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**HOLLY SPRINGS SCHOOL DISTRICT**  
**FINANCIAL AUDIT REPORT**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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# **J.E. VANCE & COMPANY, P.A.**

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## **INDEPENDENT AUDITORS' REPORT ON THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION**

Superintendent and School Board  
Holly Springs School District

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2005, which collectively comprise the Holly Springs School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Holly Springs School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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.

The school district did not maintain adequate subsidiary records documenting the completeness of the capital assets, net, reported on the Statement of Net Assets at \$9,528,164, as of June 30, 2005. Accordingly, we were unable to satisfy ourselves as to the fair presentation of capital assets and related transactions of the governmental activities.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine adequate capital assets subsidiary records as described in the preceding paragraph, 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 the Holly Springs School District, as of June 30, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2006, on our consideration of the Holly Springs School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 6 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 40 through 42 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holly Springs School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

April 13, 2006  
Tupelo, Mississippi

Handwritten signature in cursive script that reads "J. E. Vance & Company".

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**HOLLY SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005**

The discussion and analysis of Holly Springs School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2005. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

**FINANCIAL HIGHLIGHTS**

- Total net assets increased \$19,503 which represents a 0% increase from fiscal year 2004. Of this, \$72,851 was due to a prior period adjustment. Total net assets for 2004 increased \$1,286,744, which represents a 22% increase from fiscal year 2003. Of this, \$463,381 was due to a prior period adjustment.
- General revenues account for \$10,066,659 and \$10,047,493 in revenue, or 75% and 76% of all revenues for fiscal years 2005 and 2004, respectively. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,398,650 or 25% of total revenues for 2005 and \$3,248,175 or 24% of total revenues for 2004.
- The District had \$13,445,806 and \$12,472,305 in expenses for fiscal years 2005 and 2004; only \$3,398,650 for 2005 and \$3,248,175 for 2004 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$10,066,659 for 2005 and \$10,047,493 for 2004 were adequate to provide for these programs.
- Among major funds, the General Fund had \$9,766,086 in revenues and \$9,458,545 in expenditures for 2005 and \$9,531,103 in revenues and \$8,736,209 in expenditures for 2004. The General Fund's fund balance decreased \$205,159 from 2004 and increased \$568,165 from 2003.
- Capital assets, net of accumulated depreciation, decreased by \$125,928 for 2005 and increased by \$554,925 for 2004.
- Long-term debt decreased by \$415,890 for 2005 and \$374,386 for 2004.

**OVERVIEW OF FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic

financial statements themselves.

**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. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The statement of net assets presents information on all 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.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal years.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, non-instructional and interest on long-term liabilities.

The government-wide financial statements can be found on pages 15 - 16 of this report.

**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 objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary 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 current 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 the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

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 impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 18 and 20,

respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts* issued by the Mississippi Office of the State Auditor. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 17 - 20 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statement of Fiduciary Net Assets on page 21.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 - 38 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District's budget process.

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major special revenue fund. This required supplementary information can be found on pages 40 - 42 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and can be found on page 44 of this report.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net assets.** Net assets may serve over time as a useful indicator of government's financial position. In the case of the District, assets exceeded liabilities by \$7,201,404 as of June 30, 2005 and by \$7,254,752 as of June 30, 2004.

A large portion of the District's net assets (57% for 2005 and 53% for 2004) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, and furniture and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The District's financial position is a product of several financial transactions including the net result of activities, the payment of debt, the acquisition and disposal of capital assets and the depreciation of capital assets.

The following table presents a summary of the District's net assets for the fiscal years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
Current assets	\$ 3,521,333	\$ 4,603,175
Capital assets, net	9,528,164	9,654,092
Total assets	<u>13,049,497</u>	<u>14,257,267</u>
Current liabilities	743,857	1,462,389
Long-term debt outstanding	<u>5,104,236</u>	<u>5,540,126</u>
Total liabilities	<u>5,848,093</u>	<u>7,002,515</u>
Net assets:		
Invested in capital assets, net of related debt	4,073,164	3,834,092
Restricted	436,140	555,474
Unrestricted	<u>2,692,100</u>	<u>2,865,186</u>
Total net assets	<u>\$ 7,201,404</u>	<u>\$ 7,254,752</u>

There were no significant current year transactions that had an impact on the Statement of Net Assets.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2005 and 2004 were \$13,465,309 and \$13,295,668, respectively. The total cost of all programs and services was \$13,445,806 and \$12,472,305 for 2005 and 2004, respectively. The following table presents a summary of the changes in net assets for the fiscal years ended June 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>
<b>Revenues:</b>		
Program revenues	\$ 3,398,650	\$ 3,248,175
General revenues	<u>10,066,659</u>	<u>10,047,493</u>
<b>Total revenues</b>	<u>13,465,309</u>	<u>13,295,668</u>
<b>Expenses:</b>		
Instruction	7,411,558	7,031,270
Support services	4,908,298	4,343,084
Non-instructional	848,715	810,971
Interest on long-term liabilities	<u>277,235</u>	<u>286,980</u>
<b>Total expenses</b>	<u>13,445,806</u>	<u>12,472,305</u>
<b>Increase in net assets</b>	<u>\$ 19,503</u>	<u>\$ 823,363</u>

**Governmental activities.** The following table presents the cost of four major District functional activities: instruction, support services, non-instructional and interest on long-term debt. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

	2005		2004	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 7,411,558	\$ (5,873,092)	\$ 7,031,270	\$ (5,454,605)
Support services	4,908,298	(3,820,389)	4,343,084	(3,421,203)
Non-instructional	848,715	(76,440)	810,971	(61,342)
Interest on long-term liabilities	277,235	(277,235)	286,980	(286,980)
Total expenses	<u>\$ 13,445,806</u>	<u>\$ (10,047,156)</u>	<u>\$ 12,472,305</u>	<u>\$ (9,224,130)</u>

