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HARRISON COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2006

HARRISON COUNTY SCHOOL DISTRICT
TABLE OF CONTENT

FINANCIAL AUDIT REPORT	1
Independent Auditor's Report and the Basic Financial Statements and Supplemental Information	2
MANAGEMENT'S DISCUSSION AND ANALYSIS	4
FINANCIAL STATEMENTS	12
Statement of Net Assets	13
Statement of Activities	14
Balance Sheet – Governmental Funds	15
Reconciliation Governmental Funds Balance Sheet to the Statement of Net Assets	16
Statement of Revenues, Expenditures and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statements of Revenues, Expenditures and Changes Fund Balances to the Statement of Activities	18
Statement of Fiduciary Net Assets	19
Notes to the Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION	42
Budgetary Comparison Schedule – General Fund	43
Budgetary Comparison Schedule – Displace Student Grants Fund	44
Budgetary Comparison Schedule – Restart School Grants Fund	45
Budgetary Comparison Schedule – Hurricane Katrina Fund	46
Notes to the Required Supplementary Information	47
SUPPLEMENTAL INFORMATION	48
Schedule of Expenditures of Federal Awards	49
Schedule of Instructional, Administrative and Other Expenditures –Government Funds	51
REPORTS ON INTERNAL CONTROLS AND COMPLIANCE	52
Independent Auditor's 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 <i>Governmental Auditing Standards</i>	53
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Federal Program and Internal Control over Compliance in Accordance with OMB Circular A-133	55
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS	57
Independent Auditor's Report on Compliance with State Laws and Regulations	58
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	60
AUDITEE'S CORRECTIVE ACTION PLAN	62

FINANCIAL AUDIT REPORT

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

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December 10, 2006

INDEPENDENT AUDITOR'S REPORT
ON THE BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

Superintendent and School Board
Harrison County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2006, which collectively comprise the Harrison County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Harrison County School 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District, as of June 30, 2006, 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 December 10, 2006, on our consideration of the Harrison County 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 4 through 11 and the Budgetary Comparison Schedule and corresponding notes on pages 42 through 47 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 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison County 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.

Wright Ward 7th & 8th

MANAGEMENT DISCUSSION AND ANALYSIS

HARRISON COUNTY SCHOOL DISTRICT
Management Discussion and Analysis
For year ended June 30, 2006

The discussion and analysis of Harrison County School District's financial performance provides an overall narrative review of the Harrison County School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the Harrison County 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 Harrison County 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.

This discussion and analysis is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued June 1999. Certain comparative information between the current year and the prior year is required to be presented.

FINANCIAL HIGHLIGHTS

- Total net assets increased 26,082,717 which represents a 93% increase from fiscal year 2006. This increase is due largely to the fact of an increase in contributions from local, state, and federal sources to help offset losses incurred due to Hurricane Katrina which extensively damaged the School District on August 29, 2006.
- General revenues account for \$79,649,465 in revenue, or 68% of all revenues. Program specific revenues in the form of charges for services, grants and contributions accounted for \$38,183,390 or 32% of total revenues.
- The District had \$91,750,138 in expenses; and \$38,183,390 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$79,649,465 were adequate to provide for these programs.
- Among major funds, the General Fund had \$70,911,877 in revenues and \$47,926,782 in expenditures. The General Fund's fund balance increased \$903,654 over the prior year.
- Capital assets, net of accumulated depreciation, experienced a net decrease of \$1,815,228. The decrease was due primarily to depreciation expense for the year amounting to \$2,145,614. Asset additions of \$1,662,009 were added during the year.
- On July 5, 2006, the district issued \$13,955,000 in general obligation refunding bonds to advance refund \$14,540,000 of outstanding general obligation bonds. The district advance refunded the general obligation bonds to reduce its total debt service payments over the remaining 11 years of the debt by approximately \$1,004,304 and to obtain an economic gain of \$807,322.

HARRISON COUNTY SCHOOL DISTRICT
Management Discussion and Analysis (Continued)
For year ended June 30, 2006

- Long-term capital related liabilities decreased \$3,523,853. This decrease is due primarily to principal payments of \$2,938,853 made during the fiscal year on existing long-term debt, and the decrease of \$585,000 due to the decrease of overall outstanding debt from the advance refunding of bonds as noted above.

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, sixteenth section and interest on long-term liabilities.

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.

HARRISON COUNTY SCHOOL DISTRICT
Management Discussion and Analysis (Continued)
For year ended June 30, 2006

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 Harrison County 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 16 and 18, respectively.

The District maintains individual governmental funds in accordance with the *Financial Accounting Manual for Mississippi Public School Districts*. 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.

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 a separate Statement of Fiduciary Obligations – Agency Funds.

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.

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 fund.

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

HARRISON COUNTY SCHOOL DISTRICT
Management Discussion and Analysis (Continued)
For year ended June 30, 2006

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 \$54,235,645 as of June 30, 2006.

The District's net assets are comprised of 1) net assets invested in capital assets, net of related debt, 2) restricted net assets and 3) unrestricted net assets. \$4,870,894 of the District's net assets (9%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and leased property under capital leases, less any related debt used to acquire those assets that are still outstanding. The District used these capital assets to provide services to its students; consequently these assets are not available for future spending. \$15,330,104 of the District's net assets (28%) reflects its restricted net assets. A portion of the restricted net assets is expendable for school based activities, debt service, forestry improvements and unemployment benefits. The remaining portion of the restricted net assets is nonexpendable for 16th section investment purposes. \$34,034,647 of the District's net assets (63%) reflects its unrestricted net assets.

The District's financial position is a product of several financial transactions including the net result of activities, the acquisition and 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 year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

	2006 Amount	2005 Amount
Current assets	\$ 66,008,531	\$ 25,142,232
Capital assets, net	44,641,916	46,457,144
Total assets	<u>110,650,447</u>	<u>71,599,376</u>
Current liabilities	16,142,679	708,297
Long-term liabilities	40,272,123	42,738,151
Total liabilities	<u>56,414,802</u>	<u>43,446,448</u>
Net assets:		
Invested in capital assets, net of related debt	4,870,894	4,183,474
Restricted	15,330,104	17,174,944
Unrestricted	34,034,647	6,794,510
Total net assets	<u>54,235,645</u>	<u>28,152,928</u>

HARRISON COUNTY SCHOOL DISTRICT
Management Discussion and Analysis (Continued)
For year ended June 30, 2006

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2006 were \$117,832,855. The total cost of all programs and services was \$91,750,138. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006 and comparative data for the fiscal year ended June 30, 2005.

