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HOLMES COUNTY SCHOOL DISTRICT

Audited Financial Statements  
For the Year Ended June 30, 2006

HOLMES COUNTY SCHOOL DISTRICT

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HOLMES COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT



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INDEPENDENT AUDITOR'S REPORT  
ON

THE BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

Superintendent and School Board  
Holmes 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 Holmes County School District as of and for the year ended June 30, 2006, which collectively comprise the Holmes County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Holmes 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 Holmes 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 May 17, 2008, on our consideration of the Holmes 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 five through eleven and the Budgetary Comparison Schedule and corresponding notes on pages 35 through 41 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 Holmes 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.

  
Lyles and Sinclair, PLLC

May 17, 2008

HOLMES COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

HOLMES COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

The discussion and analysis of HOLMES COUNTY SCHOOL DISTRICT's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2006. The intent of this discussion and analysis is to look at the School District's performance as a whole; readers should also review the financial statements and the notes to the basic financial statements to enhance their understanding of the School District's financial performance. Information contained in this section is qualified by the more detailed information contained elsewhere in this district's financial statements, notes to financial statements and any accompanying materials. To the extent this discussion contains any forward-looking statements of the district's plans, objectives, expectations and prospects, the actual results could differ materially from those discussed herein.

### FINANCIAL HIGHLIGHTS

- Total net assets increased \$1,629,406.00, which represents 11.36% increase from fiscal year 2005.
- General revenues account for \$19,068,779.00 in revenue, or 71.88% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$7,460,444.00 or 28.12% of total revenues.
- The District had \$24,899,817.00 in expenses; only \$7,460,444.00 of these expenses were offset by program specific charges for services, grants and contributions. General revenues of \$19,068,779.00 were adequate to provide for these programs.
- Among major funds, the General Fund had \$17,748,751.00 in revenues and \$16,429,174.00 in expenditures. The General Fund's fund balance increased \$2,577,905.00 over the prior year.
- Capital assets, net of accumulated depreciation, *decreased* \$287,137.00.
- Long-term debt *decreased* by \$671,524.00.

### 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.

HOLMES COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

**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.

The government-wide financial statements can be found on pages 12 - 13 of this report.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the District's current financing requirements. Governmental Funds are reported using modified accrual accounting. This method of accounting measures cash and other assets that can be easily converted to cash. The Governmental Funds Statements provide a detailed short-term view of the school district's operations.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing

HOLMES COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

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* issued by the Mississippi Department of Education. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all major funds. All other non-major funds are combined together and presented in these reports as other governmental funds.

The basic governmental fund financial statements can be found on pages 15 - 17 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 19.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 -33 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund and each additional major fund. This required supplementary information can be found on pages 35 - 41 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and schedule of instructional, administrative and other expenditures for governmental funds can be found on page 43 and 44, respectively, of this report.

HOLMES COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE 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 \$15,970,943.00 as of June 30, 2006.

By far the largest portion of the District's net assets (33.25%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment and furniture and equipment.), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The District's financial position is a product of several financial transactions including the net result of activities, the 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.

	<u>2006</u>	<u>2005</u>	<u>Percent Change</u>
Current assets	\$ 11,318,927	\$ 9,871,531	14.66%
Other assets			
Capital assets, net	<u>12,835,862</u>	<u>13,122,999</u>	-2.19%
<b>Total assets</b>	<u>24,154,789</u>	<u>22,994,530</u>	5.05%
Current liabilities	484,846	290,942	66.65%
Long-term debt outstanding	<u>7,699,000</u>	<u>8,370,524</u>	- 8.02%
<b>Total liabilities</b>	<u>8,183,846</u>	<u>8,661,466</u>	-5.51%
<b>Net assets:</b>			
Invested in capital assets, net of related debt	5,310,862	4,897,999	8.43%
Restricted	2,111,210	3,638,215	-42.00%
Unrestricted	<u>8,548,871</u>	<u>5,796,850</u>	47.47%
<b>Total net assets</b>	<u>\$ 15,970,943</u>	<u>14,333,064</u>	11.43%

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

- The principal retirement of \$700,000.00 of long-term debt.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2006 were \$26,529,223.00. The total cost of all programs and services was \$24,899,817.69. The following table presents a summary of the changes in net assets for the fiscal year ended June 30, 2006.

HOLMES COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

	<u>2006</u>	<u>2005</u>	<u>Percentage Change</u>
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 188,512.00	\$ 271,110.00	-30.47%
Operating grants and Contributions	7,271,932.00	7,840,629.00	-7.25%
General revenues:			
Property taxes	3,389,858.00	3,083,699.00	9.93%
Grants and contributions			
Not restricted	15,104,257.00	14,379,106.00	5.04%
16 <sup>th</sup> Section sources	529,645.00	902,401.00	-41.31%
Other	45,019.00		
<b>Total revenues</b>	<u>26,529,223.00</u>	<u>26,476,945.00</u>	0.20%
<b>Expenses:</b>			
Instruction	12,404,188.00	12,169,498.00	1.93%
Support services	9,492,642.00	8,923,630.00	6.38%
Non-instructional	2,604,518.00	2,590,393.00	-0.55%
Sixteenth section	44,475.00	95,592.00	-53.47%
Interest on long-term liabilities	353,994.00	383,307.00	-7.65%
<b>Total expenses</b>	<u>24,899,817.00</u>	<u>24,162,420.00</u>	3.05%
<b>Decrease in net assets</b>	<u>\$1,629,406.00</u>	<u>\$ 2,314,525.00</u>	-29.60%

The following are significant current year transactions that have had an impact on the Statement of Activities. During fiscal year 2005 the district had a timber sale which accounts for the great difference in revenue for 16<sup>th</sup> section sources.

**Governmental activities.** The following table presents the cost of five major District functional activities: instruction, support services, non-instructional, sixteenth section 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.

	<u>2006</u>		<u>2005</u>	
	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>	<u>Total Expenses</u>	<u>Net(Expense) Revenue</u>
Instruction	\$12,404,188.00	\$(10,440,919.00)	\$12,169,498.00	\$ (9,744,113.00)
Support services	9,492,642.00	( 6,216,443.00)	8,923,630.00	(5,585,211.00)
Non-instructional	2,604,518.00	( 393,916.00)	2,590,393.00	( 242,458.00)
Sixteenth section	44,475.00	( 35,302.00)	95,592.00	( 95,592.00)
Interest on long-term liabilities	353,994.00	( 352,793.00)	383,307.00	( 383,307.00)
<b>Total expenses</b>	<u>\$ 24,899,817.00</u>	<u>\$(17,439,373.00)</u>	<u>\$24,162,420.00</u>	<u>\$(16,050,681.00)</u>

- Net cost of governmental activities (\$17,439,373.00) was financed by general revenue, which is made up of primarily property taxes (\$3,389,858.00) and state revenue (\$14,741,344.00).
- Investment earnings accounted for \$265,187.30 of funding.

HOLMES COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

**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 \$10,917,579.00, an increase of \$1,254,585.00 due primarily to teacher shortage, teacher turnover and less experienced teachers. \$9,939,351.48 or 91.04% of the fund balance constitutes unreserved and undesignated fund balance, which is available for spending at the District's discretion. The remaining fund balance of \$978,228.52 or 8.96% is reserved or designated to indicate that it is not available for spending because it has already been committed.