- Net cost of governmental activities (\$10,047,156 for 2005 and \$9,224,130 for 2004), was financed by general revenue, which is made up of primarily property taxes (\$2,463,005 for 2005 and \$2,322,307 for 2004) and state revenue (\$7,490,263 for 2005 and \$7,608,235 for 2004).
- Investment earnings accounted for \$52,480 and \$74,076 of funding for 2005 and 2004, respectively.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's governmental funds is to provide information on current inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the District's net resources available for spending at the end of the fiscal year.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$3,244,140 for 2005, a decrease of \$352,784 from 2004, and \$3,596,924 for 2004, an increase of \$340,158 from 2003. \$3,110,318 or 96% for 2005 and \$3,470,376 or 96% for 2004 of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$133,822 or 4% for 2005 and \$126,548 or 4% for 2004 is reserved or designated to indicate that it is not available for spending because it has already been committed. The areas of commitment are as follows:

	2005	2004
Inventory	\$ 20,599	\$ 22,405
Advances	62,078	62,078
Unemployment Benefits	42,065	42,065
Prepaid Items	9,080	-0-
Total assets	<u>\$ 133,822</u>	<u>\$ 126,548</u>

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund was \$205,159 for 2005 and the increase in fund balance was \$568,165 for 2004. The fund balance of Other Governmental Funds showed a decrease for 2005 and 2004.

### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised the annual operating budget.

A schedule showing the original and final budget amounts compared to the District's actual financial activity for the General Fund and other major funds is provided in this report as required supplementary information.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** The District's total capital assets were \$13,503,158 for 2005 and \$13,096,801, for 2004, including land, school buildings, buses, other school vehicles and furniture and equipment. These amounts represent an increase of \$406,357 from 2004 and \$857,664 from 2003. Total accumulated depreciation was \$3,974,994 for 2005 and \$3,442,709 for 2004. Total depreciation expense was \$362,870 for 2005 and \$350,507 for 2004, resulting in total net assets of \$9,528,164 for 2005 and \$9,654,092 for 2004.

Additional information of the District's capital assets can be found in Note 5 on page 32 of this report.

**Debt Administration.** At June 30, 2005, the District had \$5,489,236 in general obligation bonds and other long-term debt outstanding, of which \$385,000 is due within one year.

The District maintains a AAA bond rating.

Additional information of the District's long-term debt can be found in Note 6 on page 33 of this report.

### **CURRENT ISSUES**

The Holly Springs School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District's system of

financial planning, budgeting and internal financial controls is well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

If you have questions about this report, contact the Superintendent's Office of the Holly Springs School District, 840 Hwy. 178 East, Holly Springs, Mississippi 38635.

**FINANCIAL STATEMENTS**

**HOLLY SPRINGS SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005**

		<u>Primary Government Governmental Activities</u>
<b>Assets</b>		
Cash and cash equivalents (Note 3)	\$	3,018,504
Investments (Note 3)		80,336
Due from other governments		376,445
Accrued interest receivable		126
Other receivables, net		16,243
Inventories and prepaid items		29,679
Capital assets, net (Note 5)		<u>9,528,164</u>
Total Assets	\$	<u><u>13,049,497</u></u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities	\$	253,498
Deferred revenue		23,695
Interest payable on long-term liabilities		81,664
Long-term liabilities, due within one year (Note 6)		
Capital related liabilities		385,000
Long-term liabilities, due beyond one year (Note 6)		
Capital related liabilities		5,070,000
Non-capital related liabilities		<u>34,236</u>
Total Liabilities	\$	<u><u>5,848,093</u></u>
<b>Net Assets</b>		
Investment in capital assets, net of related debt	\$	4,073,164
Restricted net assets:		
Expendable:		
School - based activities		475,739
Debt service		(81,664)
Unemployment benefits		42,065
Unrestricted		<u>2,692,100</u>
Total Net Assets	\$	<u><u>7,201,404</u></u>

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

**HOLLY SPRINGS SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Primary Government:					
Governmental Activities:					
Instruction	\$ 7,411,558	147,752	1,364,535	26,179	(5,873,092)
Support services	4,908,298		1,021,870	66,039	(3,820,389)
Non-instructional	848,715	61,121	711,154		(76,440)
Interest on long-term liabilities	277,235				(277,235)
Total governmental activities	\$ 13,445,806	208,873	3,097,559	92,218	(10,047,156)
General Revenues:					
Taxes:					
					2,164,625
					298,380
Unrestricted grants and contributions:					
					7,490,263
					40,614
					52,480
					20,297
					10,066,659
					19,503
					7,254,752
					(72,851)
					7,181,901
					\$ 7,201,404

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

**HOLLY SPRINGS SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2005**

	Major Funds			Total Governmental Funds
	General Fund	21st Century Community Learning Center	Other Governmental Funds	
<b>ASSETS</b>				
Cash and cash equivalents (Note 3)	\$ 2,732,518		285,986	3,018,504
Investments			80,336	80,336
Due from other governments	106,402	60,925	209,118	376,445
Accrued interest receivable			126	126
Other receivables, net	2,002		1,390	3,392
Due from other funds (Note 4)	52,163		48,716	100,879
Advances to other funds	36,649	189	25,240	62,078
Inventories and prepaid items	9,080		20,599	29,679
<b>Total Assets</b>	<b>\$ 2,938,814</b>	<b>61,114</b>	<b>671,511</b>	<b>3,671,439</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 210,690		36,539	247,229
Due to other funds (Note 4)	600	57,601	47,040	105,241
Advances from other funds	1,189	3,513	46,432	51,134
Deferred revenue			23,695	23,695
<b>Total Liabilities</b>	<b>212,479</b>	<b>61,114</b>	<b>153,706</b>	<b>427,299</b>
<b>Fund Balances:</b>				
<b>Reserved for:</b>				
Unemployment benefits			42,065	42,065
Inventory			20,599	20,599
Prepaid items	9,080			9,080
Debt service			241,052	241,052
Advances	36,649	189	25,240	62,078
<b>Unreserved:</b>				
<b>Undesignated, reported in:</b>				
General fund	2,680,606			2,680,606
Special Revenue funds		(189)	188,849	188,660
<b>Total Fund Balances</b>	<b>2,726,335</b>	<b>-0-</b>	<b>517,805</b>	<b>3,244,140</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 2,938,814</b>	<b>61,114</b>	<b>671,511</b>	<b>3,671,439</b>

