	1,547,268	1,002,558	1,099,989	992,768
Cocurricular/Extracurricular Activities	159,407	158,635	127,595	149,363
Food Services	130,403	149,230	41,959	36,267

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The 2008-09 Budget was built on 200 ADA and HIISD was able to work within that budget, however, with a slight decrease in enrollment we will build the 2009-2010 budget on 150 ADA. Crenshaw, a K-8 school in Galveston ISD, and the loss of jobs and property continues to affect our enrollment both in the elementary, middle and high school.

The district continues to recover from Hurricane Ike which caused damages in excess of \$4,000,000. With the aid of insurance (\$3,745,384), the school facilities will be restored to pre-hurricane condition.

GENERAL FUND BUDGETARY HIGHLIGHTS

There were several budget amendments for the 2008-2009 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, 2009

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

Capital Assets. At August 31, 2009 the District had \$3.66 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 increase (including additions and deductions) of \$112,226 over last year.

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

	August 31, 2009	August 31, 2008
Land	\$ 314,140	\$ 314,140
Construction in Progress	392,585	-
Buildings and Improvements	9,812,224	9,812,224
Equipment	549,957	541,558
Vehicles	458,972	581,723
Infrastructure	478,600	478,600
Totals at Historical Cost	<u>12,006,478</u>	<u>11,728,245</u>
Less Accumulated Depreciation:		
Buildings and Improvements	(7,543,832)	(7,372,550)
Equipment	(332,924)	(353,771)
Vehicles	(271,632)	(279,990)
Infrastructure	(189,446)	(165,516)
Total Accumulated Depreciation	<u>(8,337,834)</u>	<u>(8,171,827)</u>
Net Capital Assets	<u>\$ 3,668,644</u>	<u>\$ 3,556,418</u>

Long-Term Debt. At year-end, the District had \$1,785,000 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**

	August 31, 2009	August 31, 2008
Governmental activities:		
General Obligation Bonds	\$ 1,785,000	\$ 1,880,000
Total	<u>\$ 1,785,000</u>	<u>\$ 1,880,000</u>

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2009

ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

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 District's tax base dropped drastically by \$1,100,000 in property values. This drop is due mainly to Hurricane Ike destroying over 900 homes and property values in the District boundaries.

The District facilities will continue to be renovated through improvement projects and completion of Hurricane Ike repairs. Increased deductibles in Windstorm insurance will leave the District with higher insurance premiums and the District responsible for a larger percentage of cost for possible repairs.

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, 2113 6th Street High Island, Texas 77623-0246.

BASIC FINANCIAL STATEMENTS

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET ASSETS

AUGUST 31, 2009

Data Control Codes		<u>Primary Government</u> Governmental Activities
Assets		
1110	Cash and Cash Equivalents	\$ 930,627
1120	Current Investments	4,128,856
1220	Property Taxes Receivable (Delinquent)	611,974
1230	Allowance for Uncollectible Taxes	(91,797)
1240	Due from Other Governments	853,683
1290	Other Receivables	498
1410	Deferred Expenses	92,097
1420	Capital Bond and Other Debt Issuance Costs	54,263
	Capital Assets (Net of Accumulated Depreciation):	
1510	Land	314,140
1520	Buildings and Improvements, Net	2,268,392
1530	Furniture and Equipment, Net	404,373
1580	Construction in Progress	392,585
1590	Infrastructure, Net	289,154
		<hr/>
1000	Total Assets	10,248,845
		<hr/>
Liabilities		
2110	Accounts Payable and Accrued Expenses	139,290
2160	Accrued Wages Payable	28,820
2180	Due to Other Governments	620,865
2200	Accrued Expenditures	10,029
2300	Unearned Revenues	633,151
	Long Term Liabilities:	
2501	Due Within One Year	100,000
2502	Due in More Than One Year	1,701,950
		<hr/>
2000	Total Liabilities	3,234,105
		<hr/>
Net Assets		
3200	Invested in Capital Assets, Net of Related Debt	1,866,694
3850	Restricted for Debt Service	93,270
3900	Unrestricted Net Assets	5,054,776
		<hr/>
3000	Total Net Assets	\$ 7,014,740
		<hr/> <hr/>