	2006 Amount	2005 Amount
Revenues:		
Program revenues		
Charges for services	\$ 1,865,495	2,651,287
Operating grants and contributions	36,317,895	12,296,961
General revenues		
Program revenues	23,803,707	22,830,420
Grants and contribution not restricted	52,504,825	47,096,144
Other	3,340,933	3,591,816
Total revenues	117,832,855	88,466,628
Expenses:		
Instruction	53,891,055	50,050,563
Support services	30,737,853	26,891,951
Non-instructional	5,136,193	5,022,731
Sixteenth section	460,261	376,386
Interest on long-term debt	1,524,776	1,976,414
Total expenses	91,750,138	84,318,045
Increase in net assets	\$ 26,082,717	\$ 4,148,583

The following are significant current year transactions that have had an impact on the Statement of Activities.

- Program revenues increased \$23,235,142 primarily due to additional contributions and grants from local, state and federal sources to offset losses to the School District as a result of Hurricane Katrina.

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.

HARRISON COUNTY SCHOOL DISTRICT
Management Discussion and Analysis (Continued)
For year ended June 30, 2006

	2006		2005	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 53,891,055	\$ (21,130,995)	\$ 50,050,563	\$ (40,952,169)
Support services	30,737,853	(30,737,853)	26,891,951	(26,891,951)
Non-instructional	5,136,193	15,717	5,022,731	703,710
Sixteenth section	460,261	(188,841)	376,386	(252,973)
Interest on long-term debt	1,524,776	(1,524,776)	1,976,414	(1,976,414)
Total expenses	\$ 91,750,138	\$ (53,566,748)	84,318,045	\$ (69,369,797)

- Total expenses increased from prior year due primarily to the increase in salaries and increase in costs associated with Hurricane Katrina.
- Net cost of governmental activities for fiscal year 2006 in the amount of \$53,566,748 was financed by general revenue, which is made up of primarily taxes totaling \$24,643,088 and state revenue totaling \$50,644,123.
- Investment earnings accounted for \$963,500 of funding.

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 \$49,293,331, an increase of \$24,372,881, due primarily to the net change in fund balances. Fund reserves are portions of fund equity that are legally segregated for a specific future use or are not available for current operations. \$5,814,365 of fund balance is reserved for inventory, debt service, unemployment benefits, forestry improvement and the 16th section land permanent escrow fund. The portion of the fund balance reported in the Special Revenue Funds will be spent on school based activities. The portion of the fund balance of \$25,341,065 will be spent on school capital projects fund and \$8,234,709 reported as unreserved can be spent at the School's discretion.

HARRISON COUNTY SCHOOL DISTRICT
Management Discussion and Analysis (Continued)
For year ended June 30, 2006

BUDGETARY HIGHLIGHTS

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

- Budgeted amounts for revenue from local sources in the General Fund were increased to reflect the increase in advalorem receipts during the fiscal year.
- Budgeted expenditures were increased in the General fund to reflect the additional cost associated with Hurricane Katrina.
- New budgets were created during the year to account for special local, state and federal grants the School District received due to Hurricane Katrina.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2006, the District's total capital assets, net of accumulated depreciation, were \$44,641,916, including land, buildings, improvements, buses, other school vehicles and furniture and equipment. Total accumulated depreciation as of June 30, 2006 was \$30,839,244. This amount represents purchases of \$1,662,009 and removal of \$1,331,623 (\$3,330,998 with accumulated depreciation of \$1,999,375) primarily due to total loss of assets related to Hurricane Katrina. Total depreciation expense for the year was \$2,145,614.

Debt Administration. At June 30, 2006, the District had \$38,749,817 in general obligation bonds and other long-term debt outstanding, of which \$3,081,413 is due within one year. A bond premium amount of \$1,123,325 resulted from the advance refunding of general obligation bonds of \$13,955,000 on July 5, 2006. This premium is being amortized over the remaining 10 years of new debt and is netted against long-term capital related debt. The remaining unamortized amount of bond premium at June 30, 2006 is \$1,021,205.

CURRENT ISSUES

- The Harrison County 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 are 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 Harrison County School District , 11072 Highway 49, Gulfport, MS 39503.

FINANCIAL STATEMENTS

Harrison County School District
Statement of Net Assets
June 30, 2006

Exhibit A

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 51,316,149
Cash with fiscal agents	1,027
Due from other governments	10,119,390
Accrued interest receivable	2,437
Other receivables, net	95,571
Inventories and prepaid items	197,859
Bond issue costs and amounts deferred due to advance refunding (net of amortization)	762,115
Restricted cash	1,689,469
Restricted investments	1,824,514
Capital assets, not being depreciated	
Land	2,818,343
Capital assets, net of accumulated depreciation:	
Buildings	35,463,537
Building improvements	2,815,711
Improvements other than buildings	88,030
Mobile equipment	2,961,930
Furniture and equipment	421,027
Leased property under capital leases	73,338
	<u>73,338</u>
Total Assets	\$ <u>110,650,447</u>
Liabilities	
Accounts payable and accrued liabilities	\$ 1,004,217
Deferred revenue	14,948,868
Interest payable on long-term liabilities	189,594
Long-term liabilities, due within one year	
Capital related liabilities	3,081,413
Non-capital related liabilities	10,022
Long-term liabilities, due beyond one year	
Capital related liabilities (net of premium of \$1,021,205 due to advance refunding)	36,689,609
Non-capital related liabilities	491,079
	<u>491,079</u>
Total Liabilities	\$ <u>56,414,802</u>
Net Assets	
Investment in capital assets, net of related debt	\$ 4,870,894
Restricted net assets:	
Expendable:	
School based activities	9,903,192
Debt service	3,495,328
Forestry improvements	128,692
Unemployment benefits	113,423
Non-expendable:	
Sixteenth section	1,689,469
Unrestricted	34,034,647
	<u>34,034,647</u>
Total Net Assets	\$ <u>54,235,645</u>