The General Fund is the principal operating fund of the District. The increase in fund balance in the General Fund for the fiscal year was \$2,577,905.00 a result of \$1,700,000.00 transfer from 16<sup>th</sup> Section Interest to do door replacement in all schools except S. V. Marshall High, lowering of ceilings in three schools, Williams/Sullivan High, Jacob J. McClain and Goodman-Pickens Elementary, and teacher shortage. The fund balance of Other Governmental Funds, such as Comprehensive School Reform, Educational Enhancement Fund, Preschool, 16<sup>th</sup> Section Funds, Safe and Drug Free Schools, Bond Repayment, MAEP Bond Retirement Fund, Improving Teacher Quality and etc., showed a decrease of \$1,323,320.00.

**BUDGETARY HIGHLIGHTS**

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

- Budget amounts for revenue from state sources was increased to full funding for Mississippi Adequate Education. The original budgeted amounts underestimated for potential cuts by the Mississippi legislature. This was done upon suggestion of the Mississippi Department of Education.

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

HOLMES COUNTY SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2006

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2006, the District's total capital assets were \$20,310,706.20, including school buildings, busses, other school vehicles and furniture and equipment. This amount represents an increase of \$121,902.42 from the previous year. Total accumulated depreciation as of June 30, 2006 was \$7,474,844.20 and total depreciation expense for the year was \$605,194.25, resulting in total net assets of \$12,835,862.00.

Additional information of the District's capital assets can be found in Note 5 on page 29 of this report.

**Debt Administration.** At June 30, 2006, the District had \$7,699,000.00 in general obligation bonds and other long-term debt outstanding, of which \$735,000.00 is due within one year.

Additional information of the District's long-term debt can be found in Note 6 on page 30 of this report.

**CURRENT ISSUES**

The Holmes 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. In addition, the District 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 Holmes County School District, P. O. Box 630 or 313 Olive Street address, Lexington, MS 39095.

HOLMES COUNTY SCHOOL DISTRICT

FINANCIAL STATEMENTS

**HOLMES COUNTY SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2006**

**Exhibit A**

	<u>Primary Government</u> <u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	10,041,654
Investments	50,714
Due from other governments	866,357
Inventories and prepaid items	47,988
Restricted assets	312,214
Capital assets, not being depreciated:	
Land	57,310
Capital assets, net of accumulated depreciation:	
Buildings	9,444,685
Building improvements	461,709
Improvements other than buildings	1,373,494
Mobile equipment	1,255,424
Furniture and equipment	243,240
Total assets	<u>24,154,789</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	319,356
Deferred revenue	81,993
Interest payable on long-term liabilities	83,497
Long-term liabilities due within one year:	
Capital related liabilities	735,000
Non-capital related liabilities	
Long-term liabilities due beyond one year:	
Capital related liabilities	6,790,000
Non-capital related liabilities	174,000
Total liabilities	<u>8,183,846</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	5,310,862
Restricted net assets for:	
Expendable:	
School-based activities	1,264,467
Debt service	335,933
Forestry improvements	117,759
Unemployment benefits	80,837
Non-expendable:	
Sixteenth section	312,214
Unrestricted	<u>8,548,871</u>
Total net assets	<u><u>15,970,943</u></u>

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

HOLMES COUNTY SCHOOL DISTRICT  
Statement of Activities  
For the Year Ended June 30, 2006

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
Governmental Activities:					
Instruction	12,404,188	112,588	1,850,681		(10,440,919)
Support services	9,492,642		3,276,199		(6,216,443)
Non-instructional	2,604,518	66,751	2,143,851		(393,916)
Sixteenth section	44,475	9,173			(35,302)
Interest and other expenses on long-term liabilities	353,994		1,201		(352,793)
<b>Total governmental activities</b>	<b>24,899,817</b>	<b>188,512</b>	<b>7,271,932</b>		<b>(17,439,373)</b>
General revenues:					
Taxes					
General purpose levies					3,255,669
Debt service levies					134,189
Unrestricted grants and contributions:					
State					14,741,344
Federal					97,726
Unrestricted investment earnings					265,187
Sixteenth section sources					529,645
Other					45,019
Total general revenues					<u>19,068,779</u>
Total general revenues					<u>19,068,779</u>
Changes in net assets					<u>1,629,406</u>
Net assets - beginning					14,333,064
Prior Period Adjustments					8,473
Net assets - beginning - restated					<u>14,341,537</u>
Net assets - ending					<u>15,970,943</u>

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

HOLMES COUNTY SCHOOL DISTRICT

Balance Sheet - Governmental Funds

June 30, 2006

Exhibit C

GENERAL FUND	SUMMER FOOD SERVICE	TITLE I - A BASIC FYE	TITLE II - A IMP TCHR QUALITY	TITLE II - EDUCATION TECH FUND	EHA, PART B 2000 FY GRANT FUND	Total	
						Other Governmental Funds	Governmental Funds
8,251,436			117,507			1,984,925	10,353,868
						50,714	50,714
238,302	81,134	82,244	61,020		62,311	341,347	866,358
165,789						42,648	208,437
						47,988	47,988
<b>8,655,527</b>	<b>81,134</b>	<b>82,244</b>	<b>61,020</b>	<b>117,507</b>	<b>62,311</b>	<b>2,467,622</b>	<b>11,527,365</b>
<b>ASSETS</b>							
Cash and cash equivalents							
Investments							
Due from other governments							
Due from other funds							
Inventories and prepaid items							
<b>Total assets</b>							
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities:</b>							
135,248	38,486	32,783	11,650	49,378	10,318	41,493	319,356
	42,648	49,254	48,542		51,993	16,000	208,437
				68,128		13,865	81,993
<b>135,248</b>	<b>81,134</b>	<b>82,037</b>	<b>60,192</b>	<b>117,506</b>	<b>62,311</b>	<b>71,358</b>	<b>609,786</b>
<b>Total liabilities</b>							
<b>Fund Balances:</b>							
Reserve for:							
						47,988	47,988
						419,430	419,430
						117,759	117,759
						80,837	80,837
						312,214	312,214
Unreserved:							
Undesignated, reported in:							
8,520,279		207	828	1		1,418,036	8,520,279
							1,419,072
<b>8,520,279</b>	<b>207</b>	<b>207</b>	<b>828</b>	<b>1</b>	<b>2,396,264</b>	<b>10,917,579</b>	<b>10,917,579</b>
<b>Total fund balances</b>							
<b>8,655,527</b>	<b>81,134</b>	<b>82,244</b>	<b>61,020</b>	<b>117,507</b>	<b>62,311</b>	<b>2,467,622</b>	<b>11,527,365</b>
<b>Total liabilities and fund balances</b>							

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

HOLMES COUNTY SCHOOL DISTRICT  
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets  
 June 30, 2006

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 10,917,579
Amounts reported for governmental activities in the statement of net assets are different because:	
1. 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 \$7,474,844.	12,835,862
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(7,699,000)
3. Governmental funds recognize interest on long-term debt when it becomes due, however the Statement of Net Assets recognizes interest as it accrues.	(83,497)
Rounding	<u>(1)</u>
Total Net Assets - Governmental Activities	\$ <u><u>15,970,943</u></u>

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

HOLMES COUNTY SCHOOL DISTRICT  
 Statement of Revenues, Expenditures and Changes in Fund Balances  
 Governmental Funds  
 For the Year Ended June 30, 2006

