

HARRISON COUNTY SCHOOL DISTRICT

Audited Financial Statements
For the Year Ended June 30, 2007

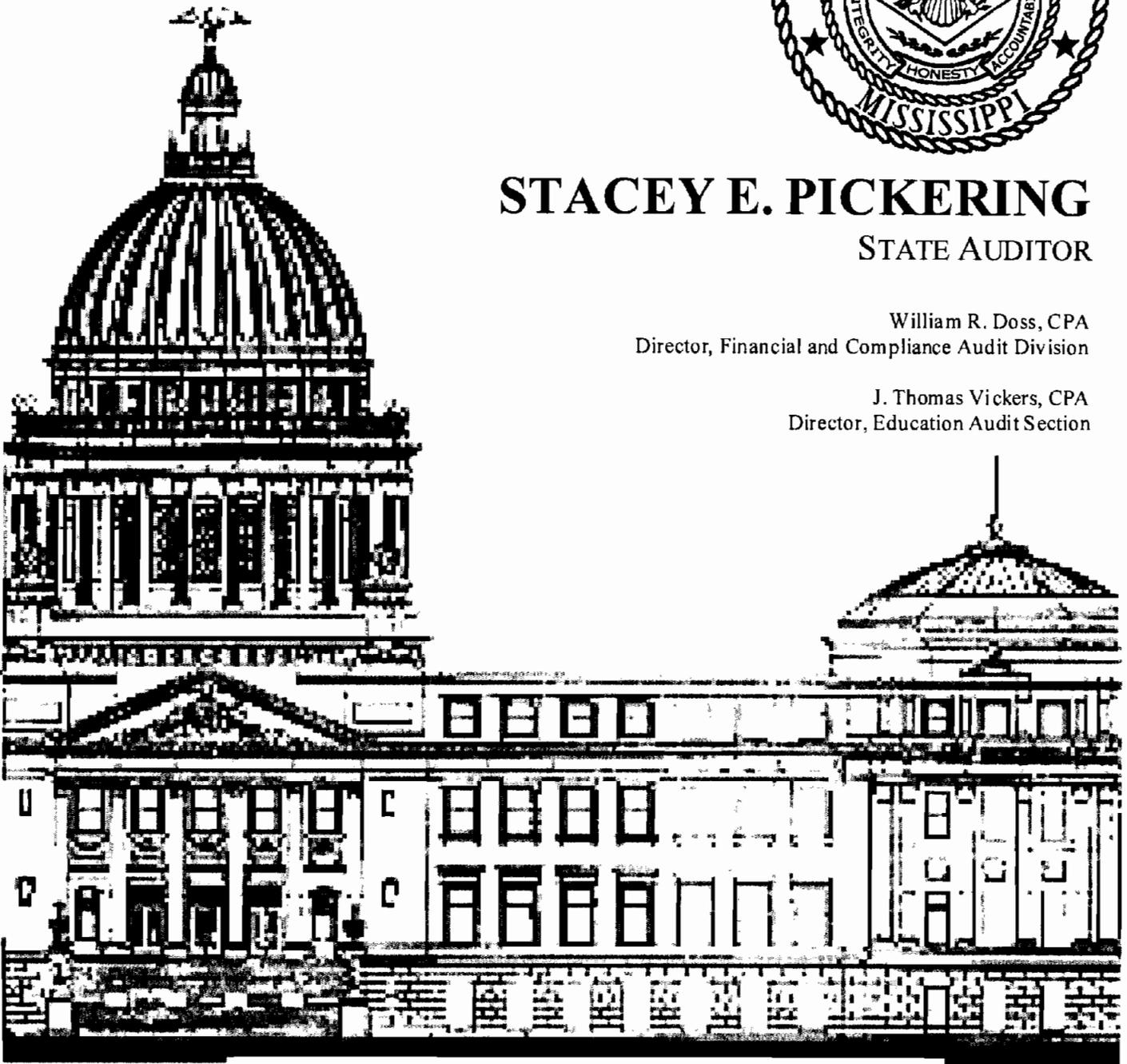


STACEY E. PICKERING

STATE AUDITOR

William R. Doss, CPA
Director, Financial and Compliance Audit Division

J. Thomas Vickers, CPA
Director, Education Audit Section



A Report from the Education Audit Section



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HARRISON COUNTY SCHOOL DISTRICT

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HARRISON COUNTY SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

HARRISON COUNTY SCHOOL DISTRICT

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

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

Superintendent and School Board
Harrison County School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2007, which collectively comprise the Harrison County School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Harrison County School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Harrison County School District, as of June 30, 2007, 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.