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

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT B-1

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

Data Control Codes		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental Activities				
0011	Instruction	\$ 1,222,348	\$ 25,812	\$ 176,376	\$ (1,020,160)
0012	Instructional Resources & Media Services	39,528	-	6,017	(33,511)
0013	Curriculum/Instructional Development	18,767	-	12,370	(6,397)
0021	Instructional Leadership	33,772	-	1,519	(32,253)
0023	School Leadership	124,319	-	32,867	(91,452)
0031	Guidance and Counseling Services	35,619	-	6,711	(28,908)
0033	Health Services	9,799	-	693	(9,106)
0034	Student (Pupil) Transportation	93,192	-	26,219	(66,973)
0035	Food Services	130,403	17,974	70,470	(41,959)
0036	Cocurricular/Extracurricular Activities	159,407	8,965	22,847	(127,595)
0041	General Administration	279,686	-	37,162	(242,524)
0051	Plant Maintenance and Operations	1,547,268	-	447,279	(1,099,989)
0052	Security and Monitoring Services	2,381	-	-	(2,381)
0053	Data Processing Services	54,577	-	2,004	(52,573)
0061	Community Services	355	-	-	(355)
0072	Debt Service - Interest on Long Term Debt	73,064	-	-	(73,064)
0073	Debt Service - Bond Issuance Cost & Fees	6,078	-	-	(6,078)
0093	Payments to Fiscal Agent/Member Districts of SSA	78,282	-	-	(78,282)
0095	Payments to Juvenile Justice Alternative Ed. Prg.	4,973	-	-	(4,973)
0099	Other Intergovernmental Charges	20,202	-	-	(20,202)
TP	Total Primary Government:	<u>\$ 3,934,020</u>	<u>\$ 52,751</u>	<u>\$ 842,534</u>	<u>(3,038,735)</u>
Data					
Control	General Revenues:				
Codes	Taxes:				
MT	Property Taxes, levied for general purposes				1,520,533
DT	Property Taxes, levied for debt service				175,646
GC	Grants and Contributions not restricted				1,289,050
IE	Investment Earnings				15,226
MI	Miscellaneous Local and Intermediate				3,827,238
TR	Total General Revenues				<u>6,827,693</u>
CN	Change in Net Assets				3,788,958
NB	Net Assets - September 1 (Beginning)				<u>3,225,782</u>
NE	Net Assets - August 31 (Ending)				<u>\$ 7,014,740</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, 2009

Data Control Codes	General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
Assets				
1110 Cash and Temporary Investments (market)	\$ 250,500	\$ 621,540	\$ 58,587	\$ 930,627
1120 Investments - Current	4,128,856	-	-	4,128,856
1220 Property Taxes - Delinquent	570,177	-	41,797	611,974
1230 Allowance for Uncollectible Taxes (credit)	(85,527)	-	(6,270)	(91,797)
1240 Due from Other Governments	730,677	-	123,006	853,683
1260 Due from Other Funds	65,152	-	1,417	66,569
1290 Other Receivables	498	-	-	498
1410 Deferred Expenditures	92,097	-	-	92,097
1000 Total Assets	<u>\$ 5,752,430</u>	<u>\$ 621,540</u>	<u>\$ 218,537</u>	<u>\$ 6,592,507</u>
Liabilities and Fund Balances				
Liabilities:				
2110 Accounts Payable and Accrued Expenditures	\$ 129,209	\$ -	\$ 10,081	\$ 139,290
2160 Accrued Wages Payable	24,385	-	4,435	28,820
2170 Due to Other Funds	1,417	-	65,152	66,569
2180 Due to State	620,865	-	-	620,865
2200 Accrued Expenditures	9,683	-	346	10,029
2300 Deferred Revenues	463,790	621,540	45,253	1,130,583
2000 Total Liabilities	<u>\$ 1,249,349</u>	<u>\$ 621,540</u>	<u>\$ 125,267</u>	<u>\$ 1,996,156</u>
Fund Balances:				
Reserved Fund Balance				
3420 Retirement of Long-Term Debt	\$ -	\$ -	\$ 93,270	\$ 93,270
Unreserved Designated For:				
3590 Other Purposes	2,500,000	-	-	2,500,000
Unreserved Fund Balance				
3600 General Fund	2,003,081	-	-	2,003,081
3610 Reported in Special Revenue Funds	-	-	-	-
3000 Total Fund Balances	<u>\$ 4,503,081</u>	<u>\$ -</u>	<u>\$ 93,270</u>	<u>\$ 4,596,351</u>
4000 Total Liabilities and Fund Balances	<u>\$ 5,752,430</u>	<u>\$ 621,540</u>	<u>\$ 218,537</u>	<u>\$ 6,592,507</u>