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

**HOLLY SPRINGS SCHOOL DISTRICT  
RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS  
TO STATEMENT OF NET ASSETS  
JUNE 30, 2005**

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 3,244,140
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
1. Capital assets which are used in governmental activities are not resources and therefore are not reported in the funds, net of accumulated depreciation of \$3,974,994. (Note 5)	9,528,164
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds. (Note 6)	(5,489,236)
3. Interest payable on long-term liabilities.	<u>(81,664)</u>
Total Net Assets - Governmental Activities	<u>\$ 7,201,404</u>

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

**HOLLY SPRINGS SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005**

	Major Fund		Other	Total
	General Fund	21st Century Learn. Center	Governmental Funds	Governmental Funds
<b>Revenues:</b>				
Local sources	\$ 2,377,924		374,988	2,752,912
State sources	7,217,788		694,305	7,912,093
Federal sources	170,374	156,441	2,481,745	2,808,560
Total Revenues	<u>9,766,086</u>	<u>156,441</u>	<u>3,551,038</u>	<u>13,473,565</u>
<b>Expenditures:</b>				
Instruction	5,608,946	133,073	1,587,566	7,329,585
Support services	3,849,599	23,368	1,064,295	4,937,262
Noninstructional services			876,703	876,703
Debt service:				
Principal			365,000	365,000
Interest			280,541	280,541
Other			6,169	6,169
Total Expenditures	<u>9,458,545</u>	<u>156,441</u>	<u>4,180,274</u>	<u>13,795,260</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>307,541</u>	<u>-0-</u>	<u>(629,236)</u>	<u>(321,695)</u>
<b>Other Financing Sources (Uses):</b>				
Insurance loss recoveries	875			875
Sale of other property	50			50
Operating transfers in	68,333		497,082	565,415
Operating transfers out	(552,594)		(12,821)	(565,415)
Other financing uses	(9,128)			(9,128)
Total Other Financing Sources (Uses)	<u>(492,464)</u>	<u>-0-</u>	<u>484,261</u>	<u>(8,203)</u>
Net Change in Fund Balances	<u>(184,923)</u>	<u>-0-</u>	<u>(144,975)</u>	<u>(329,898)</u>
<b>Fund Balances:</b>				
July 1, 2004	2,931,494		665,430	3,596,924
Prior period adjustments (Note 8)	(20,236)		(844)	(21,080)
July 1, 2004, as restated	<u>2,911,258</u>	<u>-0-</u>	<u>664,586</u>	<u>3,575,844</u>
Decrease in reserve for inventory			(1,806)	(1,806)
June 30, 2005	<u>\$ 2,726,335</u>	<u>-0-</u>	<u>517,805</u>	<u>3,244,140</u>

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

**HOLLY SPRINGS SCHOOL DISTRICT  
RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005**

	Amount
Net Change in Fund Balances - Governmental Funds	\$ (329,898)
Amounts reported for governmental activities in the statement of activities are different because:	
1. Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital asset purchases amounted to \$288,898 and the depreciation expense amounted to \$362,870. (Note 5)	(73,972)
2. Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets. (Note 6)	365,000
3. In the statement of activities, only gains and losses from the sale of capital assets are reported, whereas in the governmental funds, proceeds from the sale of capital assets increase financial resources and losses from the sale of capital assets decrease financial resources. Thus, the change in net assets differs from the change in fund balances by the amount of the loss of \$135 and the proceeds from the sale of \$50 in the current period.	(185)
4. Governmental funds report interest on long-term debt when due, whereas the statement of activities recognizes it as it accrues, regardless of when the financial resources are available. Accrued interest at year end was \$81,664 which is a decrease from last year.	9,474
5. Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The statement of activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences increased to \$85,126.	50,890
6. Increase in inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the statement of activities.	(1,806)
Change in Net Assets of Governmental Activities	\$ 19,503

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

**HOLLY SPRINGS SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
JUNE 30, 2005**

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents (Note 3)	\$ 680,717
Due from other funds (Note 4)	<u>6,269</u>
Total Assets	<u>\$ 686,986</u>
Liabilities	
Accounts payable and accrued liabilities	650,641
Due to other funds (Note 4)	1,907
Advances from other funds	10,944
Due to student clubs	<u>23,494</u>
Total Liabilities	<u>\$ 686,986</u>

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

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies**

The accompanying financial statements of the school district have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). GASB is the accepted standard-setting body for governmental accounting and financial reporting principles. The most significant of the school district's accounting policies are described below.

**A. Financial Reporting Entity**

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board. As defined by accounting principles generally accepted in the United States of America, the school district is considered an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Holly Springs since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

**B. Basis of Presentation**

The school district's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities display information about the school district as a whole. They include all funds of the reporting entity except for fiduciary funds, if applicable. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange revenues.

The Statement of Net Assets presents the financial condition of the governmental activities of the school district at year-end. The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each function or program of the school district's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the school district, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the school district.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Fund Financial Statements

Fund financial statements of the school district are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures. Funds are organized into two major categories: governmental and fiduciary. An emphasis is placed on major funds within the governmental category.

**C. Measurement Focus and Basis of Accounting**

In the government-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the economic resources measurement focus and the accrual basis of accounting, as are the Fiduciary Funds financial statements. Revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of when the related cash flow takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Program revenues on the Statement of Activities consist primarily of state appropriations and federal awards.

In the fund financial statements, governmental funds are presented using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Property taxes, state appropriations and federal awards associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

The school district reports the following major governmental funds:

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

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

21<sup>st</sup> Century Community Learning Center - This is the school district's fund for accounting for the federal funding of the 21<sup>st</sup> Century program.

All other governmental funds not meeting the criteria established for major funds are presented in the other governmental column of the fund financial statements.

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUNDS**

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted for specific expenditure purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

**FIDUCIARY FUNDS**

Agency Funds - Agency Funds are used to report resources held by the district in a purely custodial capacity (assets equal liabilities) and do not involve measurement of results of operations.

**D. Account Classifications**

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* issued in 2005 by the Government Finance Officers Association and are consistent with the broad classifications recommended in *Financial Accounting for Local and State School Systems, 1990* issued by the U.S. Department of Education.