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

Harrison County School District
Statement of Activities
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		Governmental Activities
Governmental Activities:					
Instruction	\$ (53,891,055)	748,974	32,011,086		(21,130,995)
Support Services	(30,737,853)				(30,737,853)
Non Instructional	(5,136,193)	845,101	4,044,443	262,366	15,717
Sixteenth Section	(460,261)	271,420			(188,841)
Interest and other charges on long-term liabilities	(1,524,776)				(1,524,776)
Total governmental activities	\$ (91,750,138)	1,865,495	36,055,529	262,366	(53,566,748)
General Revenues:					
Taxes:					
Property taxes, levied for general purpose					20,911,690
Debt purpose levies					2,892,017
Gaming					839,381
Unrestricted grants and contributions:					
Local					494,304
State					50,644,123
Federal					1,366,398
Unrestricted investment earnings					963,500
Sixteenth section sources					1,538,052
Total General Revenues					79,649,465
Change in Net Assets					26,082,717
Net Assets - Beginning					28,152,928
Net Assets - Ending					\$ 54,235,645

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

Harrison County School District
Balance Sheet - Governmental Funds
June 30, 2006

Exhibit C

ASSETS		General Fund	Displaced Students Grants Fund	Restart School Grants Fund	Hurricane Katrina Fund	Building Projects Fund	D'iberville School Construction Fund	Other Governmental Funds	Total Governmental Funds
Cash and cash equivalents	\$	8,037,125			14,645,058	4,609,944	14,149,346	11,564,145	53,005,618
Cash with fiscal agents								1,027	1,027
Investments		1,210,027	4,182,170	1,888,338	118,747	6,250,000		1,824,514	1,824,514
Due from other governments		5,803,848	283,156					2,720,108	10,119,390
Due from other funds								1,760,871	14,097,875
Other receivables, net		2,326						95,682	95,682
Inventories								197,859	197,859
Total Assets	\$	15,053,326	4,465,326	1,888,338	14,763,805	10,859,944	14,149,346	18,164,206	79,344,291
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable and accrued liabilities	\$	427,286		279,570	116,012			181,349	1,004,217
Due to other funds		6,391,331	4,465,326	1,608,768	14,647,793			1,632,450	14,097,875
Deferred revenue								301,075	14,948,868
Total Liabilities		6,818,617	4,465,326	1,888,338	14,763,805			2,114,874	30,050,960
Fund Balances Reserved for:									
Inventory								197,859	197,859
Debt service								3,684,922	3,684,922
Unemployment benefits								128,692	128,692
Forestry improvements								113,423	113,423
Permanent Endowment Fund								1,689,469	1,689,469
Unreserved, designated for, reported in:									
General fund		8,234,709						9,903,192	8,234,709
Special Revenue funds						10,859,944	14,149,346	331,775	9,903,192
Capital Projects funds									25,341,065
Total Fund Balances		8,234,709				10,859,944	14,149,346	16,049,332	49,293,331
Total Liabilities and Fund Balances	\$	15,053,326	4,465,326	1,888,338	14,763,805	10,859,944	14,149,346	18,164,206	79,344,291

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

Harrison County School District
 Reconciliation of the Governmental Funds Balance Sheet
 to the Statement of Net Assets
 June 30, 2005

Exhibit C-1

	Amount
Total Fund Balance - Governmental Funds	\$ 49,293,331
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are used in governmental activities and are not financial resources and therefore are not reported in the funds, net of accumulated depreciation of \$30,839,244.	44,641,916
Bond issue costs (net of accumulated amortization)	191,338
Amounts deferred due to advanced refunding of bonds (net of accumulated amortization)	570,777
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(38,749,817)
Bond premium (net of accumulated amortization)	(1,021,205)
Compensated absences payable	(501,101)
Accrued interest payable is not due and payable in the current period and therefore are not reported in the funds.	(189,594)
 Net Assets of Governmental Activities in the Statement of Net Assets	 \$ 54,235,645

Harrison County School District
 Statement of Revenues, Expenditures and
 Changes in Fund Balances Governmental Funds
 For the Year Ended June 30, 2006

	General Fund	Displaced Students Grants Fund	Restart School Grants Fund	Hurricane Katrina Fund	Building Projects Fund	D'iberville School Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues								
Local sources	\$ 21,438,605			104,303	156,454		5,995,605	27,694,967
State sources	48,788,752						4,081,571	52,870,323
Federal sources	684,520	7,404,735	14,297,355	649,876			12,221,607	35,458,093
Sixteenth section sources							1,809,472	1,809,472
Total Revenues	70,911,877	7,404,735	14,297,355	954,179	156,454	-	24,108,255	117,832,855
Expenditure:								
Current:								
Instruction	27,941,470	4,809,958	12,577,313	1,329,305	-		7,590,197	54,248,243
Support Services	18,757,101	2,594,777	1,625,791	11,193,099	50,211		4,694,025	38,915,004
Non-instructional Services	5,093		94,251	4,267			5,071,775	5,175,386
Sixteenth Section							460,261	460,261
Facilities acquisition and construction	750,927			24,715	35,713	850,654		1,662,009
Debt service:								
Principal payments	308,853						2,630,000	2,938,853
Interest and other charges	163,338						1,362,438	1,525,776
Advance refunding escrow							13,955,000	13,955,000
Total Expenditures	47,926,782	7,404,735	14,297,355	12,551,386	85,924	850,654	35,763,696	118,880,532
Excess (Deficiency) of Revenues Over Expenditures	22,985,095	-	-	(11,597,207)	70,530	(850,654)	(11,655,441)	(1,047,677)
Other Financing Sources (Uses)								
Gross proceeds of advance refunding bonds							13,955,000	13,955,000
Insurance loss recoveries				11,597,207			94,251	11,691,458
Sale of other property	2,000							2,000
Transfers in	786,605				6,250,000	15,000,000	2,955,299	24,991,904
Transfers out	(22,870,046)						(2,121,858)	(24,991,904)
Payments to escrow agent for refunding bond							(300,000)	(300,000)
Total Other Financing Sources (Uses)	(22,083,441)	-	-	11,597,207	6,250,000	15,000,000	14,582,692	25,348,458
Net change in fund balances	903,654	-	-	-	6,320,530	14,149,346	2,927,251	24,300,781
Fund balances - beginning	7,258,991				4,539,414		13,122,045	24,920,450
Increase (Decrease) in reserve for inventory							72,100	72,100
Residual equity transfer in/out	72,064						(72,064)	-
Fund balances - ending	\$ 8,234,709	-	-	-	10,859,944	14,149,346	16,049,332	49,293,331