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, 2009

Total Fund Balances - Governmental Funds	\$ 4,596,351
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	3,668,644
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	497,432
Bond discounts and issuance costs in governmental activities are not recognized in the funds.	37,313
Notes payable which are not due in the current period are not reported in the funds.	<u>(1,785,000)</u>
Net Assets of Governmental Activities	<u><u>\$ 7,014,740</u></u>

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

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

EXHIBIT C-3

Data Control Codes		General Fund	Major Special Revenue Fund	Other Funds	Total Governmental Funds
Revenues					
5700	Local and Intermediate Sources	\$ 1,540,935	\$ -	\$ 183,296	\$ 1,724,231
5800	State Program Revenues	1,262,612	-	489,153	1,751,765
5900	Federal Program Revenues	459	156,613	222,749	379,821
5020	Total Revenues	<u>2,804,006</u>	<u>156,613</u>	<u>895,198</u>	<u>3,855,817</u>
Expenditures					
Current					
0011	Instruction	987,950	4,665	114,978	1,107,593
0012	Instructional Resources and Media Services	30,937	-	5,400	36,337
0013	Curriculum and Instructional Development	5,349	-	12,295	17,644
0021	Instructional Leadership	30,842	200	-	31,042
0023	School Leadership	85,648	406	27,930	113,984
0031	Guidance and Counseling Services	27,450	-	5,329	32,779
0033	Health Services	8,693	203	-	8,896
0034	Student (Pupil) Transportation	57,487	406	23,271	81,164
0035	Food Services	3,821	-	112,822	116,643
0036	Cocurricular/Extracurricular Activities	136,516	9,014	-	145,530
0041	General Administration	252,292	7,276	-	259,568
0051	Facilities Maintenance and Operations	1,333,355	134,443	-	1,467,798
0052	Security and Monitoring Services	2,327	-	-	2,327
0053	Data Processing Services	49,430	-	-	49,430
0061	Community Services	329	-	-	329
Debt Service					
0071	Debt Service - Principal on long-term debt	-	-	95,000	95,000
0072	Debt Service - Interest on long-term debt	-	-	74,420	74,420
0073	Debt Service - Bond Issuance Cost and Fees	-	-	1,698	1,698
Capital Outlay					
0081	Facilities Acquisition and Construction	392,585	-	-	392,585
Intergovernmental					
0093	Payments to Fiscal Agent/Member Districts of SSA	78,282	-	-	78,282
0095	Payments to Juvenile Justice Alternative Ed. Prg.	4,973	-	-	4,973
0099	Other Intergovernmental Charges	20,202	-	-	20,202
6030	Total Expenditures	<u>3,508,468</u>	<u>156,613</u>	<u>473,143</u>	<u>4,138,224</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(704,462)</u>	<u>-</u>	<u>422,055</u>	<u>(282,407)</u>
Other Financing Sources (Uses):					
7915	Transfers In	410,646	-	21,923	432,569
7949	Other Resources - Insurance Proceeds	3,781,694	-	-	3,781,694
8911	Transfers Out (Use)	(21,923)	-	(410,646)	(432,569)
7080	Total Other Financing Sources (Uses)	<u>4,170,417</u>	<u>-</u>	<u>(388,723)</u>	<u>3,781,694</u>
1200	Net Change in Fund Balances	3,465,955	-	33,332	3,499,287
0100	Fund Balance - September 1 (Beginning)	<u>1,037,126</u>	<u>-</u>	<u>59,938</u>	<u>1,097,064</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 4,503,081</u>	<u>\$ -</u>	<u>\$ 93,270</u>	<u>\$ 4,596,351</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, 2009