	Major Funds					Education Tech Fund	EHA, Part B Fund	Other		Total Governmental Funds
	General Fund	Summer Food Service Fund	Title I Fund	Improving Teacher Quality	Governmental Funds			Governmental Funds		
<b>Revenues:</b>										
Local sources	\$ 3,598,370	118	3,195				2,950	225,172		3,829,805
State sources	14,043,131							1,552,095		15,595,226
Federal sources	107,250	81,134	2,584,991	496,563		51,723	737,703	2,456,412		6,515,776
Sixteenth section sources									587,809	587,809
<b>Total Revenues</b>	<b>17,748,751</b>	<b>81,252</b>	<b>2,588,186</b>	<b>496,563</b>		<b>51,723</b>	<b>740,653</b>	<b>4,821,488</b>		<b>26,528,616</b>
<b>Expenditures:</b>										
Instruction	10,034,341		671,976	90,873			307,674	967,662		12,072,526
Support services	5,941,524	9,406	1,700,033	405,690		53,325	429,933	889,469		9,429,380
Noninstructional services	212,860	71,846	216,177				3,046	2,112,735		2,616,664
Sixteenth section								44,475		44,475
Facilities acquisition and construction	55,014									55,014
Debt service:										
Principal	112,015							587,985		700,000
Interest	70,920							276,818		347,738
Other	2,500							2,664		5,164
<b>Total Expenditures</b>	<b>16,429,174</b>	<b>81,252</b>	<b>2,588,186</b>	<b>496,563</b>		<b>53,325</b>	<b>740,653</b>	<b>4,881,808</b>		<b>25,270,961</b>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<b>1,319,577</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>(1,602)</b>	<b>0</b>	<b>(60,320)</b>		<b>1,237,655</b>
<b>Other Financing Sources (Uses):</b>										
Insurance loss recoveries	611									611
Sale of transportation equipment										0
Sale of other property										0
Operating transfers in	1,870,760							461,746		2,332,506
Operating transfers out	(613,247)							(1,719,259)		(2,332,506)
Other financing uses										0
<b>Total Other Financing Sources (Uses)</b>	<b>1,258,124</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>0</b>	<b>0</b>	<b>(1,257,513)</b>		<b>611</b>
<b>Net Change in Fund Balances</b>	<b>2,577,701</b>	<b>0</b>	<b>0</b>	<b>0</b>		<b>(1,602)</b>	<b>0</b>	<b>(1,317,833)</b>		<b>1,238,266</b>
<b>Fund Balances:</b>										
July 1, 2005	5,942,374					1,603		3,719,017		9,662,994
Prior period adjustments	204		207	828				237		1,476
July 1, 2005, as restated	5,942,578	0	207	828		1,603	0	3,719,254		9,664,470
Increase (Decrease) in reserve for inventory									(5,157)	(5,157)
June 30, 2006	8,520,279	0	207	828		1	0	2,396,264		10,917,579

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

**HOLMES 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, 2006**

**Exhibit D-1**

	<u>Amount</u>
<b>Net change in fund balances - governmental funds</b>	1,258,267
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 assets purchase amounted to \$329,457 and the depreciation expense amounted to \$605,194.	(275,737)
Payment of principal on long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Activities. (Note)	700,000
Expenses in the Statement of Activities not normally paid with expendable available financial resources are not reported as expenditures in the governmental funds: Compensated Absences	(28,476)
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.	(1,092)
Gains and losses on sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities.	(18,396)
Increases or decreases in reserve for inventory directly affects fund balance in the fund statements, but is adjusted through expenses in the Statement of Activities.	(5,157)
Rounding	<u>(3)</u>
<b>Change in net assets of governmental activities</b>	<u><u>1,629,406</u></u>

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



# HOLMES 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 5 member board to which each member was elected by the citizens of each defined county district.

#### B. Basis of Presentation.

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

##### *Government-wide Financial Statements:*

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

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

##### *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.

# HOLMES COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006

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

The school district reports the following major governmental funds:

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

Summer Food Service Fund - This fund is used to account for Child Nutrition funds used to provide healthful, nutritious meals to eligible children.

Title I - This fund is used to account for Title I funds set aside to provide local educational agencies (LEA) with extra resources to help improve instruction in high-poverty schools and to ensure that poor and minority children have the same opportunity as other children to meet challenging state academic standards.

Improving Teacher Quality - This fund is used to assist teachers in becoming highly qualified and to improve their performance in the classroom.

Education Tech Fund - This fund is used to account for funds set aside to improve student academic achievement through the use of technology.

EHA, Part B Fund - This fund is used to account for Special Education funds set aside to provide special education and related services to children with disabilities.

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:

# HOLMES COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006

### 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.

### FIDUCIARY FUNDS

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

#### D. Account Classifications.

The account classifications used in the financial statements conform to the broad classifications recommended in *Governmental Accounting, Auditing, and Financial Reporting* 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, 2003* 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 consist of amounts on deposit in demand accounts and certificates of deposit with original maturities of three 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.

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

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

Investments are reported at fair value.

H. Inventories and Prepaid Items.

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

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

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.

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

	Capitalization Policy	Estimated Useful Life
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 4 for details.

# HOLMES COUNTY SCHOOL DISTRICT

## Notes to Financial Statements 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 5 for details.

### K. Interfund Transactions and Balances.

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

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 3 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 borrowing that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

#### *Fund Financial Statements:*

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

# HOLMES COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006

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 for any other purpose than that for which it 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.

### 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.

### 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 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 Holmes County School District has implemented Government Accounting

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

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, and Investments

Cash and Cash Equivalents.

The district follows the practice of aggregating the cash assets of various funds to maximize cash management efficiency and returns. Restrictions on deposits 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.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$10,353,868 and \$734,410, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$10,041,654 and restricted assets - \$312,410. The restricted assets represent the cash balance of the Sixteenth Section Principal Fund (Permanent Fund) which is legally restricted and may not be used for purposes that support the district's programs. The bank balance was \$13,806,682.

*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 \$11,088,278 was exposed to custodial credit risk.

Investments.

As of June 30, 2006, the district had the following investments. All investments are in an internal investment pool.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Hancock Horizon U. S. Treasury Securities Mmkt fund	less than 1	\$ 50,714	AAAm
Total Investments		<u>\$ 50,714</u>	

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

*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.

*Custodial Credit Risk - Investments.* Custodial credit risk is defined as the risk that, in the event of the failure of the counterparty, the district will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The district does not have a formal investment policy that addresses custodial credit risk. As of June 30, 2006, the district did not have any investments to which this would apply.

*Concentration of Credit Risk.* Disclosures of investments by amount and issuer for any issuer that represents five percent or more of total investments is required. This requirement does not apply to investments issued or explicitly guaranteed by the U.S. government, investments in mutual funds and external investment pools, and other pooled investments. As of June 30, 2006, the district had the following investments:

Issuer	Fair Value	% of Total Investments
Hancock Bank	\$ 50,714	100%
	\$ 50,714	

(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	\$ 165,789	
Summer food service		42,648
Title I		49,254
Improving teacher quality		48,542
EHA, part b		51,993
Other governmental funds	42,648	16,000
Total	\$ 208,437	208,437

The interfund loans were made mainly to cover the initial payments of reimbursable expenditures of federal programs.

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

B. Transfers In/Out.

	<u>Transfer In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 1,870,760	613,247
Other governmental funds	461,746	1,719,259
Total	<u>\$ 2,332,506</u>	<u>2,332,506</u>

The transfers were mainly to fund vocational education and special education, as well as, a board approved transfer from the expendable sixteenth section interest fund.

(5) Capital Assets.