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

Harrison County School District
 Reconciliation of the Governmental Funds Statement of
 Revenues, Expenditures, and Changes
 in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2005

Exhibit D-1

	Amount
Net Change in Fund Balances - Governmental Funds	\$ 24,300,781
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
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 \$1,662,009 and the depreciation expense amounted to \$2,145,614.	(483,605)
Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(1,331,623)
Proceeds of refunding bonds that are reported in the governmental funds, but not in the Statement of Activities.	(13,955,000)
Payment of principal on long-term debt liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities.	2,938,853
Payment to escrow agent due to advance refunding of bonds reported as an expenditure in the government fund, but reduce long-term liabilities in the Statement of Activities	14,255,000
Governmental funds recognize interest on long-term debt when it becomes due, however, the Statement of Activities recognizes interest as it accrues regardless of when it becomes due.	296,921
Decrease in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are increased in the Statement of Activities.	72,100
Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds:	
Amortization of bond issue costs and amounts deferred due to refunding	(76,211)
Amortization of bond premiums	102,121
Compensated absences	(36,620)
Change in net assets of governmental activities	\$ 26,082,717

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

Harrison County School District
Statement of Fiduciary Net Assets
June 30, 2006

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>4,050,049</u>
Total Assets	\$ <u><u>4,050,049</u></u>
Liabilities	
Accounts payable and accrued liabilities	\$ 3,867,886
Due to student clubs	<u>182,163</u>
Total Liabilities	\$ <u><u>4,050,049</u></u>

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

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements
For the Year Ended June 30, 2006

(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 a "primary government." The school district is governed by a five member board in which each member was elected by the citizens of each defined county district.

The Harrison County Leasing Authority ("the Authority") as explained in the following paragraph is considered to be a blended component unit as determined by Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* and is included in the district's reporting entity.

The Authority is governed by a five member board which was appointed by the school district's governing board. Although it is legally separate from the school district, it is reported as if it is part of the primary government because its sole purpose is to provide financing for the renovation, improvement, construction, and equipping of certain school facilities. Therefore, all of the Authority's assets, liabilities, equity, revenues, expenditures and other financing sources and uses have been included in the government-wide financial statements of the school district (see Note 9).

B. Basis of Presentation.

The school district's basic financial statement 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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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.

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 Fund 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 and agency 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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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.

Displaced Student Grants Fund – This special revenue fund is used to account for the revenues and expenditures associated with the Displaced Student Grant.

Restart School Grants Fund - This special revenue fund is used to account for the revenues and expenditures associated with the Restart School Grants.

Hurricane Katrina – This special revenue fund is used to account for the insurance recoveries and local donations and the expenditures associated with Hurricane Katrina which caused extensive damage to school property on August 29, 2005.

Building Projects Fund – This capital projects fund is used to account for school construction projects.

D'Iberville School Construction Fund – This capital projects fund is used to account for the specific reconstruction of the D'Iberville Middle School.

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.

Capital Projects Funds - Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

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.

Permanent Funds – Permanent Funds are used to account for resources that are legally restricted to the extent that only earnings, and not the principal, may be used for purposes that support the district's programs.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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 classifications prescribed in the *Governmental Accounting, Auditing, and Financial Reporting* as 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.

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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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.

Prepaid items, such as prepaid insurance, are not reported for governmental fund types since the costs of such items are accounted for as expenditures in the period of acquisition.

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.

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 and proprietary funds.

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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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 obligations 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 expenditures occur and the date payments are made.

Short-term (due within one year) interfund loan receivables are reported as "due from other funds" and are considered available expendable resources.

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."

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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.

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 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.

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 any other purpose than that for which is restricted.

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 forestry improvement purposes - An account that represents a portion of the fund balance that is legally restricted for improving sixteenth section forest lands.

Reserved for permanent fund purposes - An account that represents a portion of the fund balance that is legally restricted for investment purposes or borrowing by the school board for capital purposes.

Unreserved, designated for, reported in special revenue funds - An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future uses.

Unreserved, designated for, reported in capital projects funds - An account that represents a portion of the unreserved fund balance that the school board has specifically obligated for future repairs, renovations, and construction projects of district buildings and facilities.

M. Property Taxes.

Ad valorem property taxes are levied by the governing authority of the county 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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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. 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 only the compensated absence liability payable from expendable available financial resources only if the payable has matured, for example, an employee retires.

(2) Changes in Accounting Standards.

As required, the Harrison County School District has implemented Government Accounting Standards Board (GASB) Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries for the current fiscal year. This Statement requires governments to evaluate major events effecting capital assets to determine whether they are impaired. Such events include physical damage, changes in legal or environmental factors technology changes or obsolescence, changes in the manner or duration of use and construction stoppage. Appropriate note disclosures have been incorporated to comply with the requirements of this standard.

(3) Cash and Cash Equivalents, Cash with Fiscal Agents, and Investments.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits and investments are imposed by statutes as follows:

Deposits. The school board must advertise and accept bids for depositories no less than once every three years as required by Section 37-7-333, Miss. Code Ann. (1972). The collateral pledged for the school districts' 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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

Investments. Section 29-3-113 and 37-59-43, Miss. Code Ann. (1972), authorizes the school board to invest surplus funds in the types of investments authorized by Section 27-105-33(d) and (e), Miss. Code Ann. (1972). This section permits the following types of investments: (a) certificates of deposits and interest bearing accounts with qualified state depositories; (b) direct United States Treasury obligations; (c) United States Government agency, United States Government instrumentality or United States Government sponsored enterprise obligations, the principal and interest of which are fully guaranteed by the government or enumerated agency of the United States; (d) direct security repurchase agreements and reverse direct security repurchase agreements of any federal book entry of only those securities enumerated in (b) and (c) above; (e) direct obligations issued by the United States of America that are deemed to include securities of, or interest in, and open-end or closed-end any management type investment company or investment trust approved by the State Treasurer and the Executive Director of the Department of Finance and Administration. Investment income on bond funds (Capital Projects), bond sinking funds (Debt Service Funds) and sixteenth section principal funds (Permanent Funds) must be credited to those funds. Investment income of \$100 or more of any fund must be credited to that fund. Amounts less than \$100 can be credited to the General Fund.