Total Net Change in Fund Balances - Governmental Funds	\$ 3,499,287
Capital outlays are not reported as expenses in the statement of activities.	400,984
Disposal of assets and the related accumulated depreciation are not recognized in the funds but are included in the government-wide statements.	(1,033)
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.	(287,725)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	85,469
Repayment of loan principal and accreted interest is an expenditure in the funds but is not an expense in the statement of activities.	95,000
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>\$ 3,788,958</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, 2009

	<u>Agency Fund</u>
Assets	
Cash and Cash Equivalents	<u>\$ 12,002</u>
Total Assets	<u><u>\$ 12,002</u></u>
Liabilities	
Due to Student Groups	<u>12,002</u>
Total Liabilities	<u><u>\$ 12,002</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.

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,

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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.

Major Special Revenue Fund: This is the fund the District uses to account for all FEMA receipts and disbursements due to Hurricane Ike which hit the Gulf Coast September 2008.

In addition, the District reports the following fund types:

Non-major governmental funds: These funds include federal, state, and local grant funds accounted for as special revenue funds. They also account include the debt service fund which accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

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. Bond premiums as well as issuance costs are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount.

8. Arbitrage Payable

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. The District had no arbitrage liability as of August 31, 2009.

9. 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.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 2: DEPOSITS AND INVESTMENTS

At August 31, 2009, the carrying amount of the District's demand deposits and cash on hand was \$942,631. The \$1,102,301 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.

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 \$3,564,895.
- c. Highest cash balance amounted to \$4,606,464 and occurred during the month of March, 2009.
- d. Total amount of Federal Deposit Insurance Corporation ("FDIC") coverage at the time of the highest combined balance was \$719,367.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. 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. The District had possible exposure to custodial credit risk because the highest combined balance which occurred in March of 2009 was insufficiently covered by FDIC insurance and Pledged Securities. However, Texas First Bank opted to enroll in the Temporary Liquidity Guarantee Program (TLG). The TLG insures all non-interest bearing deposit accounts for their full value until December 31, 2009 at which time Texas First Bank will secure values with additional security pledges if required. Thus, the district was fully collateralized and was not exposed to custodial credit risk at any point during the fiscal year ended August 31, 2009.

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

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 2: DEPOSITS AND INVESTMENTS, CONTINUED

Investments, Continued

(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.

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, 2009 are shown below:

<u>Type</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Maturity</u>
Investments not subject to categorization			
LoneStar	\$ 4,128,856	\$ 4,128,856	Weighted average < 120 days
Total Investments	<u>\$ 4,128,856</u>	<u>\$ 4,128,856</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

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.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 2: DEPOSITS AND INVESTMENTS, CONTINUED

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.