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

	<u>Balance 7-1-2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Completed Construction</u>	<u>Adjustments</u>	<u>Balance 6-30-2006</u>
<u>Non-depreciable capital assets:</u>						
Land	\$ 57,310					57,310
Total non-depreciable capital assets	<u>57,310</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>57,310</u>
<u>Depreciable capital assets:</u>						
Buildings	13,979,399					13,979,399
Building improvements	528,143	55,014				583,157
Improvements other than buildings	1,930,514					1,930,514
Mobile equipment	2,763,880	199,137	180,561			2,782,456
Furniture and equipment	929,558	75,306	33,990		6,996	977,870
Total depreciable capital assets	<u>20,131,494</u>	<u>329,457</u>	<u>214,551</u>	<u>0</u>	<u>6,996</u>	<u>20,253,396</u>
<u>Less accumulated depreciation for:</u>						
Buildings	4,297,179	237,535				4,534,714
Building improvements	98,122	23,326				121,448
Improvements other than buildings	479,799	77,221				557,020
Mobile equipment	1,511,514	178,023	162,505			1,527,032
Furniture and equipment	679,191	89,089	33,650			734,630
Total accumulated depreciation	<u>7,065,805</u>	<u>605,194</u>	<u>196,155</u>	<u>0</u>		<u>7,474,844</u>
Total depreciable capital assets, net	<u>13,065,689</u>	<u>(275,737)</u>	<u>18,396</u>	<u>0</u>	<u>6,996</u>	<u>12,778,552</u>
Governmental activities capital assets, net	<u>\$ 13,122,999</u>	<u>(275,737)</u>	<u>18,396</u>	<u>0</u>	<u>6,996</u>	<u>12,835,862</u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

Depreciation expense was charged to the following governmental functions:

	<u>Amount</u>
Instruction	\$ 318,442
Support services	247,098
Non-instructional	<u>39,654</u>
Total Depreciation Expense	<u>\$ 605,194</u>

(6) Long-term Liabilities.

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

	<u>Balance</u> 7-1-2005	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments</u>	<u>Balance</u> 6-30-2006	<u>Amounts due</u> <u>within one</u> <u>year</u>
A. General obligation bonds payable	\$ 2,510,000		375,000		2,135,000	390,000
B. Limited obligation bonds Payable	5,715,000		325,000		5,390,000	345,000
C. Compensated absences Payable	<u>145,524</u>	<u>28,476</u>			<u>174,000</u>	
Total	<u>\$ 8,370,524</u>	<u>28,476</u>	<u>700,000</u>	<u>0</u>	<u>7,699,000</u>	<u>735,000</u>

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest</u> <u>Rate</u>	<u>Issue</u> <u>Date</u>	<u>Maturity</u> <u>Date</u>	<u>Amount</u> <u>Issued</u>	<u>Amount</u> <u>Outstanding</u>
General obligation bonds, Series 2003A	Varies	07-01-2003	04-15-2008	\$ 610,000	265,000
General obligation bonds, Series 2003, Refunding		07-01-2003	04-15-2016	<u>2,580,000</u>	<u>1,870,000</u>
Total				<u>\$ 3,190,000</u>	<u>2,135,000</u>

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
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	\$ 390,000	72,722	462,722
2008	400,000	62,388	462,388
2009	260,000	50,587	310,587
2010	260,000	42,138	302,138
2011	230,000	33,038	263,038
2012 - 2016	595,000	56,475	651,475
Total	\$ 2,135,000	317,348	2,452,348

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 2.2% of property assessments as of October 1, 2005. This debt will be retired from the District Maintenance Fund, the EEF Building and Buses Fund, and the Debt Service Fund.

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital Improvement, series 1998	Varies	04-01-1998	04-20-2018	\$ 7,200,000	5,390,000
Total				\$ 7,200,000	5,390,000

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
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	\$ 345,000	246,265	591,265
2008	360,000	231,085	591,085
2009	380,000	215,245	595,245
2010	395,000	198,145	593,145
2011	415,000	179,975	594,975
2012 - 2016	2,380,000	588,392	2,968,392
2017 - 2021	1,115,000	75,825	1,190,825
<b>Total</b>	<b>\$ 5,390,000</b>	<b>1,734,932</b>	<b>7,124,932</b>

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

C. 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.

(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 rate for fiscal year ending June 30, 2006 was 10.75% of the 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 \$1,347,969, \$1,326,435 and \$1,236,128, 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

HOLMES COUNTY SCHOOL DISTRICT

Notes to Financial Statements  
For the Year Ended June 30, 2006

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	\$ 323,936
2008	163,840
2009	163,840
2010	110,103
2011	375
2012 - 2016	1,875
2017 - 2021	1,875
2022 - 2026	1,875
2027 - 2031	1,050
Thereafter	<u>1,200</u>
Total	<u>\$ 769,969</u>

(9) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanation(s)</u>	<u>Amount</u>
1. To correct a prior period error in recording an asset	\$ 6,996
2. Overstatement of expenses	<u>1,477</u>
Total	<u>\$ 8,473</u>

Exhibit D - Statement of Revenues, Expenditures and Changes in Fund Balances

<u>Major Funds</u>	<u>Explanation(s)</u>	<u>Amount</u>
General Fund	Overstatement of expenses	\$ 204
Title I	Overstatement of expenses	207
Improving teacher quality	Overstatement of expenses	828
Other governmental funds	Overstatement of expenses	<u>237</u>
Total		<u>\$ 1,476</u>

# HOLMES COUNTY SCHOOL DISTRICT

## Notes to Financial Statements For the Year Ended June 30, 2006

### (10) Risk Management.

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

#### Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi School Boards Association Workers' Compensation Trust (MSBAWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust consists of approximately 119 school districts and covers risks of loss arising from injuries to the school district's employees. The Mississippi Workers' Compensation Commission requires that an indemnity agreement be executed by each member in a workers' compensation self-insurance pool for the purpose of jointly and severally binding the pool and each of the employers comprising the group to meet the workers' compensation obligations of each member. Each member of MSBAWCT contributes quarterly to a fund held in trust by BancorpSouth Bank in Jackson. The funds in the trust account are used to pay any claim up to \$500,000. For a claim exceeding \$500,000, MSBAWCT has insurance which will pay the excess up to \$25,000,000. If total claims during a year were to deplete the trust account, then the member school districts would be required to pay for the deficiencies. The district has not had an additional assessment for excess losses incurred by the pool.

HOLMES COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTARY INFORMATION

HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 GENERAL FUND  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	3,327,352	3,598,992	3,598,370	271,640	(623)
State sources	13,165,757	14,045,977	14,043,131	880,220	(2,846)
Federal sources		91,705	107,250	91,705	15,546
<b>Total revenues</b>	<b>16,493,109</b>	<b>17,736,674</b>	<b>17,748,751</b>	<b>1,243,565</b>	<b>12,077</b>
<b>Expenditures:</b>					
Instruction	11,673,895	11,695,148	10,034,341	21,253	1,660,807
Support services	6,778,407	7,256,429	5,941,524	478,022	1,314,905
Non-instructional services	258,155	223,150	212,860	(35,005)	10,290
Facilities acquisition and construction		54,050	55,014	54,050	(964)
Debt service:					
Principal	112,015	112,015	112,015	0	0
Interest	70,920	70,920	70,920	0	0
Other	3,500	3,500	2,500	0	1,000
<b>Total expenditures</b>	<b>18,896,892</b>	<b>19,415,212</b>	<b>16,429,174</b>	<b>518,320</b>	<b>2,986,038</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<i>(2,403,783)</i>	<i>(1,678,538)</i>	<i>1,319,577</i>	<i>725,245</i>	<i>(2,973,961)</i>
<b>Other Financing Sources (Uses):</b>					
Insurance loss recoveries	0	611	611	611	0
Operating transfers in	608,869	1,913,219	1,875,110	1,304,350	(38,110)
Operating transfers out	(779,660)	(796,869)	(617,597)	(17,209)	179,272
<b>Total other financing sources (uses)</b>	<b>(170,791)</b>	<b>1,116,961</b>	<b>1,258,124</b>	<b>1,287,752</b>	<b>141,162</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,574,574)</b>	<b>(561,577)</b>	<b>2,577,701</b>	<b>2,012,997</b>	<b>(2,832,799)</b>
<b>Fund Balances:</b>					
July 1, 2005	3,969,866	5,942,374	5,942,374	1,972,508	0
Prior period adjustments	0	0	204	0	204
July 1, 2005, as restated	3,969,866	5,942,374	5,942,578	1,972,508	204
June 30, 2006	1,395,292	5,380,797	8,520,279	3,985,505	(2,832,594)

HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule SUMMER FOOD SERVICE  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	0	118	118	118	0
State sources	0	0	0	0	0
Federal sources	0	81,189	81,134	81,189	(55)
<b>Total revenues</b>	<b>0</b>	<b>81,307</b>	<b>81,252</b>	<b>81,307</b>	<b>(55)</b>
<b>Expenditures:</b>					
Instruction	0	0	0	0	0
Support services	0	9,406	9,406	(9,406)	0
Non-instructional services	0	71,901	71,846	(71,901)	55
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
<b>Total expenditures</b>	<b>0</b>	<b>81,307</b>	<b>81,252</b>	<b>(81,307)</b>	<b>55</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds of general obligation bonds	0	0	0	0	0
Proceeds of refunding bonds	0	0	0	0	0
Proceeds of loans	0	0	0	0	0
Inception of capital leases	0	0	0	0	0
Insurance loss recoveries	0	0	0	0	0
Sale of transportation equipment	0	0	0	0	0
Sale of other property	0	0	0	0	0
Operating transfers in	0	0	0	0	0
Other financing sources	0	0	0	0	0
Operating transfers out	0	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0	0
Other financing uses	0	0	0	0	0
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Special items	0	0	0	0	0
Extraordinary items	0	0	0	0	0
<b>NET CHANGE IN FUND BALANCES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fund Balances:</b>					
July 1, 2005	0	0	0	0	0
Prior period adjustments	0	0	0	0	0
July 1, 2005, as restated	0	0	0	0	0
Increase (Decrease) in reserve for inventory	0	0	0	0	0
Residual equity transfer in (out)	0	0	0	0	0
June 30, 2006	0	0	0	0	0

**HOLMES COUNTY SCHOOL DISTRICT**

**Budgetary Comparison Schedule**

**TITLE I**

**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
	<b>Revenues:</b>				
Local sources	0	3,195	3,195	3,195	0
Intermediate sources	0	0	0	0	0
State sources	0	0	0	0	0
Federal sources	2,685,938	3,760,466	2,584,991	1,074,528	(1,175,475)
Sixteenth section sources	0	0	0	0	0
<b>Total revenues</b>	<b>2,685,938</b>	<b>3,763,661</b>	<b>2,588,186</b>	<b>1,077,723</b>	<b>(1,175,475)</b>
<b>Expenditures:</b>					
Instruction	750,693	1,206,201	671,976	455,508	534,225
Support services	1,699,512	2,293,951	1,700,033	594,439	593,918
Non-instructional services	225,733	253,509	216,177	27,776	37,332
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
<b>Total expenditures</b>	<b>2,675,938</b>	<b>3,753,661</b>	<b>2,588,186</b>	<b>1,077,723</b>	<b>1,165,475</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>10,000</b>	<b>10,000</b>	<b>0</b>	<b>0</b>	<b>(10,000)</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds of general obligation bonds	0	0	0	0	0
Proceeds of refunding bonds	0	0	0	0	0
Proceeds of loans	0	0	0	0	0
Inception of capital leases	0	0	0	0	0
Insurance loss recoveries	0	0	0	0	0
Sale of transportation equipment	0	0	0	0	0
Sale of other property	0	0	0	0	0
Operating transfers in	0	0	0	0	0
Other financing sources	0	0	0	0	0
Operating transfers out	(10,000)	(10,000)	0	0	10,000
Payment to refunded bond escrow agent	0	0	0	0	0
Other financing uses	0	0	0	0	0
<b>Total other financing sources (uses)</b>	<b>(10,000)</b>	<b>(10,000)</b>	<b>0</b>	<b>0</b>	<b>10,000</b>
Special items	0	0	0	0	0
Extraordinary items	0	0	0	0	0
<b>NET CHANGE IN FUND BALANCES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Fund Balances:</b>					
July 1, 2005	0	0	0	0	0
Prior period adjustments	0	0	207	0	207
July 1, 2005, as restated	0	0	207	0	207
Increase (Decrease) in reserve for inventory	0	0	0	0	0
Residual equity transfer in (out)	0	0	0	0	0
June 30, 2006	0	0	207	0	207

HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 IMPROVING TEACHER QUALITY  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	0	0	0	0	0
Intermediate sources	0	0	0	0	0
State sources	0	0	0	0	0
Federal sources	518,160	999,065	496,563	480,905	(502,502)
Sixteenth section sources	0	0	0	0	0
<b>Total revenues</b>	<b>518,160</b>	<b>999,065</b>	<b>496,563</b>	<b>480,905</b>	<b>(502,502)</b>
<b>Expenditures:</b>					
Instruction	176,100	406,163	90,873	230,063	315,290
Support services	333,010	583,852	405,690	250,842	178,162
Non-instructional services	9,050	9,050	0	0	9,050
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
<b>Total expenditures</b>	<b>518,160</b>	<b>999,065</b>	<b>496,563</b>	<b>480,905</b>	<b>502,502</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds of general obligation bonds	0	0	0	0	0
Proceeds of refunding bonds	0	0	0	0	0
Proceeds of loans	0	0	0	0	0
Inception of capital leases	0	0	0	0	0
Insurance loss recoveries	0	0	0	0	0
Sale of transportation equipment	0	0	0	0	0
Sale of other property	0	0	0	0	0
Operating transfers in	0	0	0	0	0
Other financing sources	0	0	0	0	0
Operating transfers out	0	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0	0
Other financing uses	0	0	0	0	0
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Special items	0	0	0	0	0
Extraordinary items	0	0	0	0	0
<b>NET CHANGE IN FUND BALANCES</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(0)</b>
<b>Fund Balances:</b>					
July 1, 2005	0	0	0	0	0
Prior period adjustments	0	0	828	0	828
July 1, 2005, as restated	0	0	828	0	828
Increase (Decrease) in reserve for inventory	0	0	0	0	0
Residual equity transfer in (out)	0	0	0	0	0
June 30, 2006	0	0	828	0	828

HOLMES COUNTY SCHOOL DISTRICT  
 Budgetary Comparison Schedule  
 EDUCATION TECH FUND  
 For the Year Ended June 30, 2006

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
<b>Revenues:</b>					
Local sources	0	0	0	0	0
Intermediate sources	0	0	0	0	0
State sources	0	0	0	0	0
Federal sources	69,617	119,851	51,723	50,234	(68,128)
Sixteenth section sources	0	0	0	0	0
<b>Total revenues</b>	<b>69,617</b>	<b>119,851</b>	<b>51,723</b>	<b>50,234</b>	<b>(68,128)</b>
<b>Expenditures:</b>					
Instruction	0	0	0	0	0
Support services	69,417	121,454	53,325	52,037	68,129
Non-instructional services	0	0	0	0	0
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
<b>Total expenditures</b>	<b>69,417</b>	<b>121,454</b>	<b>53,325</b>	<b>52,037</b>	<b>68,129</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>200</b>	<b>(1,603)</b>	<b>(1,602)</b>	<b>(1,803)</b>	<b>1</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds of general obligation bonds	0	0	0	0	0
Proceeds of refunding bonds	0	0	0	0	0
Proceeds of loans	0	0	0	0	0
Inception of capital leases	0	0	0	0	0
Insurance loss recoveries	0	0	0	0	0
Sale of transportation equipment	0	0	0	0	0
Sale of other property	0	0	0	0	0
Operating transfers in	0	0	0	0	0
Other financing sources	0	0	0	0	0
Operating transfers out	0	0	0	0	0
Payment to refunded bond escrow agent	0	0	0	0	0
Other financing uses	0	0	0	0	0
<b>Total other financing sources (uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Special items	0	0	0	0	0
Extraordinary items	0	0	0	0	0
<b>NET CHANGE IN FUND BALANCES</b>	<b>200</b>	<b>(1,603)</b>	<b>(1,602)</b>	<b>(1,803)</b>	<b>1</b>
<b>Fund Balances:</b>					
July 1, 2005	0	1,603	1,603	1,603	0
Prior period adjustments	0	0	0	0	0
July 1, 2005, as restated	0	1,603	1,603	1,603	0
Increase (Decrease) in reserve for inventory	0	0	0	0	0
Residual equity transfer in (out)	0	0	0	0	0
June 30, 2006	200	0	1	(200)	1