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$53,005,618 and \$4,050,049 respectively. The carrying amount of deposits reported in the government wide statements was: Cash and cash equivalents \$51,316,149 and Restricted Assets \$1,689,469. The Restricted assets represents the cash balance of the Sixteenth section Principal funds (Permanent Funds), which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$61,803,716

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. 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, 2006, none of the district's bank balance of \$61,803,716 was exposed to custodial credit risk.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

Cash with Fiscal Agents

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$1,027.

Investments.

As of June 30, 2006 the District had the following investments:

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Federal Home Loan Bank	Less than 1	\$ 1,091,893	AA-
Hancock Horizon Treasury Securities	Less than 1	732,621	Aaa
		<u>\$ 1,824,514</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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

(4) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds:

	Due From	Due To
Governmental Funds:		
General Fund	\$ 5,803,848	6,391,331
Displaced Student Grant Fund	283,156	4,465,326
Restart School Grant Fund		1,608,768
Building Projects Fund	6,250,000	
Other governmental funds	1,760,871	1,632,450
Total Funds	\$ 14,097,875	14,097,875

Due from and due to amounts represent reimbursements from federal grant funds to the general fund for expenditures related to Hurricane Katrina and other federal programs and set monies aside for board approved construction.

B. Transfers In/Out:

	Transfers In	Transfers Out
Governmental Funds:		
General Fund	\$ 786,605	22,870,046
Building Projects Fund	6,250,000	
D'Iberville School Construction Fund	15,000,000	
Other governmental funds	2,955,299	2,121,858
Total Funds	\$ 24,991,904	24,991,904

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.

C. Residual Equity Transfers In/Out

A residual equity transfer of \$72,064, was transferred to the General Fund from an Other Governmental Fund due to a reclassification of the Maximus-Medicaid fund (originally reported as a Special Revenue Fund) to the General Fund.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

(5) Capital Assets.

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

	Balance 7-1-2005	Additions	Retirements	Balance 6-30-2006
<u>Non-depreciable capital</u>				
<u>assets:</u>				
Land	\$ 1,967,689	850,654		2,818,343
Total non-depreciable capital assets	<u>1,967,689</u>	<u>850,654</u>		<u>2,818,343</u>
<u>Depreciable capital assets:</u>				
Buildings	57,124,710		1,832,940	55,291,770
Building Improvements	3,970,857		120,536	3,850,321
Improvements other than buildings	504,295		244,157	260,138
Mobile equipment	9,528,512	711,950	862,766	9,377,696
Furniture and equipment	3,617,890	99,405	221,073	3,496,222
Leased property under capital leases	436,196		49,526	386,670
Total depreciable capital assets	<u>75,182,460</u>	<u>811,355</u>	<u>3,330,998</u>	<u>72,662,817</u>
<u>Less accumulated depreciation for:</u>				
Buildings	19,792,077	998,310	962,154	19,828,233
Building Improvements	893,887	150,366	9,643	1,034,610
Improvements other than buildings	199,355	9,102	36,349	172,108
Mobile equipment	6,549,381	639,455	773,070	6,415,766
Furniture and equipment	2,999,139	265,953	189,897	3,075,195
Leased property under capital leases	259,166	82,428	28,262	313,332
Total accumulated depreciation	<u>30,693,005</u>	<u>2,145,614</u>	<u>1,999,375</u>	<u>30,839,244</u>
Total depreciable capital assets, net	<u>44,489,455</u>	<u>(1,334,259)</u>	<u>1,331,623</u>	<u>41,823,573</u>
Governmental activities capital assets, net	<u>\$ 46,457,144</u>	<u>(483,605)</u>	<u>1,331,623</u>	<u>44,641,916</u>

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 222,856
Support services	1,881,278
Non instructional	41,480
Total depreciation expense	\$ 2,145,614

(6) Long-term liabilities.

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

	Balance 7-1-2005	Additions	Reductions	Balance 6-30-2006	Amounts Due in One year
A. General Obligation Bonds	\$ 16,605,000	13,955,000	15,545,000	15,015,000	1,060,000
B. Limited Obligation Bonds	16,490,000		860,000	15,630,000	905,000
C. Three Mill Notes Payable	2,410,000		765,000	1,645,000	795,000
D. Obligations Under Capital Leases	313,773		87,733	226,040	90,267
E. Qualified Zone Academy Bonds	2,500,000			2,500,000	
F. Obligations under Energy Efficiency Lease	3,954,897		221,120	3,733,777	231,146
G. Compensated Absences Payable	464,481	36,620		501,101	10,022
Total	\$ 42,738,151	13,991,620	17,478,853	39,250,918	3,091,435

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:

Description	Average Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 1997	5.0%-7.0%	03-03-97	03-03-17	\$ 23,000,000	1,060,000
Series 2005	3.25%-5.0%	07-05-05	03-01-17	13,955,000	13,955,000
					\$ 15,015,000

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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

General Obligation Bonds FYE June 30	Principal	Interest	Total
2007	\$ 1,060,000	689,763	1,749,763
2008	1,120,000	636,763	1,756,763
2009	1,160,000	600,362	1,760,362
2010	1,205,000	562,662	1,767,662
2011	1,270,000	523,500	1,793,500
2012 – 2016	7,455,000	230,000	7,685,000
2017	1,745,000	43,625	1,788,625
Total	<u>\$ 15,015,000</u>	<u>3,286,675</u>	<u>18,301,675</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, 2006, the amount of outstanding bonded indebtedness was equal to 3% of property assessments as of October 1, 2005. This debt will be retired from the debt service fund.

Current Refunding.

On July 5, 2005, the district issued \$13,955,000 in general obligation refunding bonds with an average interest rate of 4.78 percent to advance refund \$14,540,000 of outstanding general obligation bonds with an average interest rate of 5.0 percent. The net proceeds of \$15,167,854 after payments of \$210,471 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the general obligation bonds.

A bond premium amount of \$1,123,325 resulted from the advance refunding of general obligation bonds of \$13,955,000 on July 5, 2006. This premium is being amortized over the remaining 10 years of new debt and is netted against long-term capital related debt. The remaining unamortized amount of bond premium at June 30, 2006 is \$1,021,205.

As a result, the general obligation bonds are considered to be defeased and the liability for those bonds has been removed from long-term liabilities.