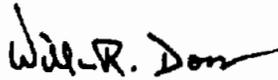
In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2009, on our consideration of the Harrison County School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 7 through 13 and the Budgetary Comparison Schedule and corresponding notes on pages 47 through 48 are not a required part of the basic financial statements but are supplemental 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Harrison County School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

September 23, 2009

HARRISON COUNTY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

HARRISON COUNTY SCHOOL DISTRICT

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HARRISON COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

The discussion and analysis of Harrison County School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 2007. 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 \$32,390,785 including the effect of a prior period adjustment of \$(17,395), which represents 59.72% increase from fiscal year 2006.
- General revenues accounted for \$80,825,699 in revenue, or 59.57% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$54,846,641 or 40.43% of total revenue.
- The District had \$103,264,160 in expenses; \$54,846,641 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$80,825,699 were adequate to provide for these programs.
- Among major funds, the General Fund had \$71,998,303 in revenues and \$67,391,043 in expenditures. The General Fund's fund balance decreased \$324,880 over the prior year.
- Capital assets, net of accumulated depreciation, increased by \$10,065,471.
- Long-term debt increased by \$15,529,695 mostly due to the issuances of a three mill note payable of \$17,755,000 and a state aid capital improvement refunding bond payable \$9,910,000.

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 supplemental information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. These statements are prepared using the accrual basis of accounting and include all assets and liabilities.

The Statement of Net Assets presents information on all the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

HARRISON COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

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 and other expenses on long-term liabilities.

The government-wide financial statements can be found in Exhibits A and B of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are Exhibit C-1 and D-1, respectively, of this report.

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.

The basic governmental fund financial statements can be found on the pages following 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 Exhibit E: Statement of Fiduciary Assets and Liabilities.

Notes to the financial statements. The notes provide additional information that is essential to have a full understanding of the data provided in the government-wide and fund financial statements.

HARRISON COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison schedule has been provided for the General Fund.

Additionally, a Schedule of Expenditures of Federal Awards is required by OMB Circular A-133 and a Schedule of Instructional, Administrative and Other Expenditures for Governmental Funds is required by the Mississippi Office of the State Auditor and can be found in this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$86,626,430 as of June 30, 2007.

In 2007, the District's net assets at June 30, reflected an amount of \$21,532,280 in its investment in capital assets (e.g., land, buildings, improvements other than buildings, mobile equipment, furniture and equipment, leased property under capital leases and construction in progress), less any related debt used to acquire those assets that is still outstanding.

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 as of June 30, 2007 and 2006, respectively.

Table 1
Condensed Statement of Net Assets

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Total Percentage Change 2006-2007</u>
Current assets	\$ 91,411,852	62,494,548	46.27%
Restricted assets	3,125,954	3,513,983	(11.04)%
Capital assets, net	<u>54,707,387</u>	<u>44,641,916</u>	22.55%
Total assets	<u>149,245,193</u>	<u>110,650,447</u>	34.88%
Current liabilities	8,096,445	16,142,679	(49.84)%
Long-term debt outstanding	<u>54,522,318</u>	<u>40,272,123</u>	35.38%
Total liabilities	<u>62,618,763</u>	<u>56,414,802</u>	11.00%
Net assets:			
Invested in capital assets, net of related debt	21,532,280	4,870,894	342.06%
Restricted	60,912,227	15,330,104	297.34%
Unrestricted	<u>4,181,923</u>	<u>34,034,647</u>	(87.71)%
Total Net Assets	<u>\$ 86,626,430</u>	<u>54,235,645</u>	59.72%

HARRISON COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

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

- Cash and cash equivalents increased in the net amount of \$34,924,055 due primarily to insurance loss recoveries and note proceeds received during the fiscal year ended June 30, 2007 that were not expended in the current year.

Changes in net assets. The District's total revenues for the fiscal year ended June 30, 2007 were \$135,672,340. The total cost of all programs and services was \$103,264,160. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2007 and 2006, respectively.

**Table 2
Changes in Net Assets**

	<u>June 30, 2007</u>	<u>June 30, 2006</u>	<u>Total Percentage Change 2006-2007</u>
Revenues:			
Program revenues:			
Charges for services	\$ 28,281,732	1,865,495	1,416.04%
Operating grants and contributions	26,564,909	36,055,529	(26.32)%
Capital grants and contributions		262,366	
General revenues:			
Property and gaming taxes	24,227,130	24,643,088	(1.69)%
Grants and contributions not restricted	50,788,028	52,504,825	(3.27)%
Other	5,810,541	2,501,552	132.28%
Total revenues	<u>135,672,340</u>	<u>117,832,855</u>	15.14%
Expenses:			
Instruction	57,974,908	53,891,055	7.58%
Support services	36,611,398	30,737,853	19.11%
Non-instructional	6,074,052	5,136,193	18.26%
Sixteenth section	515,277	460,261	11.95%
Interest on long-term liabilities	2,088,525	1,524,776	36.97%
Total expenses	<u>103,264,160</u>	<u>91,750,138</u>	12.55%
Increase in net assets	32,408,180	26,082,717	24.25%
Net Assets, July 1	54,235,645	28,152,928	92.65%
Prior Period Adjustments	(17,395)	0	
Net Assets, July 1 Restated	<u>54,218,250</u>	<u>28,152,928</u>	92.58%
Net Assets, June 30	<u>\$ 86,626,430</u>	<u>54,235,645</u>	59.72%

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

- Revenue increased \$17,839,485 or 15.14% due primarily to insurance loss recoveries received.