Note 3: RECEIVABLES

Receivables as of August 31, 2009, for the District's individual major and non-major funds, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Major Special Revenue Fund</u>	<u>Other Funds</u>	<u>Total</u>
Taxes	\$ 570,177	\$ -	\$ 41,797	\$ 611,974
Due from Other Governments	730,677	-	123,006	853,683
Due from Other Funds	65,152	-	1,417	66,569
Other Receivables	498	-	-	498
Gross Receivables	1,366,504	-	166,220	1,532,724
Less: Allowance for Uncollectibles	(85,527)	-	(6,270)	(91,797)
Net Total Receivables	<u>\$ 1,280,977</u>	<u>\$ -</u>	<u>\$ 159,950</u>	<u>\$ 1,440,927</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent Property Taxes Receivable (General Fund)	\$ 463,790	\$ -
Delinquent Property Taxes Receivable (Debt Service Fund)	33,642	-
Advanced Funding	-	633,151
Total Deferred/Unearned Revenue for Governmental Funds	<u>\$ 497,432</u>	<u>\$ 633,151</u>

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 4: 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, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 314,140	\$ -	\$ -	\$ 314,140
Construction in Progress	392,585	-	-	392,585
Total Capital Assets, Not Being Depreciated	706,725	-	-	706,725
Capital Assets, Being Depreciated:				
Buildings & Improvements	9,812,224	-	-	9,812,224
Equipment	541,558	8,399	-	549,957
Vehicles	581,723	-	(122,751)	458,972
Infrastructure	478,600	-	-	478,600
Total Capital Assets, Being Depreciated:	11,414,105	8,399	(122,751)	11,299,753
Less Accumulated Depreciation:				
Buildings & Improvements	(7,372,550)	(171,282)	-	(7,543,832)
Equipment	(279,990)	(52,934)	-	(332,924)
Vehicles	(353,771)	(39,579)	121,718	(271,632)
Infrastructure	(165,516)	(23,930)	-	(189,446)
Total Accumulated Depreciation	(8,171,827)	(287,725)	121,718	(8,337,834)
Total Capital Assets, Being Depreciated, Net	3,242,278	(279,326)	(1,033)	2,961,919
Governmental Activities Capital Assets, Net	\$ 3,949,003	\$ (279,326)	\$ (1,033)	\$ 3,668,644

The District has active construction projects as of August 31, 2009. The projects include major renovations to existing facilities. As of August 31, 2009, construction in progress totaled \$392,585.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 4: CAPITAL ASSETS, CONTINUED

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

Instruction	\$ 113,721
Instructional Resources & Media Services	3,194
Current Development and Staff Development	1,123
Instructional leadership	2,730
School Leadership	10,335
Guidance, Counseling & Evaluation Services	2,840
Health Services	903
Student (Pupil) Transportation	12,028
Food Services	13,760
Cocurricular Activities	13,877
General Administration	20,118
Plant Maintenance & Operations	87,869
Security and Monitoring Services	54
Data Processing Services	5,147
Community Services	26
Total Depreciation Expense	<u>\$ 287,725</u>

Note 5: 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, 2009 consisted of the following individual fund receivables and payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Special Revenue	\$ 65,152
Special Revenue	General	1,417

The receivables in the general fund totaling \$65,152 due from special revenue funds represent amounts due for reimbursement of expenditures paid by the general fund. The receivable in the Special Revenue funds totaling 1,417 represent amounts deposited into Lone Star to be disbursed to the other funds.

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
General	Special Revenue	\$ 21,923
Special Revenue	General	410,646

The transfer from the General Fund in the amount of \$21,923 to the Special Revenue Fund was to supplement operations. The transfer from the Special Revenue Funds from to the General Fund was for monies received for disaster relief due to Hurricane Ike.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

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, 2009, 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%	\$ 1,785,000
					<u>\$ 1,785,000</u>

Changes in long-term liabilities

Long-term liability activity for the year ended August 31, 2009, 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	\$ 1,880,000	\$ -	\$ 95,000	\$ 1,785,000	\$ 100,000
Add: Premium on bonds	18,306	-	1,356	16,950	-
Total governmental activities	<u>\$ 1,898,306</u>	<u>\$ -</u>	<u>\$ 96,356</u>	<u>\$ 1,801,950</u>	<u>\$ 100,000</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>
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	130,000	52,320	182,320
2015-2019	705,000	180,500	885,500
2020-2022	510,000	33,380	543,380
Total	<u>\$ 1,785,000</u>	<u>\$ 522,280</u>	<u>\$ 2,307,280</u>

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

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 or amend benefit provisions 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

Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system. (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. State law provides for a member contribution rate of 6.4% for fiscal years 2009, 2008 and 2007, and a state contribution rate of 6.58% for fiscal years 2009 and 2008 and 6.0% for fiscal year 2007. 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 6.58% contribution for years 2009 and 2008 and 6.00% for fiscal year 2007. State contributions to TRS made on behalf of the District for the years 2009, 2008 and 2007 were \$89,532, \$94,548, and \$89,047.