The district advance refunded the general obligation bonds to reduce its total debt service payments over the remaining 11 years of the debt by approximately \$1,004,304 and to obtain an economic gain of \$807,322.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

B. Limited obligation notes payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement bonds, Series 1998	4.4-6.5%	05-01-98	02-01-18	19,520,000	<u>15,630,000</u>

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 905,000	727,405	1,632,405
2008	950,000	686,595	1,636,595
2009	995,000	643,308	1,638,308
2010	1,045,000	597,408	1,642,408
2010	1,100,000	548,605	1,648,605
2012-2016	6,340,000	1,889,368	8,229,368
2017-2018	4,295,000	280,125	4,575,125
Total	<u>\$ 15,630,000</u>	<u>5,372,814</u>	<u>21,002,814</u>

The state aid capital improvement notes 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 notes are not included in the computation of the debt limit percentage. This debt will be retired from the debt service fund.

C. Three mill notes payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Three mill notes payable 2003	2.65%	03-27-03	11-01-08	4,700,000	<u>1,645,000</u>

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

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

Year Ending June 30	Principal	Interest	Total
2007	\$ 795,000	43,593	838,593
2008	850,000	22,525	872,525
Total	<u>\$ 1,645,000</u>	<u>66,118</u>	<u>1,711,118</u>

This debt will be retired from the Debt Service Fund.

D. Obligations under capital leases.

The school district has entered into 4 lease agreements that qualify as capital leases for accounting purposes. Leased property under these leases is composed of copiers and one digital key system.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	\$ 90,267	5,730	95,997
2008	90,587	2,857	93,444
2009	45,186	391	45,577
Total	<u>\$ 226,040</u>	<u>8,978</u>	<u>235,018</u>

This debt will be retired from the District Maintenance Fund.

E. Qualified zone academy bonds payable.

As more fully explained in Note 11, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Series 2001	N/A	06-01-01	06-01-11	\$ 606,000	606,000
Series 2004-B	N/A	03-02-04	03-02-14	1,894,000	1,894,000
			Total		<u>2,500,000</u>

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

F. Operations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2007	\$ 231,146	144,741	375,887
2008	240,540	135,348	375,888
2009	250,315	125,573	375,888
2010	260,487	115,401	375,888
2011	271,073	104,815	375,888
2012-2016	1,529,829	349,609	1,879,438
2017-2020	950,387	52,979	1,003,366
Total	<u>\$ 3,733,777</u>	<u>1,028,466</u>	<u>4,762,243</u>

An energy efficiency lease agreement dated June 15, 2004, was executed by and between the district, the lessee, and Harrison County School District, the lessor.

The agreement authorized the borrowing of \$4,168,343 the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the debt service fund and not exceed ten (10) years.

The district entered into this energy efficiency lease agreement under the authority of Section 31-7-14, Miss. Code Ann. (1972).

Upon written notice to the lessor, the lessee has the option of repaying the total amount due as set forth by the agreement.

This debt will be retired from the debt service fund.

G. 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.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

(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.

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 10.75% 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, 2006, 2005 and 2004 were \$5,575,668.54, \$4,686,640, and \$4,561,541, respectively, which equaled the required contributions for each year.

(8) Sixteenth Section Lands.

Sixteenth section school lands, or lands granted in lieu thereof, constitute property held in trust for the benefit of the public schools. The school board, under the general supervision of the Office of the Secretary of State, has control and jurisdiction of said school trust lands and of all funds arising from any disposition thereof. It is the duty of the school board to manage the school trust lands and all funds arising therefrom as trust property. Accordingly, the board shall assure that adequate compensation is received for all uses of the trust lands, except for uses by the public schools. The following are the future rental payments to be made to the school district for the use of school trust lands. These future rental payments are from existing leases and do not anticipate renewals or new leases.

Year Ending June 30	Amount
2007	\$ 1,176,442
2008	1,155,887
2009	1,152,348
2010	1,088,447
2011	1,068,048
2012-2016	6,014,869
2017-2021	7,400,987
2022-2026	8,971,726
2027-2031	10,905,176
Thereafter	18,898,549
Total	<u>\$ 57,832,479</u>

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

(9) 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.

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi Municipal Workers' Compensation Group (MMWCG). The group is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. MMWCG covers risks of loss arising from injuries to the school district's employees.

The Mississippi Workers' Compensation Commission requires that an indemnity agreement to 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 the MMWCG contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$250,000. For a claim exceeding \$250,000, MMWCG has insurance which will pay the excess. If total claims during a year were to deplete the trust account, then the pool members would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

(10) Trust Certificates.

A trust agreement dated June 23, 2003, was executed by and between the school district and the board, as trustees. The trust agreement authorized the issuance of trust certificates in the principal amount of \$4,700,000. The amount of \$1,347,612 was used to provide financing for the construction and renovation of school buildings and related facilities and equipment (the "project"); \$2,249,166 was disbursed to the escrow agent to be used to redeem the outstanding maturities of the Series 1995 notes; \$1,047,622 was used to pay the outstanding balance of the district's tax and revenue anticipation note; the remainder of \$55,600 was used to pay the cost of issuance.

The project is leased to the school district in accordance with the provisions of the Emergency School Leasing Authority Act as described in Section 37-7-351, et seq., Miss. Code Ann. (1972). The lease represents a capital lease under which ownership of the project will transfer to the school district upon complete retirement of the trust certificates. The school district is obligated to make lease payments to the trustee in an amount equal to the debt service requirements for the trust certificates. The lease rental payments by the school district are used by the trustee to pay the principal and interest payments due on the trust certificates.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

It is not anticipated the project will have sufficient value to satisfy the certificates in the event the school district defaults under the lease; therefore, the source of payment of the certificates is the responsibility of the school district. See Note 5 for details regarding the debt service requirement on the trust certificates.

Using the guidance provided in Section 2100 of the *Codification of Governmental Accounting and Financial Reporting Standards* dealing with defining the reporting entity, the trust accounts created by this trust agreement were deemed to constitute an inseparable part of the school district. Therefore, the assets, liabilities, equity, revenues, expenditures and other financing sources/uses of the trust accounts created by this trust agreement are part of the school district's financial statements, thereby eliminating the effects of the lease agreement for financial reporting purposes.

(11) Qualified Zone Academy Bonds.