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 for fiscal years ending June 30, 2007 and June 30, 2006, respectively. The table also shows each function's net cost (total cost less charges for services generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the State and District's taxpayers by each of these functions.

HARRISON COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

Table 3
Net Cost of Governmental Activities

	<u>Total Expenses</u>		Total Percentage Change 2006-2007
	<u>2007</u>	<u>2006</u>	
Instruction	\$ 57,974,908	53,891,055	7.58%
Support services	36,611,398	30,737,853	19.11%
Non-instructional	6,074,052	5,136,193	18.26%
Sixteenth section	515,277	460,261	11.95%
Interest on long-term liabilities	<u>2,088,525</u>	<u>1,524,776</u>	36.97%
Total Expenses	\$ <u>103,264,160</u>	<u>91,750,138</u>	12.55%

	<u>Net (Expense) Revenue</u>		Total Percentage Change 2006-2007
	<u>2007</u>	<u>2006</u>	
Instruction	\$ (23,462,644)	(21,130,995)	11.03%
Support services	(23,869,107)	(30,737,853)	(22.35)%
Non-instructional	1,512,463	15,717	9,523.10%
Sixteenth section	(509,706)	(188,841)	169.91%
Interest on long-term debt	<u>(2,088,525)</u>	<u>(1,524,776)</u>	36.97%
Total Net (Expense) Revenue	\$ <u>(48,417,519)</u>	<u>(53,566,748)</u>	(9.61)%

- Net cost of governmental activities \$48,417,519 was financed by general revenue, which is made up of primarily property taxes of \$24,277,130 and unrestricted contributions and grants of \$50,788,028, sixteenth section sources of \$1,419,474, and other sources of \$1,751,484.
- Investments earnings accounted for \$2,639,583.

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 \$86,334,757 an increase of \$37,041,426, which includes the increase in inventory of \$17,739 and the effects of a prior period adjustment of \$(270,848), which was due primarily to the proceeds of long-term debt and insurance loss recoveries not expended in fiscal year ended June 30, 2007, but are expended for capital projects in future years. The amount of \$18,028,321 or 20.88% 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 \$68,306,436 or 79.12% is reserved or designated to indicate that it is not available for spending because it has already been committed.

HARRISON COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

The General Fund is the principal operating fund of the District. The decrease in fund balance in the General Fund for the fiscal year was \$324,880. Building Projects Fund had an increase in fund balance of \$18,441,819, including the effects of a prior period adjustment of \$(4,970), and the D'Iberville School Fund balance increased \$14,947,978 primarily due to funds received for future capital projects.

BUDGETARY HIGHLIGHTS

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

- The School District revised its budget to reflect the reduction of estimated revenues received and the decrease in expected expenditures associated with the insurance proceeds and damages repairs, as well as federal disaster assistance grants as a result of Hurricane Katrina.

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of June 30, 2007, the District's total capital assets were \$87,987,529, including land, construction in progress, school buildings and improvements, buses, other school vehicles, leased property, and furniture and equipment. This amount represents an increase of \$12,506,369 from the previous year as a result of capital outlays of buildings, mobile equipment, furniture and equipment, improvements other than buildings and construction in progress. Total accumulated depreciation as of June 30, 2007 was \$33,280,142 and total depreciation expense for the year was \$2,505,308, resulting in total net capital assets of \$54,707,387.

**Table 4
Capital Assets**

	<u>Capital Assets, Net of Depreciation</u>		Total Percentage Change 2006-2007
	<u>June 30, 2007</u>	<u>June 30, 2006</u>	
Land	\$ 2,818,343	2,818,343	0.00%
Construction in progress	6,844,103	0	
Buildings	35,165,515	35,463,537	(.84)%
Building Improvements	3,852,660	2,815,711	36.83%
Improvements other than buildings	84,038	88,030	(4.53)%
Mobile equipment	4,391,829	2,961,930	48.28%
Furniture and equipment	1,276,496	421,027	203.19%
Leased property under capital leases	<u>274,403</u>	<u>73,338</u>	274.16%
Total	\$ <u>54,707,387</u>	<u>44,641,916</u>	22.55%

Additional information of the District's capital assets can be found in Note (5) of this report.

Debt Administration. At June 30, 2007, the District had \$54,780,613 in general obligation bonds and other long-term debt outstanding, of which \$3,271,534 is due within one year.