Note 8: SCHOOL DISTRICT RETIREE HEALTH PLAN

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-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. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. 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.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 8: SCHOOL DISTRICT RETIREE HEALTH PLAN, Continued

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 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2009, 2008 and 2007. 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, 2009, 2008, and 2007, the State's contributions to TRS-Care were \$13,605, \$14,213 and \$14,065 respectively, the active member contributions were \$8,844, \$9,238, and \$9,142 respectively, and the school district's contributions were \$7,483, \$7,817, and \$7,735, respectively, which equaled the required contributions each year.

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, 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, 2009, 2008, and 2007, the subsidy payments received by TRS-Care on-behalf of the District were \$3,392, \$3,312, and \$2,565, respectively. The information for the year ended August 31, 2009 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

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.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

AUGUST 31, 2009

Note 9: RISK MANAGEMENT, Continued

Workman's Compensation, Continued

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

	<u>2009</u>	<u>2008</u>
Liability for claims September 1	\$ 12,072	\$ 24,229
Current year claims and changes in estimates	(1,956)	8,547
Claim payments	(1,129)	(20,704)
Liability for claims August 31	<u>\$ 8,987</u>	<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, 2009.

In the case of all known contingencies, the District accrues a liability when the loss is probable and the amount is reasonably estimable. From time to time the District is a defendant in legal proceedings relating to its operations as a school district. Although the outcome of this litigation is not presently determinable, in the opinion of the District's counsel no liability is expected.

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.

Note 12: OTHER RESOURCES – HURRICANE IKE

On September 14, 2008 Hurricane Ike hit the Gulf Coast. The District sustained heavy damage but was able to recover costs from insurance policies in addition to recovering costs from grants specifically designed to provide hurricane recovery. Insurance proceeds of \$3 million are included in the General Fund as other resources.

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.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - GENERAL FUND
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

Data Control Codes		Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local Sources	\$ -	\$ 1,585,258	\$ 1,540,935	\$ (44,323)
5800	State Program Revenues	-	804,260	1,262,612	458,352
5900	Federal Program Revenues	-	-	459	459
5020	Total Revenues	-	2,389,518	2,804,006	414,488
	Expenditures				
	Current				
0011	Instruction	-	1,119,327	987,950	131,377
0012	Instructional Resources & Media Svcs	-	46,826	30,937	15,889
0013	Curriculum and Instructional Development	-	5,349	5,349	-
0021	Instructional Leadership	-	32,039	30,842	1,197
0023	School Leadership	-	124,131	85,648	38,483
0031	Guidance and Counseling Services	-	34,363	27,450	6,913
0033	Health Services	-	10,158	8,693	1,465
0034	Student (Pupil) Transportation	-	149,258	57,487	91,771
0035	Food Services	-	3,860	3,821	39
0036	Cocurricular/Extracurricular Activities	-	154,556	136,516	18,040
0041	General Administration	-	262,752	252,292	10,460
0051	Plant Maintenance and Operations	-	3,530,320	1,333,355	2,196,965
0052	Security and Monitoring Services	-	3,000	2,327	673
0053	Data Processing Services	-	49,542	49,430	112
0061	Community Services	-	329	329	-
0081	Facilities Acquisition and Construction	-	800,000	392,585	407,415
0093	Payments to Fiscal Agent/Member Districts of SSA	-	85,750	78,282	7,468
0095	Payments to Juvenile Justice Alternative Ed. Prg.	-	5,151	4,973	178
0099	Other Intergovernmental Charges	-	20,202	20,202	-
6030	Total Expenditures	-	6,436,913	3,508,468	2,928,445
	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(4,047,395)	(704,462)	3,342,933
1100	Other Financing Sources (Uses):				
7915	Operating Transfers In	-	106,829	410,646	303,817
7949	Other Resources	-	3,781,694	3,781,694	-
8911	Operating Transfers Out	-	(37,859)	(21,923)	15,936
7080	Total Other Financing Sources (Uses)	-	3,850,664	4,170,417	319,753
1200	Net Changes in Fund Balance	-	(196,731)	3,465,955	3,662,686
0100	Fund Balance - September 1 (Beginning)	1,037,126	1,037,126	1,037,126	-
3000	Fund Balance - August 31 (Ending)	\$ 1,037,126	840,395	\$ 4,503,081	\$ 3,662,686