Series 2001

Section 226 of the Taxpayer Relief Act of 1997 (Public Law 105-34) provides for a source of capital at no or nominal interest rates for costs incurred by certain public schools in connection with the establishment of special academic programs from kindergarten through secondary school, in partnership with the business community. The school district, in agreement with Nance Enterprises, Inc., has entered into such an arrangement dated June 1, 2001. The agreement schedules Nance Enterprises, Inc. to provide five hours per month for the duration of the project at a present value of \$60,600.

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit \$389,000 into a sinking fund account on or before May 15, 2002. The amount accumulated in the sinking fund at the end of the ten-year period will be sufficient to retire the debt.

Series 2004-B

The school district, in agreement with Bell South Telecommunications, Inc. has entered into such an arrangement date March 2, 2004. The agreement schedules Bell South Telecommunications, Inc., to provide a total of 1,448 hours to be made in approximately equal amounts over a 5 year period ending June 30, 2008. This contribution has a present value of \$217,150.

HARRISON COUNTY SCHOOL DISTRICT
Notes to Financial Statements (continued)
For the Year Ended June 30, 2006

This agreement establishes a method of repayment for a qualified interest-free debt instrument. The agreement requires the school district to deposit funds annually into a sinking fund account on or before May 5 each year. The amount accumulated in the sinking fund at the end of the ten year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

<u>Year Ending June 30</u>	<u>Amount</u>
2007	\$ 200,000
2008	200,000
2009	<u>366,890</u>
Total	<u>\$ 766,890</u>

REQUIRED SUPPLEMENTARY INFORMATION

Harrison County School District
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances	
				Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 20,377,270	21,540,154	21,438,605	1,162,884	(101,549)
State sources	48,583,891	48,802,938	48,788,752	219,047	(14,186)
Federal sources	587,204	684,520	684,520	97,316	-
Total Revenues	<u>69,548,365</u>	<u>71,027,612</u>	<u>70,911,877</u>	<u>1,479,247</u>	<u>(115,735)</u>
Expenditures:					
Instruction	47,015,069	29,694,516	27,941,470	17,320,553	1,753,046
Support services	23,774,288	19,132,990	18,757,101	4,641,298	375,889
Noninstructional services	26,750	5,093	5,093	21,657	-
Facilities and acquisition	-	-	750,927	-	(750,927)
Debt service:					
Principal	-	-	309,853	-	(309,853)
Interest	-	-	162,338	-	(162,338)
Total Expenditures	<u>70,816,107</u>	<u>48,832,599</u>	<u>47,926,782</u>	<u>21,983,508</u>	<u>905,817</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,267,742)</u>	<u>22,195,013</u>	<u>22,985,095</u>	<u>23,462,755</u>	<u>790,082</u>
Other Financing Sources (Uses):					
Sale of other property	-	2,000	2,000	2,000	-
Operating transfers in	10,537,977	9,456,909	786,605	(1,081,068)	(8,670,304)
Operating transfers out	<u>(11,617,875)</u>	<u>(31,531,881)</u>	<u>(22,870,046)</u>	<u>(19,914,006)</u>	<u>8,661,835</u>
Total Other Financing Sources (Uses)	<u>(1,079,898)</u>	<u>(22,072,972)</u>	<u>(22,081,441)</u>	<u>(20,993,074)</u>	<u>(8,469)</u>
Net Change in Fund Balances	<u>(2,347,640)</u>	<u>122,041</u>	<u>903,654</u>	<u>2,469,681</u>	<u>781,613</u>
Fund Balances:					
July 1, 2005	7,258,991	7,258,991	7,258,991	-	-
Equity transfer	-	-	72,064	-	72,064
June 30, 2006	<u>\$ 4,911,351</u>	<u>7,381,032</u>	<u>8,234,709</u>	<u>2,469,681</u>	<u>853,677</u>

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

Harrison County School District
 Budgetary Comparison Schedule
 Displaced Student Grant Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ -	7,404,735	7,404,735	7,404,735	-
Total Revenues	-	7,404,735	7,404,735	7,404,735	-
Expenditures:					
Instruction	-	4,809,958	4,809,958	(4,809,958)	-
Support services	-	2,594,777	2,594,777	(2,594,777)	-
Total Expenditures	-	7,404,735	7,404,735	(7,404,735)	-
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	-	-	-	-

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

Harrison County School District
 Budgetary Comparison Schedule
 Restart School Grant Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Federal sources	\$ -	20,883,535	14,297,355	20,883,535	(6,586,180)
Total Revenues	-	20,883,535	14,297,355	20,883,535	(6,586,180)
Expenditures:					
Instruction	-	17,149,413	12,577,313	(17,149,413)	4,572,100
Support services	-	3,639,871	1,625,791	(3,639,871)	2,014,080
Noninstructional services		94,251	94,251	(94,251)	-
Total Expenditures	-	20,883,535	14,297,355	(20,883,535)	6,586,180
Net Change in Fund Balances	-	-	-	-	-
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	-	-	-	-

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

Harrison County School District
 Budgetary Comparison Schedule
 Hurricane Katrina Fund
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variances Favorable (Unfavorable)	
				Original to Final	Final to Actual
	Original	Final			
Revenues:					
Local sources	\$ -	104,303	104,303	104,303	-
Federal sources	-	849,876	849,876	849,876	-
Total Revenues	-	954,179	954,179	954,179	-
Expenditures:					
Instruction	-	1,834,023	1,329,305	(1,834,023)	504,718
Support services	-	17,019,684	11,193,099	(17,019,684)	5,826,585
Noninstructional services	-	22,500	4,267	(22,500)	18,233
Facilities and acquisition	-	24,715	24,715	(24,715)	-
Total Expenditures	-	18,900,922	12,551,386	(18,900,922)	6,349,536
Excess (Deficiency) of Revenues Over Expenditures	-	(17,946,743)	(11,597,207)	(17,946,743)	6,349,536
Other Financing Sources (Uses):					
Insurance loss recoveries	-	26,245,000	11,597,207	26,245,000	(14,647,793)
Total Other Financing Sources (Uses)	-	26,245,000	11,597,207	26,245,000	(14,647,793)
Net Change in Fund Balances	-	8,298,257	-	8,298,257	(8,298,257)
Fund Balances:					
July 1, 2005	-	-	-	-	-
June 30, 2006	\$ -	8,298,257	-	8,298,257	(8,298,257)

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

HARRISON COUNTY SCHOOL DISTRICT
Notes to the Required Supplementary Schedule
June 30, 2006

Budgetary Comparison Schedule

(1) Basis of Presentation.