HARRISON COUNTY SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2007

Table 5
Outstanding Long-Term Debt at June 30

	<u>Outstanding Long-term Debt</u>		Total Percenta Change 2006-
	<u>2007</u>	<u>2006</u>	
General obligation bonds payable	\$ 13,955,000	15,015,000	(7.06)%
Limited obligation bonds payable	15,155,000	15,630,000	(3.04)%
Three mill notes payable	18,605,000	1,645,000	1031.00
Obligations under capital leases	158,552	226,040	(29.86)
Qualified zone academy bonds payable	2,500,000	2,500,000	0.00%
Obligations under energy efficiency leases	3,501,631	3,733,777	(6.22)%
Compensated absences payable	905,430	501,101	80.69%
Total	<u>\$ 54,780,613</u>	<u>39,250,918</u>	39.57%

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

CURRENT ISSUES

The Harrison County School District is financially stable. The District is proud of its community support of the public schools.

The District has committed itself to financial excellence for many years. The District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

If you have questions about this report, contact the Superintendent's Office of the Harrison County School District, 11072 Highway 49, Gulfport, MS 39503.

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FINANCIAL STATEMENTS

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HARRISON COUNTY SCHOOL DISTRICT
Statement of Net Assets
June 30, 2007

Exhibit A

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 86,240,204
Due from other governments	3,846,442
Other receivables, net	485,229
Inventories and prepaid items	261,065
Deferred charges	578,912
Restricted assets	3,125,954
Capital assets, not being depreciated:	
Land	2,818,343
Construction in progress	6,844,103
Capital assets, net of accumulated depreciation:	
Buildings	35,165,515
Building improvements	3,852,660
Improvements other than buildings	84,038
Mobile equipment	4,391,829
Furniture and equipment	1,276,496
Leased property under capital leases	274,403
Total Assets	<u><u>149,245,193</u></u>
Liabilities	
Accounts payable and accrued liabilities	7,461,839
Unearned revenue	162,298
Interest payable on long-term liabilities	472,308
Deferred charges on refunding debt	(1,393,894)
Deferred premiums and discounts	1,135,599
Long-term liabilities, due within one year	
Capital related liabilities	3,012,885
Non-capital related liabilities	258,649
Long-term liabilities, due beyond one year	
Capital related liabilities	47,360,667
Non-capital related liabilities	4,148,412
Total Liabilities	<u><u>62,618,763</u></u>
Net Assets	
Invested in capital assets, net of related debt	21,532,280
Restricted net assets:	
Expendable:	
School-based activities	10,379,557
Debt service	1,799,602
Capital improvements	46,590,397
Forestry improvements	137,928
Unemployment benefits	239,623
Non-expendable:	
Sixteenth section	1,765,120
Unrestricted	4,181,923
Total Net Assets	<u><u>\$ 86,626,430</u></u>

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

HARRISON COUNTY SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2007

Exhibit B

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 57,974,908	20,217,085	14,295,179		(23,462,644)
Support services	36,611,398	5,232,527	7,509,764		(23,869,107)
Non-instructional	6,074,052	2,826,549	4,759,966		1,512,463
Sixteenth section	515,277	5,571			(509,706)
Interest on long-term liabilities	2,088,525				(2,088,525)
Total Governmental Activities	\$ 103,264,160	28,281,732	26,564,909	0	(48,417,519)
General					
Taxes:					
					20,208,180
					2,448,309
					1,570,641
Unrestricted grants and contributions:					
					49,926,373
					861,655
					2,639,583
					1,419,474
					1,751,484
					<u>80,825,699</u>
					<u>32,408,180</u>
					54,235,645
					<u>(17,395)</u>
					<u>54,218,250</u>
					<u>\$ 86,626,430</u>

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

HARRISON COUNTY SCHOOL DISTRICT
 Balance Sheet - Governmental Funds
 June 30, 2007

Exhibit C

	Major Funds					Total Governmental Funds
	General Fund	Building Fund	D'Iberville School Construction Fund	West Harrison High School Fund	Other Governmental Funds	
ASSETS						
Cash and cash equivalents	\$ 10,246,362	29,301,763	30,561,537	96,351	17,799,311	88,005,324
Cash with fiscal agents					2,134	2,134
Investments					1,358,700	1,358,700
Due from other governments	1,445,202		866,968	346,454	1,187,818	3,846,442
Other receivables, net	18,552		245,176	133,250	88,251	485,229
Due from other funds	560			960,327	984,801	1,945,688
Inventories and prepaid items	45,467				215,598	261,065
Total Assets	\$ 11,756,143	29,301,763	31,673,681	1,536,382	21,636,613	95,904,582
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 3,790,381		1,616,030	1,536,382	519,046	7,461,839
Due to other funds	55,933		960,327		929,428	1,945,688
Unearned revenue					162,298	162,298
Total Liabilities	3,846,314		2,576,357	1,536,382	1,610,772	9,569,825
Fund Balances:						
Reserved for:						
Inventory					215,598	215,598
Prepaid items	45,467					45,467
Capital projects		29,301,763	29,097,324		5,231,703	63,630,790
Debt service					2,271,910	2,271,910
Unemployment benefits					239,623	239,623
Forestry improvement purposes					137,928	137,928
Permanent fund purposes					1,765,120	1,765,120
Unreserved:						
Undesignated, reported in:						
General Fund	7,864,362					7,864,362
Special Revenue Funds					10,163,959	10,163,959
Total Fund Balances	7,909,829	29,301,763	29,097,324		20,025,841	86,334,757
Total Liabilities and Fund Balances	\$ 11,756,143	29,301,763	31,673,681	1,536,382	21,636,613	95,904,582