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, 2009

Last Ten Years Ended August 31	Tax Rate*		Assessed/Appraised Value For School Tax Purposes
	Maintenance	Debt Service	
2000 and prior years	Various	Various	Various
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
2009	1.17	0.13569	128,203,938
1000 Totals			

* - Per \$100 of assessed valuation

10 Beginning Balance 09/01/08	20 Current Year's Total Levy	30 Maintenance Total Collections	30a Debt Service Total Collections	40 Entire Year's Adjustments	50 Ending Balance 08/31/09
\$ 176,498	\$ -	\$ 8,588	\$ -	\$ -	\$ 167,910
15,249	-	836	-	-	14,413
17,424	-	1,341	-	0	16,083
21,229	-	1,942	-	0	19,287
33,350	-	2,297	416	0	30,637
32,936	-	3,305	461	0	29,170
34,106	-	3,842	512	0	29,752
66,340	-	9,823	851	0	55,666
103,041	-	25,363	2,818	0	74,860
-	1,673,946	1,343,893	155,857	0	174,196
<u>\$ 500,173</u>	<u>\$ 1,673,946</u>	<u>\$ 1,401,230</u>	<u>\$ 160,915</u>	<u>\$0</u>	<u>\$ 611,974</u>

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2010-2011
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

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) Miscellaneous	7 Total
611X-6146 Payroll Costs	\$ -	\$ -	\$ 99,346	\$ 84,083	\$ -	\$ -	\$ 183,429
6149 Leave for Separating Employees in Fn 41 & 53				-			-
6149 Leave - Separating Employees not in 41 & 53				-			-
6211 Legal Services	16,026	-	-				16,026
6212 Audit Services				12,350			12,350
6213 Tax Appraisal and Collection							-
621X Other Professional Services				19,263			19,263
6220 Tuition and Transfer Payments							-
6230 Education Service Centers				6,363			6,363
6240 Contr. Maint. and Repair							-
6250 Utilities							-
6260 Rentals							-
6290 Miscellaneous Contracted							-
6320 Textbooks and Reading							-
6330 Testing Materials							-
63XX Other Supplies Materials	11,009			8,535			19,544
6410 Travel, Subsistence, Stipends	8,076		7,545	3,036			18,657
6420 Insurance and Bonding Costs	3,500			150			3,650
6430 Election Costs	7,303						7,303
6490 Miscellaneous Operating				3,498			3,498
6500 Debt Service							-
6600 Capital Outlay							-
6000- TOTAL	\$ 45,914	\$ -	\$ 106,891	\$ 137,278	\$ -	\$ -	\$ 290,083

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 3,967,105

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 401,785
Total Debt & Lease (6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	1,458,598
Food (Function 35, 6341 and 6499)	(13)	47,374
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		137,278

Subtotal:

2,045,035

Net Allowed Direct Cost

\$ 1,922,070

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 & 1540)	(18)	\$ 1,008,929
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 31,730
Amount of Federal Money in Furniture & Equipment (Net of Above)	(20)	\$ -