**E. Encumbrances**

An encumbrance system is not maintained to account for commitments resulting from approved purchase orders, work orders and contracts.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

**F. Cash and Cash Equivalents**

The school district deposits excess funds in the financial institutions selected by the school board. State statutes specify how these depositories are to be selected.

Cash and cash equivalents consists of amounts on deposit in demand accounts and certificates of deposit with maturities of 12 months or less. Cash and cash equivalents are valued at cost.

**G. Investments**

The school district can invest its excess funds, as permitted by Section 29-3-113, Miss. Code Ann. (1972), in interest-bearing deposits or other obligations of the types described in Section 27-105-33, Miss. Code Ann. (1972), or in any other type investment in which any other agency, instrumentality or subdivision of the state of Mississippi may invest, except that 100% of said funds are authorized to be so invested.

For accounting purposes, certificates of deposit are classified as investments if they have a maturity greater than 12 months when acquired.

Investments are reported at fair value.

**H. Inventories and Prepaid Items**

Donated commodities are received from the USDA and are valued at USDA cost. Other inventories are valued at cost (calculated on the first-in, first-out basis).

The costs of governmental fund type inventories are reported as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and governmental fund financial statements.

**I. Capital Assets**

Capital acquisition and construction are reflected as expenditures in the Governmental Fund statements and the related assets are reported as capital assets in the governmental activities column in the government-wide financial statements.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed assets are reported at estimated fair value at the time received.

Capitalization thresholds (dollar value above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are reported in the government-wide statements.

Depreciation is calculated on the straight-line basis for all assets, except land. The following schedule details those thresholds.

	<u>Capitalization Policy</u>	<u>Estimated Useful Life</u>
Land	\$ 0	0
Buildings	50,000	40 years
Building improvements	25,000	20 years
Improvements other than buildings	25,000	20 years
Mobile equipment	5,000	5-10 years
Furniture and equipment	5,000	3-7 years
Leased property under capital leases	*	*

(\*) The threshold amount will correspond with the amounts for the asset classifications, as listed. See Note 5 for details.

**J. Long-term Liabilities**

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term liabilities are reported as liabilities in the governmental activities column. See Note 6 for details.

**K. Interfund Transactions and Balances**

Interfund transactions and balances are the result of timing differences between the date expenses/expenditures occur and the date payments are made.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources. Noncurrent portions of long-term interfund loan receivables are reported as advances and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and, therefore, are not available for appropriation.

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect to the fund that statute or budget requires to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 4 for details for interfund transactions, including receivables and payables at year-end.

**L. Equity Classifications**

Government-wide Financial Statements

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, constructions or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Financial Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved classified as designated and undesignated.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. Following is a description of fund reserves used by the district:

Reserved for advances - An account used to offset advances recorded in the asset accounts since they do not constitute available spendable resources and are not a component of net current assets.

Reserved for debt service - An account that represents that portion of fund balance in the debt service fund which was legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for prepaid items - An account that represents a portion of the fund balance which indicates that prepaid items do not represent available spendable resources even though they are a component of net current assets.

Reserved for unemployment benefits - An account that represents a portion of the fund balance that is legally restricted for the payment of unemployment benefits.

Reserved for inventory - An account that represents a portion of the fund balance which indicates that inventories do not represent available spendable resources even though they are a component of net current assets.

**M. Property Taxes**

Ad valorem property taxes are levied by the governing authority of the city on behalf of the school district based upon an order adopted by the school board of the school district requesting an ad valorem tax effort in dollars. Since the taxes are not levied and collected by the school district, the revenues to be generated by the annual levies are not recognized until the taxes are actually collected by the tax levying authority.

**N. Mississippi Adequate Education Program Revenues**

Revenues from the adequate education program are appropriated on a fiscal year basis and are recorded at the time the revenues are received from the state of Mississippi.

**O. Compensated Absences**

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 1: Summary of Significant Accounting Policies (Continued)**

Some employees are allowed personal leave and/or vacation leave in accordance with school district policy. The district pays for unused leave for employees as required by Section 37-7-307(5), Miss. Code Ann. (1972).

The liability for these compensated absences is recorded as long-term liabilities in the government-wide statements. The current portion of this liability is estimated based on historical trends. In the fund financial statements, governmental funds report the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

**Note 2: Changes in Accounting Standards**

As required, the School District has implemented Governmental Accounting Standards Board (GASB) Statement No. 40, *Deposit and Investment Risk Disclosures-an amendment of GASB Statement No. 3* for the current fiscal year. This Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

**Note 3: Cash and Cash Equivalents, and Investments**

**Cash and Cash Equivalents**

The collateral for public entities' deposits in financial institutions is held in the name of the State Treasurer under a program established by the Mississippi State Legislature and is governed by Section 27-105-5, Miss. Code Ann. (1972). Under this program, the entity's funds are protected through a collateral pool administered by the State Treasurer. Financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$3,018,504 and \$680,717, respectively. The carrying amount of deposits reported in the government-wide financial statements was: Cash and Cash Equivalents - \$3,018,504. The bank balance was \$4,233,312.

*Custodial Credit Risk – Deposits.* Custodial credit risk is defined as the risk that, in the event of the failure of a financial institution, the district will not be able to recover deposits or collateral securities that are in the possession of an outside party. The district does not have a deposit policy for custodial credit risk.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 3: Cash and Cash Equivalents, and Investments (Continued)**

However, the Mississippi State Treasurer manages that risk on behalf of the district. Deposits above FDIC coverage are collateralized by the pledging financial institutions trust department or agent in the name of the Mississippi State Treasurer on behalf of the district. As of June 30, 2005, \$0 of the district's bank balance of \$4,233,312 was exposed to custodial credit risk.

**Investments**

As of June 30, 2005, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturity (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
U.S. Treasury bills	less than 1	\$ <u>80,336</u>	AA
Total Investments		\$ <u><u>80,336</u></u>	

*Interest Rate Risk.* The district does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk.* State law limits investments to those prescribed in Sections 27-105-33(d) and 27-105-33(e), Miss. Code Ann. (1972). The district does not have a formal investment policy that would further limit its investment choices or one that addresses credit risk.