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

HARRISON COUNTY SCHOOL DISTRICT
 Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Assets
 June 30, 2007

Exhibit C-1

	<u>Amount</u>
Total Fund Balance - Governmental Funds	\$ 86,334,757
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 \$33,280,142.	54,707,387
2. Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(54,780,613)
3. Governmental funds focus on increases and decreases in current financial resources and deferred charges are not current financial resources so are not reflected in the funds:	
Deferred bond issuance costs	578,912
Deferred charges on refunding debt	714,739
Deferred charges on bond discounts	16,920
Deferred charges on bond premiums	(1,152,519)
Advanced refunding escrow	679,155
4. Governmental funds recognize interest on long-term debt when it becomes due; however, the Statement of Net Assets recognizes interest as it accrues.	<u>(472,308)</u>
Total Net Assets - Governmental Activities	<u>\$ 86,626,430</u>

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

HARRISON COUNTY SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2007

Exhibit D

	Major Funds				Other Governmental Funds	Total Governmental Funds
	General Fund	Building Projects Fund	D'iberville School Construction Fund	West Harrison High School Fund		
Revenues:						
Local sources	\$ 21,583,280	393,394	602,782		7,673,008	30,252,464
State sources	49,348,930				2,223,429	51,572,359
Federal sources	1,066,093		866,968	346,454	23,501,202	25,780,717
Sixteenth section sources					1,425,045	1,425,045
Total Revenues	71,998,303	393,394	1,469,750	346,454	34,822,684	109,030,585
Expenditures:						
Instruction	39,795,592				17,200,376	56,995,968
Support services	26,574,397	630			11,903,690	38,478,717
Noninstructional services	400,223				5,516,981	5,917,204
Sixteenth section					515,277	515,277
Facilities acquisition and construction	148,830	82,308	3,281,813	2,806,781	1,631,532	7,951,264
Debt service:						
Principal	321,510				2,760,000	3,081,510
Interest	150,491				1,471,999	1,622,490
Bond issuance costs			280,352		168,447	448,799
Advanced refunding escrow					814,986	814,986
Total Expenditures	67,391,043	82,938	3,562,165	2,806,781	41,983,288	115,826,215
Excess (Deficiency) of Revenues over Expenditures	4,607,260	310,456	(2,092,415)	(2,460,327)	(7,160,604)	(6,795,630)
Other Financing Sources (Uses):						
Proceeds of limited tax notes			16,794,673	960,327	9,910,000	17,755,000
Proceeds of refunding bonds					(20,304)	9,910,000
Premium (discount) on debt issuance			245,720		(200,000)	225,416
Payments to escrow agent for QZAB					200,000	(200,000)
Payment held by escrow agent for QZAB					25,911,717	200,000
Insurance loss recoveries						25,911,717
Sale of other property	9,281					9,281
Operating transfers in	565,316	19,636,333		1,500,000	3,915,290	25,616,939
Operating transfers out	(5,506,737)	(1,500,000)			(18,610,202)	(25,616,939)
Payment to refunded bond escrow agent					(9,721,249)	(9,721,249)
Total Other Financing Sources (Uses)	(4,932,140)	18,136,333	17,040,393	2,460,327	11,385,252	44,090,165

HARRISON COUNTY SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balances
 Governmental Funds
 For the Year Ended June 30, 2007

Exhibit D

	Major Funds					Total Governmental Funds
	General Fund	Building Projects Fund	D'iberville School Construction Fund	West Harrison High School Fund	Other Governmental Funds	
Net Change in Fund Balances	(324,880)	18,446,789	14,947,978		4,224,648	37,294,535
Fund Balances:						
July 1, 2006	8,234,709	10,859,944	14,149,346		16,049,332	49,293,331
Prior period adjustments		(4,970)			(265,878)	(270,848)
July 1, 2006, as restated	8,234,709	10,854,974	14,149,346		15,783,454	49,022,483
Increase in reserve for inventory					17,739	17,739
June 30, 2007	\$ 7,909,829	29,301,763	29,097,324	0	20,025,841	86,334,757

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

HARRISON COUNTY SCHOOL DISTRICT
 Reconciliation of the Governmental Funds Statement of Revenues,
 Expenditures and Changes in Fund Balances to the Statement of Activities
 For the Year Ended June 30, 2007