The Budgetary Comparison Schedules present 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.

(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 October 15. 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.

SUPPLEMENTAL INFORMATION

HARRISON COUNTY SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>U.S. Department of Agriculture</u>		
Passed-Through Mississippi Department of Education		
Non-Cash Assistance:		
Food Donation	10.550	359,410
Child Nutrition Cluster:		
School Breakfast Program	10.553	776,259
National School Lunch Program	10.555	2,793,352
Summer Food Service Program for Children	10.559	145,676
Total Child Nutrition Cluster		3,715,287
Child and Adult Care Food Program	10.558	53,437
Total U.S. Department of Agriculture		4,128,134
<u>U.S. Department of Defense</u>		
Direct Program		
Reserve Officers' Training Corps	12.XXX	131,985
Total U.S. Department of Defense		131,985
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	56,961
Total Federal Communications Commission		56,961
<u>U.S. Department of Education</u>		
Direct programs:		
Impact Aid	84.041	59,669
Magnet Schools Assistance	84.165	94,268
Total Direct Programs		153,937
Passed-through Mississippi Department of Education:		
Title I - grants to local educational agencies	84.010	2,569,802
Vocational education - basic grants to states	84.048	138,602
Safe and drug-free schools and communities - state grants	84.186	89,736
Education for Homeless Children and Youth	84.196	53,270
Eisenhower professional development state grants	84.281	844,634
State grants for innovative programs	84.298	55,229
Rural education	84.358	9,074
Grants for state assessments and related activities	84.369	80,066
Hurricane education recovery	84.938	23,218,847
Total		27,059,260
Special education cluster:		
Special education - grants to states	84.027	2,656,220
Special education - preschool grants	84.173	130,768
Total		2,786,988
Total passed-through Mississippi Department of Education		29,846,248
Total U.S. Department of Education		30,000,185

HARRISON COUNTY SCHOOL DISTRICT
 Schedule of Expenditures of Federal Awards
 For the Year Ended June 30, 2006

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
<u>Corporation for National and Community Service</u>		
Passed-through Mississippi Department of Education:		
Learn and Serve America – School and Community based program	94.004	9,134
Total Corporation for National and Community Service		<u>9,134</u>
<u>Department of Homeland Security</u>		
Passed-through Mississippi Emergency Management Agency		
Disaster grants – public assistance (Presidentially declared disasters)	97.036	898,329
Total Department of Homeland Security		<u>898,329</u>
Total for All Federal Awards		\$ <u><u>35,224,728</u></u>

Harrison County School District
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 June 30, 2006

Expenditures	Total	Instruction and Other Student Instructional Expenditures	General Administration	School Administration	Other
Salaries and fringe benefits	\$ 68,312,779	53,100,432	1,842,397	4,483,031	8,886,919
Other	<u>50,567,753</u>	<u>8,069,760</u>	<u>365,519</u>	<u>168,003</u>	<u>41,964,471</u>
Total	<u>\$ 118,880,532</u>	<u>61,170,192</u>	<u>2,207,916</u>	<u>4,651,034</u>	<u>50,851,390</u>
Total number of students	<u>11,971 *</u>				
Cost per student	<u>\$ 9,931</u>	<u>5,110</u>	<u>184</u>	<u>389</u>	<u>4,248</u>

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

Instruction and Other Student Instructional Expenditures 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, 2100, & 2200 functional codes)

General Administration- includes expenditures for the following functions: Support Services - General Administration (2300s); and Support Services - Business (2500s)

School Administration- includes expenditures for the following function: Support Services - School Administration (2400s)

Other - includes all expenditure functions not included in Instruction or Administration Categories

* Enrollment numbers from the average daily attendance from September 2005 through May 2006

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants
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December 10, 2006

INDEPENDENT AUDITOR'S 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
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2006, which collectively comprise the Harrison County School District's basic financial statements and have issued our report thereon dated December 10, 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 *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. Our consideration of the internal control over financial reporting 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 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. We did not note any matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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 December 10, 2006.

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.

Wright Wood Miller & Smith

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

Certified Public Accountants

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December 10, 2006

INDEPENDENT AUDITOR'S 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
Harrison County School District

Compliance

We have audited the compliance of the Harrison County 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, 2006. 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, Harrison County 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, 2006.

Internal Control Over Compliance

The management of the Harrison County 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 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 the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the 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 a material weakness.

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.

Wright Ward Patten & Smith

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH STATE LAW AND REGULATIONS

WRIGHT, WARD, HATTEN & GUEL

(SUCCESSORS TO A. L. EVANS & COMPANY ESTABLISHED 1929)

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December 10, 2006

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH STATE LAWS AND REGULATIONS

Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2006, which collectively comprise Harrison County School District's basic financial statements and have issued our report thereon dated July 10, 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 *Government 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 \$45,213 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:

Finding:

Section 71-2-359 requires that the School District to deposit monthly for a period of twenty-four (24) months an amount equal to one-twelfth of one percent (1/12 of 1%) of the first Six Thousand Dollars (\$6,000.00) paid to each employee thereof during the next preceding year into an Unemployment Compensation Fund. Employment Compensation

Revolving Fund and to maintain a balance in the fund of not less than two percent (2%) of the covered wages paid during the next preceding year.

The School District failed to transfer adequate funds into this fund during the fiscal year ended June 30, 2006.

Response:

The School District miscalculated needed amounts during the year due to a high amount of payments to employees due to Hurricane Katrina. Adequate funds have been transferred as of the date of this report.

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.

W. Gary Wood, Director & Seal

HARRISON COUNTY SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006

Section 1: Summary of Auditor's Results

Financial Statements:

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

Federal Awards:

- | | | |
|-----|---|-------------|
| 4. | Type of auditor's 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 finding(s) reported as required by Section ____ .510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| | a. Title I – grants to local agencies
CFDA # 84.010 | |
| | b. Hurricane education recovery
CFDA # 84.938 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$1,056,742 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 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 |

HARRISON COUNTY SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006

Section 2: Financial Statement Findings

The results of our tests did not disclose any findings related to the financial statements that are required to be reported by *Government Auditing Standards*.

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.

HARRISON COUNTY SCHOOL DISTRICT
Summary Prior Year Auditing Findings
For the Year Ended June 30, 2006

There were no prior audit findings related to federal awards.