**Note 4: Interfund Transactions and Balances**

The following is a summary of interfund transactions and balances:

**A. Due From/To Other Funds:**

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General fund	\$ 52,163	600
21st Century Learning Center	-0-	57,601
Other Governmental Funds	48,716	47,040
Fiduciary Funds	<u>6,269</u>	<u>1,907</u>
Total	\$ <u><u>107,148</u></u>	<u><u>107,148</u></u>

The purpose of the interfund loans was to cover federal funds not received prior to year-end.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 4: Interfund Transactions and Balances (Continued)**

B. Advances To/From Other Funds:

	<u>Advances To</u>	<u>Advances From</u>
Governmental Funds:		
General fund	\$ 36,649	1,189
21st Century Learning Centers	189	3,513
Other Governmental Funds	25,240	46,432
Fiduciary Funds	<u>-0-</u>	<u>10,944</u>
Total	<u>\$ 62,078</u>	<u>62,078</u>

The advances represent loans from the General Fund and other governmental funds to cover payroll, debt payments, and federal funds not received as of June 30, 2004. The loans were not repaid during the fiscal year ended June 30, 2005.

C. Transfers In/Out

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General fund	\$ 68,333	552,594
Other Governmental Funds	<u>497,082</u>	<u>12,821</u>
Total	<u>\$ 565,415</u>	<u>565,415</u>

The principal purpose of interfund transfers was to provide funds to pay for debt service payments or to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 5: Capital Assets**

The following is a summary of changes in capital assets for governmental activities:

	<u>Balance 7/1/2004</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance 6/30/2005</u>
<u>Non-depreciable capital assets</u>					
Land	\$ 45,055			20,100	65,155
Total non-depreciable capital assets	<u>45,055</u>	<u>-0-</u>	<u>-0-</u>	<u>20,100</u>	<u>65,155</u>
<u>Depreciable capital assets</u>					
Buildings	10,468,405			106,500	10,574,905
Building improvements	679,553	161,429			840,982
Improvements other than buildings	77,259				77,259
Mobile equipment	1,262,002	127,469		(11,795)	1,377,676
Furniture and equipment	564,527		18,521	21,175	567,181
Total depreciable capital assets	<u>13,051,746</u>	<u>288,898</u>	<u>18,521</u>	<u>115,880</u>	<u>13,438,003</u>
<u>Less accumulated depreciation for:</u>					
Buildings	2,267,502	185,830		182,376	2,635,708
Building Improvements	54,594	33,639		1,612	89,845
Improvements other than buildings	6,180	3,091			9,271
Mobile equipment	695,612	91,390		(8,492)	778,510
Furniture and equipment	418,821	48,920	18,336	12,255	461,660
Total accumulated depreciation	<u>3,442,709</u>	<u>362,870</u>	<u>18,336</u>	<u>187,751</u>	<u>3,974,994</u>
Total depreciable capital assets, net	<u>9,609,037</u>	<u>(73,972)</u>	<u>185</u>	<u>(71,871)</u>	<u>9,463,009</u>
Governmental activities capital assets, net	<u>\$ 9,654,092</u>	<u>(73,972)</u>	<u>185</u>	<u>(51,771)</u>	<u>9,528,164</u>

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 5: Capital Assets (Continued)**

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 340,842
Support services	9,411
Non-instructional	12,617
Total depreciation expense	\$ 362,870

The capital assets above include significant amounts of buildings and furniture and equipment which have been valued at estimated historical cost. The estimated historical cost was based on replacement cost multiplied by the consumer price index implicit price deflator for the year of acquisition.

Adjustments:

Adjustments were made to beginning capital assets to reflect the substantiated balance reported by the school district.

**Note 6: Long-term Liabilities**

The following is a summary of changes in long-term liabilities and other obligations for governmental activities:

	<u>Balance 7/1/2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 6/30/2005</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$ 2,495,000		130,000	2,365,000	140,000
B. Limited obligation bonds payable	2,915,000		140,000	2,775,000	145,000
C. Three mill notes payable	410,000		95,000	315,000	100,000
D. Compensated absences payable	85,126		50,890	34,236	
Total	\$ 5,905,126	-0-	415,890	5,489,236	385,000

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 6: Long-term Liabilities (Continued)**

A. General obligation bonds payable

General obligation bonds are direct obligations and pledge the full faith and credit of the school district. General obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
1998 general obligation bonds	4.5-6.25%	06/01/98	06/01/18	\$ 3,150,000	\$ 2,365,000
Total				<u>\$ 3,150,000</u>	<u>\$ 2,365,000</u>

The following is a schedule by years of the total payments due on this debt:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 140,000	115,118	255,118
2007	145,000	106,717	251,717
2008	150,000	98,018	248,018
2009	155,000	90,142	245,142
2010	165,000	82,858	247,858
2011-2015	935,000	288,855	1,223,855
2016-2020	675,000	61,650	736,650
Total	<u>\$ 2,365,000</u>	<u>843,358</u>	<u>3,208,358</u>

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2005, the amount of outstanding bonded indebtedness was equal to 4% of property assessments as of October 2004. This debt will be retired from the Debt Service General Obligation Bond Fund.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 6: Long-term Liabilities (Continued)**

**B. Limited obligation bonds payable**

Limited obligation bonds are direct obligations and pledge the full faith and credit of the school district. Limited obligation bonds currently outstanding are as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
State aid capital improvement bonds	4.5-6.0%	02/01/98	02/01/18	\$ 3,355,000	\$ 2,775,000
Total				<u>\$ 3,355,000</u>	<u>\$ 2,775,000</u>

The following is a schedule by years of the total payments due on this debt:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 145,000	129,763	274,763
2007	155,000	120,762	275,762
2008	160,000	111,313	271,313
2009	170,000	101,518	271,518
2010	175,000	92,588	267,588
2011-2015	985,000	336,262	1,321,262
2016-2020	985,000	85,275	1,070,275
Total	<u>\$ 2,775,000</u>	<u>977,481</u>	<u>3,752,481</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Bonds 1998 Debt Service Fund.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 6: Long-term Liabilities (Continued)**

C. Three mill notes payable

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Limited tax notes 1998	4.71%	05/15/98	05/15/08	900,000	315,000
Total				<u>\$ 900,000</u>	<u>\$ 315,000</u>

The following is a schedule by years of the total payments due on this debt:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 100,000	14,837	114,837
2007	105,000	10,126	115,126
2008	110,000	5,181	115,181
Total	<u>\$ 315,000</u>	<u>30,144</u>	<u>345,144</u>

This debt will be retired from the Buildings & Buses Special Revenue and 1998 Three Mill/EEF Bonds Funds.