Exhibit D-1

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ 37,294,535
Amounts reported for governmental activities in the Statement of Activities are different because:	
1 Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the life of the assets. Capital assets purchased amounted to \$12,298,697 and the depreciation expense amounted to \$2,505,308.	9,793,389
2 The issuance of long-term debt provides current financial resources to governmental funds, but the issuance increases long-term liabilities in the Statement of Net Assets.	(27,665,000)
3 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.	3,081,510
4 Payments to an escrow agent from advance refunding bond proceeds are reported in governmental funds but not in the Statement of Activities.	9,480,000
5 Governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:	
Deferred bond issuance cost	448,799
Deferred charges on refunding debt	241,249
Deferred charges on bond discounts	20,304
Deferred charges on bond premiums	(245,720)
Advance refunding escrow	814,986
Amortization of bond issuance costs	(61,226)
Amortization of amounts deferred due to refunding	(97,286)
Amortization of bond discounts	(3,384)
Amortization of bond premiums	114,406
Amortization of advance refunding escrow	(135,831)
6 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.	(282,714)
7 Gains and losses on the sale or disposals of assets are not reported in the governmental funds, but are reported in the Statement of Activities, net of proceeds.	(3,247)
8 Increase in the inventory is reported as an adjustment to fund balance in the governmental funds, but noninstructional expenditures are decreased in the Statement of Activities.	17,739
9 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	<u>(404,329)</u>
Change in Net Assets of Governmental Activities	<u>\$ 32,408,180</u>

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

HARRISON COUNTY SCHOOL DISTRICT
Statement of Fiduciary Assets and Liabilities
June 30, 2007

Exhibit E

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	\$ <u>222,677</u>
Total Assets	\$ <u><u>222,677</u></u>
Liabilities	
Due to student clubs	\$ <u>222,677</u>
Total Liabilities	\$ <u><u>222,677</u></u>

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

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

(1) Summary of Significant Accounting Policies.

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

A. Financial Reporting Entity.

For financial reporting purposes, the reporting entity includes all funds that are covered by the oversight responsibility of the school district's governing board.

As defined by accounting principles generally accepted in the United States of America, the school district is considered a "primary government." The school district is governed by a five-member board 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.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

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.

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

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

West Harrison High School Fund - This capital projects fund is used to account for the specific construction of the West Harrison High School.

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

Additionally, the school district reports the following fund types:

GOVERNMENTAL FUNDS

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

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

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

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

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

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.

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.

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

I. Capital Assets.

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

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

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

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

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

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

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

J. Long-term Liabilities, Deferred Debt Expense, and Bond Discounts/Premiums.

In the government-wide, proprietary and component unit financial statements, outstanding debt is reported as liabilities. Bond issue cost, bond discounts or premiums, and the difference between reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures. See Note 6 for details.

K. Interfund Transactions and Balances.

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

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.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

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.

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

Reserved for capital projects - An account that represents that portion of fund balance in the Capital Projects Fund which is legally restricted and not available for spending for any other purpose than that for which it is restricted.

Reserved for debt service - An account that represents that portion of fund balance in the Debt Service Fund which is 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.

Unreserved, undesignated - An account that represents the portion of fund balance that is expendable available financial resources.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements For the Year Ended June 30, 2007

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) Cash and Cash Equivalents and Investments.

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

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

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

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

Cash and Cash Equivalents.

The carrying amount of the school district's deposits with financial institutions reported in the governmental funds and fiduciary funds was \$88,005,324 and \$222,677, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents of \$86,240,204 and restricted assets of \$1,765,120. The bank balance was \$ 92,537,464.

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, 2007, none of the district's bank balance of \$92,537,464 was exposed to custodial credit risk.

Investments.

As of June 30, 2007, the district had the following investments.

<u>Investment Type</u>	<u>Maturities (in years)</u>	<u>Fair Value</u>	<u>Rating</u>
Federal National Mortgage Association Notes	Less than 1 year	\$ 1,357,244	Not rated
Hancock Horizon Treasury Securities Money Market Mutual Fund	Less than 1 year	<u>1,456</u>	AAAm
Total Investments		<u>\$ 1,358,700</u>	

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

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

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. The investment in the Hancock Horizon Treasury Securities Money Market Mutual Fund is uninsured and unregistered and is not backed by the full faith and credit of the federal government.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

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, 2007, the district had the following investments comprising more than five percent of the district's total investments:

<u>Issuer</u>	<u>Fair Value</u>	<u>% of Total Investments</u>
Federal National Mortgage Association Notes	\$ 1,357,244	99.89%

(3) Interfund Transactions and Balances.