**HOLMES COUNTY SCHOOL DISTRICT**

**Budgetary Comparison Schedule**

**EHA, PART B GRANT FUND**

**For the Year Ended June 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variance Positive (Negative)	
				Original to Final	Final to Actual
	Original	Final			
<b>Revenues:</b>					
Local sources	0	2,950	2,950	2,950	0
Intermediate sources	0	0	0	0	0
State sources	0	0	0	0	0
Federal sources	921,720	1,040,896	737,703	119,176	(303,193)
Sixteenth section sources	0	0	0	0	0
<b>Total revenues</b>	<b>921,720</b>	<b>1,043,846</b>	<b>740,653</b>	<b>122,126</b>	<b>(303,193)</b>
<b>Expenditures:</b>					
Instruction	397,788	432,772	307,674	34,984	125,098
Support services	508,953	591,408	429,933	82,455	161,475
Non-instructional services	0	4,687	3,046	4,687	1,641
Sixteenth section	0	0	0	0	0
Facilities acquisition and construction	0	0	0	0	0
Debt service:					
Principal	0	0	0	0	0
Interest	0	0	0	0	0
Advance refunding escrow	0	0	0	0	0
Other	0	0	0	0	0
<b>Total expenditures</b>	<b>906,741</b>	<b>1,028,867</b>	<b>740,653</b>	<b>122,126</b>	<b>288,214</b>
<i>Excess (deficiency) of revenues over expenditures</i>	<b>14,979</b>	<b>14,979</b>	<b>(0)</b>	<b>(0)</b>	<b>(14,979)</b>
<b>Other Financing Sources (Uses):</b>					
Proceeds of general obligation bonds	0	0	0	0	0
Proceeds of refunding bonds	0	0	0	0	0
Proceeds of loans	0	0	0	0	0
Inception of capital leases	0	0	0	0	0
Insurance loss recoveries	0	0	0	0	0
Sale of transportation equipment	0	0	0	0	0
Sale of other property	0	0	0	0	0
Operating transfers in	0	0	0	0	0
Other financing sources	0	0	0	0	0
Operating transfers out	(14,979)	(14,979)	0	0	14,979
Payment to refunded bond escrow agent	0	0	0	0	0
Other financing uses	0	0	0	0	0
<b>Total other financing sources (uses)</b>	<b>(14,979)</b>	<b>(14,979)</b>	<b>0</b>	<b>0</b>	<b>14,979</b>
Special items	0	0	0	0	0
Extraordinary items	0	0	0	0	0
<b>NET CHANGE IN FUND BALANCES</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>
<b>Fund Balances:</b>					
July 1, 2005	0	0	0	0	0
Prior period adjustments	0	0	0	0	0
July 1, 2005, as restated	0	0	0	0	0
Increase (Decrease) in reserve for inventory	0	0	0	0	0
Residual equity transfer in (out)	0	0	0	0	0
<b>June 30, 2006</b>	<b>0</b>	<b>0</b>	<b>(0)</b>	<b>(0)</b>	<b>(0)</b>

# HOLMES COUNTY SCHOOL DISTRICT

Notes to the Required Supplementary Information  
For the Year Ended 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.

HOLMES COUNTY SCHOOL DISTRICT

SUPPLEMENTAL INFORMATION

HOLMES 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	\$ 113,610
Child nutrition cluster:		
School breakfast program	10.553	582,050
National school lunch program	10.555	1,512,839
Summer food service program for children	10.559	107,733
Total child nutrition cluster		<u>2,202,622</u>
Total U.S. Department of Agriculture		<u>2,316,232</u>
<u>Federal Communications Commission</u>		
Administered through the Universal Service Administrative Company:		
The schools and libraries program of the universal service fund	32.XXX	97,726
Total Federal Communications Commission		<u>97,726</u>
<u>U.S. Department of Education</u>		
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	2,580,346
Vocational education - basic grants to states	84.048	66,638
Safe and drug-free schools and communities	84.186	42,516
State grants for innovative programs	84.298	21,747
Education technology state grants	84.318	53,325
Advanced placement program	84.330	9,524
Comprehensive school reform demonstration	84.332	64,884
Rural education	84.358	127,518
Improving teacher quality - state grants	84.367	493,717
Grants for state assessments and related activities	84.369	7,762
Total		<u>3,467,977</u>
Special education cluster:		
Special education - grants to states	84.027	739,257
Special education - preschool grants	84.173	14,750
Total special education cluster		<u>754,007</u>
Total passed-through Mississippi Department of Education		<u>4,221,984</u>
Total U.S. Department of Education		<u>4,221,984</u>
Total for All Federal Awards		<u>\$ 6,635,942</u>

NOTES TO SCHEDULE

1. This schedule was prepared using the same basis of accounting and the same significant accounting policies, as applicable, used for the financial statements.
2. The expenditure amounts include transfers out.
3. The pass-through entities did not assign identifying numbers to the school district.

Holmes County School District  
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds  
 For the Year Ended June 30, 2006

<u>Expenditures</u>	<u>Total</u>	<u>Instruction and Other Student Instructional Expenditures</u>	<u>General Administration</u>	<u>School Administration</u>	<u>Other</u>
Salaries and fringe benefits	\$ 18,545,570	11,214,861	833,139	1,000,065	5,497,505
Other	6,725,390	892,112	353,955	33,946	5,445,377
<b>Total</b>	<b>\$ 25,270,960</b>	<b>12,106,973</b>	<b>1,187,094</b>	<b>1,034,011</b>	<b>10,942,882</b>

Total number of students \* 3,455

Cost per student \$ 7,314 3,504 344 299 3,167

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)

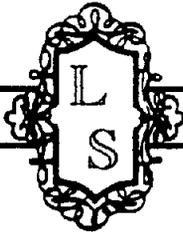
**School Administration** - includes expenditures for the following function: Support Services - School Administration (2400s)

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

include 100 and 200 range object codes on the "Salaries and fringe benefits" line; all other expenditures on the "Other" line

HOLMES COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE



# LYLES AND SINCLAIR

(601) 981-5707

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 11625 • JACKSON, MISSISSIPPI 39283-1625

MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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  
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2006, which collectively comprise the Holmes County School District's basic financial statements and have issued our report thereon dated May 17, 2008. 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the school district's ability to initiate, record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-1 through 06-5.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions referred to above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated May 17, 2008, which is included in this report.

This report is intended solely for the information and use of the school board and management, entities with accreditation overview, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Lyles & Sinclair, PLLC*  
Lyles and Sinclair, PLLC

May 17, 2008



LYLES AND SINCLAIR

(601) 981-5707

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 11625 • JACKSON, MISSISSIPPI 39283-1625

MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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  
Holmes County School District

Compliance

We have audited the compliance of the Holmes 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, Holmes 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

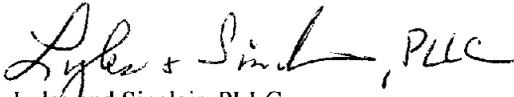
The management of the Holmes County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's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

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention

relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the school district's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the Schedule of Findings and Questioned Costs as Findings 06-6 and 06-7.