D. Compensated absences payable

As more fully explained in Note 1(O), compensated absences payable is adjusted on an annual basis as required by Section 37-7-307 (5), Miss. Code Ann. (1972). Compensated absences will be paid from the fund from which the employees' salaries were paid.

**Note 7: Defined Benefit Pension Plan**

**Plan Description.** The school district contributes to the Public Employees' Retirement System of Mississippi (PERS), a cost-sharing multiple-employer defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state law and may be amended only by the State of Mississippi Legislature. PERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to Public Employees' Retirement System of Mississippi, PERS Building, 429 Mississippi Street, Jackson, MS 39201 or by calling (601) 359-3589 or 1-800-444-PERS.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 7: Defined Benefit Pension Plan (Continued)**

Funding Policy. PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The current rate is 9.75% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$769,386, \$610,759 and \$585,125, respectively, which equaled the required contributions for each year.

**Note 8: Prior Period Adjustments/Exhibits**

A summary of significant fund equity adjustments is as follows:

<u>Statement of Activities</u>	<u>Amount</u>
<u>Explanation</u>	
1. To correct a prior year error in recording an asset or liability.	(51,771)
2. To record prior year expenses.	(20,236)
3. To record prior year expenses.	<u>(844)</u>
Total	\$ <u><u>(72,851)</u></u>

Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major fund:</u>	<u>Explanation</u>	
General Fund	To record prior year expenses.	(20,236)
Other Governmental Funds	To record prior year expenses.	<u>(844)</u>
	Total	\$ <u><u>(21,080)</u></u>

**Note 9: Litigation**

The school district had \$6,236 of judgments payable as of June 30, 2005.

**Note 10: Risk Management**

The school district is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Except as described below, the district carries commercial insurance for these risks. Settled claims resulting from these insured risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2005**

**Note 10: Risk Management (Continued)**

Participation in Public Entity Risk Pool

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 127 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$400,000. For a claim exceeding \$400,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HOLLY SPRINGS SCHOOL DISTRICT  
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	\$ 2,293,207	2,316,340	2,377,924	23,133	61,584
State sources	7,276,217	7,168,805	7,217,788	(107,412)	48,983
Federal sources	122,384	172,549	170,374	50,165	(2,175)
Total Revenues	<u>9,691,808</u>	<u>9,657,694</u>	<u>9,766,086</u>	<u>(34,114)</u>	<u>108,392</u>
<b>Expenditures:</b>					
Instruction	5,423,332	5,608,946	5,608,946	(185,614)	-0-
Support services	4,168,186	3,849,599	3,849,599	318,587	-0-
Total Expenditures	<u>9,591,518</u>	<u>9,458,545</u>	<u>9,458,545</u>	<u>132,973</u>	<u>-0-</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	<u>100,290</u>	<u>199,149</u>	<u>307,541</u>	<u>98,859</u>	<u>108,392</u>
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries	-0-	875	875	875	-0-
Sale of other property	-0-	50	50	50	-0-
Operating transfers in	1,005,169	68,333	68,333	(936,836)	-0-
Operating transfers out	(1,479,684)	(552,594)	(552,594)	927,090	-0-
Miscellaneous other financing uses	-0-	(9,128)	(9,128)	(9,128)	-0-
Total Other Financing Sources (Uses)	<u>(474,515)</u>	<u>(492,464)</u>	<u>(492,464)</u>	<u>(17,949)</u>	<u>-0-</u>
<b>Net Change in Fund Balances</b>					
	<u>(374,225)</u>	<u>(293,315)</u>	<u>(184,923)</u>	<u>80,910</u>	<u>108,392</u>
<b>Fund Balances:</b>					
July 1, 2004	2,931,494	2,931,494	2,931,494	-0-	-0-
Prior period adjustment (Note 8)	<u>(20,236)</u>	<u>(20,236)</u>	<u>(20,236)</u>	<u>-0-</u>	<u>-0-</u>
July 1, 2004, as restated	<u>2,911,258</u>	<u>2,911,258</u>	<u>2,911,258</u>	<u>-0-</u>	<u>-0-</u>
June 30, 2005	<u>\$ 2,537,033</u>	<u>2,617,943</u>	<u>2,726,335</u>	<u>80,910</u>	<u>108,392</u>

The notes to the required supplementary information are an integral part of this statement.

**HOLLY SPRINGS SCHOOL DISTRICT  
 BUDGETARY COMPARISON SCHEDULE FOR THE 21<sup>st</sup> CENTURY COMMUNITY  
 LEARNING CENTER FUND  
 FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ 198,523	156,441	156,441	(42,082)	-0-
Total Revenues	<u>198,523</u>	<u>156,441</u>	<u>156,441</u>	<u>(42,082)</u>	<u>-0-</u>
Expenditures:					
Instruction	163,227	133,073	133,073	30,154	-0-
Support services	35,296	23,368	23,368	11,928	-0-
Noninstructional services	-	-	-	-	-0-
Total Expenditures	<u>198,523</u>	<u>156,441</u>	<u>156,441</u>	<u>42,082</u>	<u>-0-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Net Change in Fund Balances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Fund Balances:					
July 1, 2004	-0-	-0-	-0-	-0-	-0-
June 30, 2005	<u>\$ -0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>

The notes to the required supplementary information are an integral part of this statement.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2005**

**Budgetary Comparison Schedule**

**Note 1: Basis of Presentation**

The Budgetary Comparison Schedule presents the original legally adopted budget, the final legally adopted budget, the actual data on the GAAP basis, variances between the original budget and the final budget, and variances between the final budget and the actual data.