The following is a summary of interfund transactions and balances:

A. Due From/To Other Funds.

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
General Fund	\$ 560	55,933
D'Iberville School Construction Fund		960,327
West Harrison High School Fund	960,327	
Other governmental funds	<u>984,801</u>	<u>929,428</u>
Total	<u>\$ 1,945,688</u>	<u>1,945,688</u>

The amounts due to and from other funds represent amounts advanced or received for timing differences between revenue and expenditures and cash balance.

B. Transfers In/Out.

	<u>Transfers In</u>	<u>Transfers Out</u>
Governmental Funds:		
General Fund	\$ 565,316	5,506,737
Building Projects Fund	19,636,333	1,500,000
West Harrison High School Fund	1,500,000	
Other governmental funds	<u>3,915,290</u>	<u>18,610,202</u>
Total	<u>\$ 25,616,939</u>	<u>25,616,939</u>

The transfers represent board approved operating transfers for school operations and planning purposes.

(4) Restricted Assets.

The restricted assets, totaling \$3,125,954, include the cash balance of \$1,765,120 of the Sixteenth Principal Fund (Permanent Fund) which is legally restricted any may not be used for purposes that support the district's programs. Also, the restricted assets include the cash with fiscal agents and investment balance, totaling \$2,134, and \$1,357,244, respectively, of the QZAB Bond Requirement Fund and the investment balance of \$1,456, of the MAEP Limited Obligation Bond Fund.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

(5) Capital Assets.

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

	Balance 7-1-2006	Additions	Retirements	Completed Construction	Adjustments*	Balance 6-30-2007
<u>Non-depreciable capital assets:</u>						
Land	\$ 2,818,343					2,818,343
Construction in progress		6,801,814			42,289	6,844,103
Total non-depreciable capital assets	2,818,343	6,801,814			42,289	9,662,446
<u>Depreciable capital assets:</u>						
Buildings	55,291,770	658,790				55,950,560
Building improvements	3,850,321	1,014,664			214,516	5,079,501
Improvements other than buildings	260,138					260,138
Mobile equipment	9,377,696	2,104,587				11,482,283
Furniture and equipment	3,496,222	1,499,819	34,050		12,358	4,974,349
Leased property under capital leases	386,670	219,023	41,639		14,198	578,252
Total depreciable capital assets	72,662,817	5,496,883	75,689		241,072	78,325,083
<u>Less accumulated depreciation for:</u>						
Buildings	19,828,233	956,812				20,785,045
Building improvements	1,034,610	192,231				1,226,841
Improvements other than buildings	172,108	3,992				176,100
Mobile equipment	6,415,766	674,688				7,090,454
Furniture and equipment	3,075,195	647,350	24,692			3,697,853
Leased property under capital leases	313,332	30,235	47,750		8,032	303,849
Total accumulated depreciation	30,839,244	2,505,308	72,442		8,032	33,280,142
Total depreciable capital assets, net	41,823,573	2,991,575	3,247		233,040	45,044,941
Governmental activities capital assets, net	\$ 44,641,916	9,793,389	3,247	0	275,329	54,707,387

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 1,069,212
Support services	1,321,404
Non-instructional	114,692
Total Depreciation Expense	\$ 2,505,308

*Adjustments represent capital assets purchased in previous years that were inadvertently omitted from the school district's capital asset records.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

Commitments under construction contracts at June 30, 2007, are summarized as follows:

	<u>Remaining Commitment</u>
Harrison County 9 th Grade Gym	\$ 936,328
West Harrison High School	33,043,048
Lyman Storage Building	32,548
D'Iberville School	<u>35,337,701</u>
Total	\$ <u>69,349,625</u>

Funding for these remaining commitments is provided through receipt of FEMA revenues subsequent to year end. In addition, the district used local funds to complete these projects.

(6) Long-term Liabilities.

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

	<u>Balance 7-1-2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Adjustments*</u>	<u>Balance 6-30-2007</u>	<u>Amounts due within one year</u>
A. General obligation bonds payable	\$15,015,000		1,060,000		13,955,000	1,120,000
Add deferred amounts:						
For issuance premiums	1,021,205		102,119		919,086	
Less deferred amounts:						
On refunding			(57,078)	(570,777)	(513,699)	
Total general obligation bonds payable	<u>16,036,205</u>		<u>1,105,041</u>	<u>(570,777)</u>	<u>14,360,387</u>	<u>1,120,000</u>
B. Limited obligation bonds payable	15,630,000	9,910,000	10,385,000		15,155,000	950,000
Less deferred amounts:						
For issuance discounts		(20,304)	(3,384)		(16,920)	
Advance refunding escrow		(814,986)	(135,831)		(679,155)	
On refunding		(241,249)	(40,208)		(201,041)	
Total limited bonds payable	<u>30,645,000</u>	<u>8,833,461</u>	<u>10,205,577</u>		<u>14,257,884</u>	<u>2,070,000</u>
C. Three mill notes payable	1,645,000	17,755,000	795,000		18,605,000	850,000
Add deferred amounts:						
For issuance premiums		245,720	12,286		233,434	
Total three mill notes payable	<u>1,645,000</u>	<u>18,000,720</u>	<u>807,286</u>		<u>18,838,434</u>	<u>850,000</u>
D. Obligations under capital leases	226,040		90,364	22,876	158,552	92,885
E. Obligations under energy efficiency lease	3,733,777		231,146	(1,000)	3,501,631	240,540
F. Qualified zone academy bonds payable	2,500,000				2,500,000	
G. Compensated absences payable	<u>501,101</u>	<u>404,329</u>			<u>905,430</u>	<u>18,109</u>
Total	<u>\$40,272,123</u>	<u>27,238,510</u>	<u>12,439,414</u>	<u>(548,901)</u>	<u>54,522,318</u>	<u>3,271,534</u>