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. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described in the findings referred to above, we consider Finding 06-6 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.

  
Lyles and Sinclair, PLLC

May 17, 2008

HOLMES COUNTY SCHOOL DISTRICT

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

# LYLES AND SINCLAIR

(601) 981-5707

CERTIFIED PUBLIC ACCOUNTANTS

P. O. BOX 11625 • JACKSON, MISSISSIPPI 39283-1625



MARY LYLES, CPA, MPA

TRACEY SINCLAIR, CPA

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

Superintendent and School Board  
Holmes County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holmes County School District as of and for the year ended June 30, 2006, which collectively comprise Holmes County School District's basic financial statements and have issued our report thereon dated May 17, 2008. 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 \$37,234 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 instances of noncompliance with other state laws and regulations. Our findings and recommendations and your responses are as follows:

1. Finding

We noticed that food service revenue was not always deposited timely. An effective internal control system dictates that deposits are made daily or at least weekly. Funds could be lost or stolen if not deposited in a timely manner.

Recommendation

We recommend the district ascertain the schools are making deposits timely.

School District's Response

Food Service director and clerk will continue to monitor the schools' deposit and stress the importance of timely deposits to the cafeteria manager.

2. Finding

We noted individuals serving in two positions only had surety bond coverage for one position. We also noted a principal that was not bonded. Sections 37-9-31 and 37-39-21, Mississippi Code Ann. (1972), requires surety bond coverage for each principal and all positions held by an individual if bonding is required for those positions. This oversight causes the district to be in violation of state statutes.

Recommendation

We recommend the district establish procedures to ensure compliance with Sections 37-9-31 and 37-39-21, Miss. Code Ann.(1972), which requires bond coverage for each principal and each purchasing agent.

School District's Response

Holmes County School District has established a procedure to ensure compliance with Sections 37-9-31, Miss. Code Ann (1972), to make sure that no required personnel is missed from being bonded.

3. Finding

As reported in the prior year's report, where a sixteenth section township is occupied by two or more school districts, the district is required to complete a list of children enrolled in the schools of such district, in each township, and the list is to be filed with the superintendent of the controlling school district by December 31, of each year in accordance with Section 29-3-121, Miss. Code Ann. (1972). In two cases where the lists were prepared and filed by each school district, the payments made by Holmes County School District to Humphreys County School District and Attala County School District were incorrect. The amounts noted were an underpayment of \$5,436.90 for Humphreys County School District and an overpayment of \$1,095.90 for Attala County School District.

Recommendation

The district should ensure that sixteenth section revenues are properly shared in accordance with Section 29-3121. In addition, the district should ensure that the incorrect amounts are resolved appropriately.

School District's Response

The district will ensure that sixteenth section revenues are properly shared in accordance with Section 29-3121. As noted the district has made payment to Humphreys County School District and will ensure that the funds paid to Attala County School District be resolved.

Auditor's Note

We noted that the payment of \$5,436.90 to Humphreys County School District was made on June 20, 2007.

4. Finding

As reported in the prior year's report, the district received several delinquent rent payments during the current fiscal year on sixteenth section land. However, there was no interest billed to or received from the lessee. In accordance with Section 75-17-1, Miss. Code Ann. (1972), the district should have charged interest to the lessee on the delinquent

payment. We also noted 16th section revenue received and deposited directly into the bank account without a receipt being written.

Recommendation

The district should monitor compliance with lease agreements and assess interest on delinquent payments as required. In addition, the district should implement procedures to ensure that all payments are handled appropriately.

School District's Response

The district is currently assessing interest on delinquent payments and sending/phoning lessees of payments as to when the leases are due.

The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings 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.

Lyles and Sinclair, PLLC

April 11, 2008

HOLMES COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

HOLMES 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? | Yes         |

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?  | Yes         |
| b.  | Reportable condition(s) identified that are not considered to be material weaknesses?  | Yes         |
| 6.  | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133?  | Yes         |
| 7.  | Federal programs identified as major programs:   |             |
| a.  | Child Nutrition Cluster<br>CFDA # 10.553<br>CFDA # 10.555<br>CFDA # 10.559   |             |
| b.  | Improving Teacher Quality – State Grants<br>CFDA # 84.367  |             |
| c.  | Special Education Cluster<br>CFDA # 84.027<br>CFDA # 84.173  |             |
| 8.  | The dollar threshold used to distinguish between type A and type B programs:   | \$300,000   |
| 9.  | Auditee qualified as a low-risk auditee?   | No          |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | Yes         |

Section 2: Financial Statement Findings

- 06-1 Finding  
We noted instances where the expenditure was improperly coded. We also noted the district made computation errors when figuring the amount of payment to be made. An effective internal

control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately. These instances appear to be caused by human error; however, improper coding and computational errors could result in the financial statements being misstated.

Recommendation

We recommend the district implement procedures to ensure that all transactions are reported accurately.

06-2 Finding

We noted the liability for compensated absences on the subsidiary schedule did not agree with the financial records. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately. Uncorrected differences between subsidiary schedules and the financial statements could result in the misstatement of the district's liabilities.

Recommendation

We recommend the district implement procedures to ensure that all transactions are reported accurately.

06-3 Finding

The district did not properly accrue expenditures for the year ended June 30, 2006. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately. The district only used the first docket in July to accrue expenditures. This resulted in the liability understated.

Recommendation

The district should implement policies and procedures to ensure that expenditures are recorded and accounted for in the year incurred.

06-4 Finding

As reported in the prior year's report, it was noted that the club sponsor of the USA Skills club, a vocation education club, was unable to verify or support the balance maintained by the district's central office for this club. It was also noted that as funds were collected by this club, the funds were **not** deposited into the bank account for the club, as established by the district for this purpose, but instead, collected funds were paid directly to the national affiliate, using a money order. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately. District staff failed to follow established procedures. This could result in the financial statements being misstated.

Recommendation

The district should implement procedures to ensure that all monies collected on behalf of the school district and its students are deposited into the designated bank account for which the funds were intended. All payments from these receipts should be properly approved and authorized as evidenced by appropriate supporting documentation.

06-5 Finding

The payroll clearing cash account and the William Sullivan Activity and Club cash accounts were not properly reconciled at June 30, 2006. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately. These instances appear to be caused by human error; however, the errors could result in the financial statements being misstated.

Recommendation

The district should implement procedures to ensure that all cash accounts of the district, including the payroll clearing cash account and the William Sullivan Activity and Club cash account, are properly reconciled to the district's general ledger at the end of each month.

Section 3: Federal Award Findings and Questioned Costs

06-6 Finding

Compliance Requirements: Activity Allowed or Unallowed

Program: Special Education Cluster - CFDA# 84.027 and  
CFDA# 84.173

U. S. Department of Education; Mississippi Department of Education

As reported in the prior year's report, in the review of an on-site focused monitoring visit performed by MS Department of Education, Office of Special Education, conducted during the week of April 19, 2004, the District was cited for noncompliance in implementing the Individuals with Disabilities Education Act (IDEA). A summary of what the State referred to as systematic non-compliance included:

- A lack of the proper handling of discipline/behavior problems throughout the district
- A lack of the proper handling of students suspected of having an emotional disability
- A lack of sufficient knowledge of district personnel of the fundamental components of identification and evaluation of students with emotional and/or behavioral concerns.

These cited deficiencies represent material internal control weaknesses in proper administration of the Special Education Programs of the District.

Review of subsequent State monitoring visits did not reflect a correction of all of the above deficiencies.