**Note 2: Budget amendments and revisions**

The budget is adopted by the school board and filed with the taxing authority. Amendments can be made on the approval of the school board. By statute, final budget revisions must be approved on or before the date established by the Mississippi Department of Education. A budgetary comparison is presented for the General Fund and each major Special Revenue Fund consistent with accounting principles generally accepted in the United States of America.

**Note 3: Individual Fund Disclosures**

The School Food Service Fund has an excess of expenditures over budget in the amount of \$51,618. The fund with the excess of expenditures over budget is not in violation of state law since the excess resulted from auditor's adjustments.

**SUPPLEMENTAL INFORMATION**

**HOLLY SPRINGS SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<b>U.S. Department of Agriculture</b>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>51,618</u>
Child Nutrition Cluster:		
School breakfast program	10.553	180,673
National school lunch program	10.555	569,025
Summer food service program for children	10.559	<u>16,374</u>
Total child nutrition cluster		<u>766,072</u>
Child and adult care food program	10.558	<u>13,388</u>
Total passed-through MDE		<u>831,078</u>
<b>Total U.S. Department of Agriculture</b>		<u>831,078</u>
<b>U.S. Department of Education</b>		
Direct program		
Twenty-first century community learning centers	84.287	<u>156,441</u>
Passed through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to states	84.027	497,998
Special education - preschool grants	84.173	<u>5,440</u>
Total		503,438
Title I grants to local educational agencies	84.010	690,871
Vocational education - basic grants to states	84.048	95,148
State grants for innovative programs	84.298	4,317
Safe and drug-free schools and communities - national programs	84.186	17,455
Fund for the improvement of education	84.215	740
Education technology state grants	84.318	212,636
Comprehensive school reform demonstration	84.332	64,871
Teacher quality enhancement grants	84.336	4,854
Transaction to teaching	84.350	1,400
Rural education	84.358	23,112
Improving teacher quality - state grants	84.367	<u>208,530</u>
Total passed through Mississippi Department of Education		<u>1,827,372</u>
<b>Total U.S. Department of Education</b>		<u>1,983,813</u>
<b>Total for All Federal Awards</b>		<u>\$ 2,814,891</u>

Note 1: This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.

Note 2: The expenditure amounts include transfers out.

Note 3: The pass-through entities did not assign identifying numbers to the school district.

**HOLLY SPRINGS SCHOOL DISTRICT  
 SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES -  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005**

<u>Expenditures</u>	<u>Total</u>	<u>Instruction</u>	<u>Administrative</u>	<u>Other</u>
Salaries and fringe benefits	\$ 10,012,875	6,545,926	1,141,705	2,325,244
Other	<u>3,782,385</u>	<u>783,659</u>	<u>164,489</u>	<u>2,834,237</u>
Total	\$ <u>13,795,260</u>	<u>7,329,585</u>	<u>1,306,194</u>	<u>5,159,481</u>
Total number of students	1,772			
Cost per student	\$ <u><u>7,785</u></u>	<u><u>4,136</u></u>	<u><u>738</u></u>	<u><u>2,912</u></u>

For purposes of this schedule, the following columnar descriptions are applicable:

Instruction - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type - all the 1000 functional codes.

Administrative - includes expenditures for the following functions: Support Services - General Administration (2300s); Support Services - School Administration (2400s); Support Services - Business (2500s).

Other - includes all expenditure functions not included in Instruction or Administrative.

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

**J.E. VANCE & COMPANY, P.A.**  
CERTIFIED PUBLIC ACCOUNTANTS

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Superintendent and School Board  
Holly Springs School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2005, which collectively comprise the Holly Springs School District's basic financial statements and have issued our report thereon dated April 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the school district's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 05-1 through 05-2.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, we consider Finding 05-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted a certain immaterial instance of noncompliance or other matters that we have reported to management of the school district in a separate letter dated April 13, 2006, which is included in this report.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and 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. However, this report is a matter of public record and its distribution is not limited.

April 13, 2006  
Tupelo, Mississippi

A handwritten signature in cursive script that reads "J. E. Vance & Company". The signature is written in black ink and is positioned to the right of the date and location text.

# J.E. VANCE & COMPANY, P.A.

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Superintendent and School Board  
Holly Springs School District

### Compliance

We have audited the compliance of the Holly Springs School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The school district's major federal programs are identified in the summary of auditor's results section of the Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the school district's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the school district's compliance with those requirements.

In our opinion, Holly Springs School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Holly Springs School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and 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. However, this report is a matter of public record and its distribution is not limited.

April 13, 2006  
Tupelo, Mississippi

A handwritten signature in cursive script that reads "J. E. Vance & Company". The signature is written in dark ink and is positioned to the right of the date and location text.

# J.E. VANCE & COMPANY, P.A.

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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board  
Holly Springs School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2005, which collectively comprise Holly Springs School District's basic financial statements and have issued our report thereon dated April 13, 2006. 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.

Section 37-9-18(3), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure that the school district is complying with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), relating to classroom supply funds". As required by the state legal compliance audit program prescribed by the Office of the State Auditor, we have also performed procedures to test compliance with certain other state laws and regulations. However, providing an opinion on compliance with all state laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our procedures performed to test compliance with the requirements of Section 37-61-33(3)(a)(iii), Miss. Code Ann. (1972), disclosed no instances of noncompliance. The district reported \$22,565 of classroom supply funds carried over from previous years.

The results of procedures performed to test compliance with certain other state laws and regulations and our audit of the financial statements disclosed the following immaterial instance of noncompliance with other state laws and regulations. Our finding and recommendation and your response are as follows:

1. Finding

Section 37-7-333, Miss Code Ann. (1972), requires the school district to advertise for bids for all of its depositories. The school district could not find where it had advertised for these bids.

Recommendation

The school district needs to advertise for bids for all of its depositories.

Response

The failure to advertise was an oversight during a time of transition. All of the banks located within the Holly Springs School District were mailed requests for bids, and the bid process proceeded as required. The Holly Springs School District did advertise for depositories for the fiscal year beginning July 1, 2005.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the finding in this report to insure that corrective action has been taken.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and 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. However, this report is a matter of public record and its distribution is not limited.