(8) Note A: \$30,515 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>\$ 4,503,081</u>
2	Total Reserved Fund Balance (Exhibit B-1 total of object 3400s for the General Fund only)	\$ -	
3	Total Designated Fund Balance (from Exhibit B-1 total of object 3500s for the General Fund only)	<u>\$2,500,000</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>\$ 778,351</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	\$ -	
8	Estimate of delayed payments from federal sources (59XX)	<u>\$ 75,331</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)	\$ -	
10	Optimum Fund Balance and Cash Flow 2 + 3 + 4 + 5 + 6 + 7 + 8 + 9		<u>\$ 3,863,682</u>
11	Excess/Deficit Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)		<u>\$ 639,399</u>

If item 11 is a positive number

These funds are necessary to continue necessary repairs and improvements to district property due to the continuous disasters that have struck the Gulf Coast since September 2008, especially Hurricane Ike which occurred in September 2008.

HIGH ISLAND INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE FISCAL YEAR ENDED AUGUST 31, 2009

EXHIBIT J-4

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
Revenues					
5700	Local Sources	\$ 50,000	\$ 50,000	\$ 17,978	\$ (32,022)
5800	State Program Revenues	600	600	620	20
5900	Federal Program Revenues	51,000	51,000	66,029	15,029
5020	Total Revenues	<u>101,600</u>	<u>101,600</u>	<u>84,627</u>	<u>(16,973)</u>
Expenditures					
0035	Food Services	150,708	150,708	112,822	37,886
6030	Total Expenditures	<u>150,708</u>	<u>150,708</u>	<u>112,822</u>	<u>37,886</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(49,108)</u>	<u>(49,108)</u>	<u>(28,195)</u>	<u>20,913</u>
Other Financing Sources (Uses):					
7915	Transfers In	59,708	59,708	21,923	(37,785)
	Total Other Financing Sources (Uses)	<u>59,708</u>	<u>59,708</u>	<u>21,923</u>	<u>(37,785)</u>
1200	Net Changes in Fund Balance	10,600	10,600	(6,272)	(16,872)
0100	Fund Balance - September 1 (Beginning)	<u>6,272</u>	<u>6,272</u>	<u>6,272</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$16,872</u>	<u>\$16,872</u>	<u>\$ -</u>	<u>\$ (16,872)</u>

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, 2009

Data Control Codes		Budgeted Amounts			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
	Revenues				
5700	Local Sources	\$ 171,620	\$ 172,920	\$ 165,318	\$ (7,602)
5800	State Program Revenues	-	-	45,403	45,403
5020	Total Revenues	<u>171,620</u>	<u>172,920</u>	<u>210,721</u>	<u>37,801</u>
	Expenditures				
	Debt Service:				
0071	Debt Service - Principal on Long Term Debt	95,000	95,000	95,000	-
0072	Debt Service - Interest on Long Term Debt	74,420	74,420	74,420	-
0073	Debt Service - Bond Issuance Cost and Fees	3,500	3,500	1,698	1,802
6030	Total Expenditures	<u>172,920</u>	<u>172,920</u>	<u>171,118</u>	<u>1,802</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,300)</u>	<u>-</u>	<u>39,603</u>	<u>39,603</u>
1200	Net Changes in Fund Balance	(1,300)	-	39,603	39,603
0100	Fund Balance - September 1 (Beginning)	<u>53,666</u>	<u>53,666</u>	<u>53,666</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 52,366</u>	<u>\$ 53,666</u>	<u>\$ 93,269</u>	<u>\$ 39,603</u>

J. R. Edwards & Associates, LLC

Certified Public Accountants

January 5, 2010

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS

Board of Trustees
High Island Independent School District
2125 5th Street
High Island, Texas 77623-0246

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of High Island Independent School District ("District") as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 5, 2010. 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether High Island Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the District's Trustees and management, the Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

J.R. Edwards & Associates, LLC

**SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
FOR THE FISCAL YEAR ENDED AUGUST 31, 2009**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.	\$ --