Recommendation

The district should implement procedures to ensure that the Special Education Cluster programs are administered in accordance with federal guidelines.

06-7 Finding

Compliance Requirements: Allowable Costs/Cost Principles

Program: Special Education Cluster - CFDA# 84.027

U. S. Department of Education; Mississippi Department of Education

We noted instances where the expenditure was improperly coded. An effective internal control system consists of procedures to initiate, record, process, summarize and report financial transactions accurately.

Recommendation

We recommend the district implement procedures to ensure that all transactions are reported accurately.

HOLMES COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

**AUDITEE'S CORRECTIVE ACTION PLAN**

As required by Section \_\_.315(b) of OMB Circular A-133, the Holmes County School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2006:

**Findings**

**Corrective Action Plan Details**

2006-1

a. Name of Contact Person Responsible for Corrective Action:

Name: Kathy Sample  
Title: Business Manager  
Phone: 662-834-2175

b. Corrective Action Planned:

The district will implement procedures to ensures that all transactions are reported accurately.

c. Anticipated Completed Date:

June 30, 2008

**CORRECTIVE ACTION PLAN CONTINUES:**

2

2006-2

- a. Name of Contact Person Responsible for Corrective Action:

Name: Kathy Sample

Title: Business Manager

Phone: 662-834-2175

- b. Corrective Action Planned:

The district will implement procedures to ensure that all transactions are reported accurately.

- c. Anticipated Completion Date:

June 30, 2008

2006-3

- a. Name of Contact Person Responsible for Corrective Action:

Name: Kathy Sample

Title: Business Manager

Phone: 662-834-2175

- b. Corrective Action Planned:

The district will implement policies and procedures to ensure that expenditures are recorded and accounted for in the year incurred.

- c. Anticipated Completion Date:

June 30, 2008

CORRECTIVE ACTION PLAN CONTINUES:

3

2006-4

a. Name of Contact Person Responsible for Corrective Action:

Name: Kathy Sample/Frank Kimes

Title: Business Manager/Vocational Director

Phone: 662-834-2175

b. Corrective Action Planned:

The district will insure that the procedures in place for depositing and expensing funds are implemented.

c. Anticipated Completion Date:

June 30, 2009

2006-5

a. Name of Contact Person Responsible for Corrective Action:

Name: Kathy Sample

Title: Business Manager

Phone: 662-834-2175

b. Corrective Action Planned:

The district has taken to actions on reconciling the payroll clearing account accurately and will closely monitor all accounts to ensure proper reconciliation.

c. Anticipated Completion Date:

June 30, 2009

CORRECTIVE ACTION PLAN CONTINUES:

2006-6

a. Name of Contact Person Responsible for Corrective Action:

Name: Dr. Linda McMullen, Director

Title: Program Director

Phone: 662-834-2175

b. Corrective Action Planned:

Implementation of CAP submitted to MDE.

c. Anticipated Completion Date:

May 15, 2008

2006-7

a. Name of Contact Person Responsible for Corrective Action:

Name: Dr. Linda McMullen, Director

Title: Program Director

Phone: 662-834-2175

b. Corrective Action Planned:

Implementation of CAP submitted to MDE.

c. Anticipated Completion Date:

May 15, 2008

HOLMES COUNTY SCHOOL DISTRICT

SUMMARY OF PRIOR AUDIT FINDINGS



POWELL RUCKER  
SUPERINTENDENT

BENNY C. MONTGOMERY  
DEPUTY SUPERINTENDENT  
FEDERAL PROGRAMS  
OPERATIONS

## HOLMES COUNTY SCHOOL DISTRICT

*"Our Children's Future Depends On Us"*

### BOARD MEMBERS

JAMES ANDERSON  
DISTRICT A  
CHARLES HURST  
DISTRICT D  
SANDRA YOUNG  
DISTRICT C  
HELEN JOHNSON  
DISTRICT D  
RAYFORD HORTON  
DISTRICT E

### SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ended June 30, 2005

April 18, 2008

Office of the State Auditor  
P. O. Box 956  
Jackson, Mississippi 39205

Sir or Madam:

Holmes County School District respectfully submits the following summary schedule of prior audit findings relative to federal awards.

**DEPARTMENT OF FEDERAL PROGRAMS –  
Title I Grants to Local Educational Agencies – CFDA# 84.010**

2005-10 – FINDING: Compliance Requirements: Procurement, Suspension and Debarment

**Condition:**

During this audit, it was noted that evidence of compliance with the Procurement, Suspension and Debarment requirements was not maintained and /or not provided for audit examination.

**Recommendation:**

The district should implement policies and procedures to ensure compliance with the Procurement, Suspension and Debarment federal requirements.

**Current Status:**

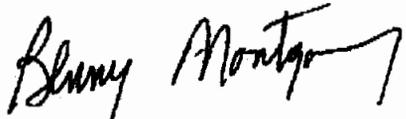
- (1) A policy on procurement, suspension and debarment requirements is being submitted to the May 6, 2008 Board Meeting for approval.

Post Office Box 630 • Olive Street • Lexington, Mississippi 39095  
Telephone: (662) 834-2175 • Fax (662) 834-9060

Page 2  
Office of the State Auditor  
Summary Schedule of Prior Audit Findings

- (2) A statement of assurances is being attached to all applicable purchases and contractual agreements for the vendor to certify they have not been debarred.
- (3) The district is monitoring applicable contractual agreements and purchases to insure compliance with the procurement, suspension and debarment policy requirements.

Sincerely yours,



Benny Montgomery  
Deputy Superintendent of Education

BM: bpb

Holmes County School District  
662-834-2175

POWELL RUCKER  
SUPERINTENDENT

BENNY MONTGOMERY  
DEPUTY SUPERINTENDENT  
FEDERAL PROGRAMS  
OPERATIONS



BOARD MEMBERS

JAMES ANDERSON  
DISTRICT A  
CHARLES HURST  
DISTRICT B  
SANDRA YOUNG  
DISTRICT C  
HELEN JOHNSON  
DISTRICT D  
RAYFORD HORTON  
DISTRICT E

HOLMES COUNTY SCHOOL DISTRICT  
*"Our Children's Future Depends on Us"*  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For Year Ended September 30, 2005

Office of the State Auditor  
P.O. Box 956  
Jackson, Mississippi 39205

Gentlemen:

Holmes County School District respectfully submits the following summary schedule of prior audit findings relative to federal awards.

**PROGRAM: SPECIAL EDUCATION CLUSTER-CFDA#84.027 AND CFDA#84.173**

**2005-FINDING NO.1: The Holmes County School District was sited for non compliance in implementing the Individuals with Disabilities Education Act.**

**Condition: A lack of the proper handling of discipline problems throughout the district**

**Recommendation: The Holmes County School District will prepare and submit to the MDE a corrective action plan for approval.**

**Current Status: The corrective action plan has been submitted and approved. The state will conduct a follow up visit on May 5 and 6, 2008.**

**Condition: A lack of the proper handling of students suspected of having an emotional disability**

**Recommendation: The Holmes County School District will prepare and submit to the MDE a corrective action plan for approval.**

**Current Status: The corrective action plan has been submitted and approved. The state will conduct a follow up visit on May 5 and 6, 2008.**

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**Condition:** A lack of sufficient knowledge of district personnel of the fundamental components of identification and evaluation of students with emotional and/or behavioral concerns.

**Recommendation:** The Holmes County School District will prepare and submit to the MDE a corrective action plan for approval.

**Current Status:** The corrective action plan has been submitted and approved. The state will conduct a follow up visit on May 5 and 6, 2008.

Sincerely Yours,

  
Linda Simmons-McMullen, Ed.D

Children with Disabilities Program Director  
662-834-2175