April 13, 2006  
Tupelo, Mississippi

*J. E. Vance & Company*

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**HOLLY SPRINGS SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2005**

**Section 1: Summary of Auditor's Results**

**Financial Statements:**

- |  |           |
|--|-----------|
| 1. Type of auditors' report issued on the financial statements:                          | Qualified |
| 2. Material noncompliance relating to the financial statements?                          | No        |
| 3. Internal control over financial reporting:  |           |
| a. Material weakness(es) identified?   | Yes       |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | Yes       |

**Federal Awards:**

- |  |             |
|--|-------------|
| 4. Type of auditors' report issued on compliance for major federal programs:             | Unqualified |
| 5. Internal control over major programs:   |             |
| a. Material weakness(es) identified?   | No          |
| b. Reportable condition(s) identified that are not considered to be material weaknesses? | No          |
| 6. Any audit findings reported as required by Section __.510(a) of Circular A-133?       | No          |
| 7. Federal programs identified as major programs:  |             |
| a. Child Nutrition Cluster:  |             |
| CFDA #10.553   |             |
| CFDA #10.555   |             |
| CFDA #10.559   |             |

**HOLLY SPRINGS SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Section 1: Summary of Auditor's Results (Continued)**

b. Special Education Cluster

CFDA #84.027

CFDA #84.173

c. Title I Grants to Local Educational Agencies

CFDA #84.010

- |  |            |
|--|------------|
| 8. The dollar threshold used to distinguish between type A and type B programs:  | \$300,000. |
| 9. Auditee qualified as a low-risk auditee?  | No         |
| 10. Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No         |

**Section 2: Financial Statement Findings**

Material Weakness

05-1. Finding

The district did not maintain adequate subsidiary records documenting the completeness of its capital assets. We encountered the following problems during our fixed asset inspection of 60 items:

- A. Seven items weren't found
- B. Three items had been stolen, but not submitted to Board
- C. Six items had been deleted, but not submitted to Board
- D. Five items were found at a different location than the one reported
- E. Two items had multiple tags
- F. Three items had different tag numbers than the ones reported
- G. One item had no tag

Recommendation

The district should implement policies and procedures to insure assets belonging

**HOLLY SPRINGS SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**Section 2: Financial Statement Findings (Continued)**

to the district are accounted for in a manner consistent with requirements of the *Financial Accounting Manual for Mississippi Public School Districts* and *The Mississippi Public School Asset Management Manual*.

Reportable Conditions Not Considered to be Material Weaknesses

05-2. Finding

The district's financial statements did not agree with documentation provided by the individual schools for the Agency Club Funds.

Recommendation

The district should establish policies and procedures to insure assets and liabilities belonging to the district are accounted for in a manner consistent with the requirements of the *Financial Accounting Manual for Mississippi Public School Districts*.

**Section 3: Federal Award Findings and Questioned Costs**

The results of our tests did not disclose any findings and questioned costs related to the federal awards.



**Holly Springs School District**  
Irene Walton, Superintendent of Education

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**AUDITEE'S CORRECTIVE ACTION PLAN**

As required by Section \_\_.315(b) of OMB Circular A-133, the Holly Springs School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2005:

<b><u>Finding</u></b>	<b><u>Corrective Action Plan Details</u></b>
05-1.	<p>a. Name of Contact Person Responsible for Corrective Action</p> <p>Joseph Selman, Fixed Assets Inventory Clerk, 662-252-2183</p> <p>b. Corrective Action Planned</p> <p>A. Five of the seven items that were missing have been located; the two old computers will be submitted to the Board for removal from capital assets.</p> <p>B. The three stolen items will be submitted to the Board for removal from capital assets. The Board was aware of the burglary and the police report. The actual formal action was an oversight.</p> <p>C. The six items that had been deleted will be submitted to the Board for removal from capital assets.</p> <p>D. The capital asset records now record the five items at the location at which they were found. We have instituted measures to track the transfer of equipment.</p> <p>E. The serving line (#3603) reported with multiple tags was constructed from three separate pieces; we now have a cost applied to each inventory tag. Inventory item #3646 will be removed from capital assets – there was no cost applied to this tag number.</p> <p>F. The serving line (#3603) was addressed in E above. Inventory item #3832 will be deleted and its cost will be divided evenly between #3885 and #3886, neither of which recorded a cost on our records. Inventory item #3854 is the correct number for the time clock; the inventory number found on the clock was incorrect and was not recorded in our records.</p> <p>G. The phone system (#2775) has not been used for several years; it will be declared as surplus and advertised to be sold.</p>

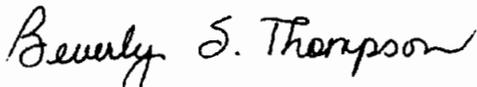
The total of these errors resulted in an overstatement of capital assets of \$7,633 for the fiscal year ending June 30, 2005.

**Anticipated Completion Date**

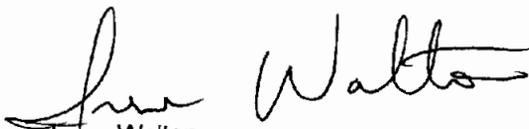
We anticipate the subsidiary records will be completely updated by September 12, 2006.

- 05-2.
- a. Name of Contact Person Responsible for Corrective Action  
Beverly S. Thompson, CPA, Business Manager, 662-252-2183
  - b. Corrective Action Planned  
The Business Manager has prepared correcting entries for each of the three schools whose records did not agree with the financial statements as of June 30, 2005. The schools must now submit a copy of the monthly reconciliation to the Business Manager by the 15<sup>th</sup> of each month to ensure that reconciliations are being performed correctly and timely.
  - c. Anticipated Completion Date  
The complete reconciliation of the activity and club funds was completed on August 24, 2006.

Sincerely yours,



Beverly S. Thompson, CPA  
Business Manager



Irene Walton  
Superintendent

cc: Mrs. Michael Crittle, Board President  
Mr. Ray Von Autry  
Mrs. Martha Thomas  
Mr. Alonzo McClinton  
Dr. Paul Lampley