*Adjustments are the result of a correction in recording a deferred amount on refunding, recording obligations under capital leases not recorded in prior years and to adjust obligations under energy efficiency leases to the balance on the payment schedule and the confirmation from the lender.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

A. General obligation bonds payable.

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

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
General obligation bonds, Series 2005	3.25%-5.0%	07-05-2005	03-01-2017	<u>13,955,000</u>	<u>13,955,000</u>
Total			\$	<u><u>13,955,000</u></u>	<u><u>13,955,000</u></u>

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

		Year Ending			
		<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$	1,120,000	636,763	1,756,763	
2009		1,160,000	600,363	1,760,363	
2010		1,205,000	562,665	1,767,665	
2011		1,270,000	523,500	1,793,500	
2012		1,340,000	460,000	1,800,000	
2013 - 2017		<u>7,860,000</u>	<u>1,222,250</u>	<u>9,082,250</u>	
Total	\$	<u><u>13,955,000</u></u>	<u><u>4,005,541</u></u>	<u><u>17,960,541</u></u>	

The amount of bonded indebtedness that can be incurred by the school district is limited by state statute. Total outstanding bonded indebtedness during a year can be no greater than 15% of the assessed value of the taxable property within such district, according to the then last completed assessment for taxation, unless certain conditions, as set forth in state statutes, have been met. As of June 30, 2007, the amount of outstanding bonded indebtedness was equal to 9% of property assessments as of October 1, 2006. This debt will be retired from the Debt Service Fund.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

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 bonds, Series 1998	4.4-6.25%	05-01-1998	02-01-2008	19,520,000	5,245,000
State aid capital improvement refunding bonds, Series 2006	3.625-5.0%	02-01-2007	02-01-2018	9,910,000	9,910,000
Total			\$	<u>29,430,000</u>	<u>15,155,000</u>

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 950,000	594,219	1,544,219
2009	995,000	550,932	1,545,932
2010	1,045,000	505,032	1,550,032
2011	1,100,000	456,219	1,556,219
2012	1,260,000	401,677	1,661,677
2013 - 2017	7,130,000	1,192,707	8,322,707
2018 - 2022	2,675,000	71,043	2,746,043
Total	\$ <u>15,155,000</u>	<u>3,771,829</u>	<u>18,926,829</u>

The state aid capital improvement bonds are secured by an irrevocable pledge of certain revenues the district receives from the State of Mississippi pursuant to the Mississippi Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP State Aid Capital Improvement 98 Pledge Fund and the MAEP State Aid 1998 Refund Escrow Fund.

Advance Refunding.

On December 20, 2006, the district issued \$9,910,000 in state aid capital improvement refunding notes, with an average interest rate of 3.88 percent to advance refund \$9,480,000 of outstanding state aid capital improvement notes, with an average interest rate of 4.60 percent. The net proceeds of \$9,721,249 (including an original issue discount of \$20,304) after payments of \$168,447 for issuance costs were deposited in an irrevocable trust with an escrow agent to provide for all future debt payment requirements on the refunded state aid capital notes.

As a result, the state aid capital improvement notes are considered to be defeased and the liability for those notes has been removed from long-term liabilities.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

The reacquisition price of the new debt exceeded the net carrying amount of the refunded debt by \$241,249. This amount, along with a the original issue discount of \$20,304, is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt.

The district advance refunded the state aid capital improvement notes to reduce its total debt service payments over the remaining ten years of the debt by approximately \$629,182 and to obtain an economic gain of \$457,885.

C. Three mill notes payable.

Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Three mill note payable 2003	2.65%	06-27-2003	11-01-2008	4,700,000	850,000
There mill note payable 2007	4.0-5.0%	06-22-2007	06-01-2027	<u>17,755,000</u>	<u>17,755,000</u>
Total			\$	<u>22,455,000</u>	<u>18,605,000</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 850,000	633,278	1,483,278
2009	0	788,069	788,069
2010	300,000	782,069	1,082,069
2011	675,000	762,569	1,437,569
2012	700,000	735,069	1,435,069
2013 - 2017	3,965,000	3,221,044	7,186,044
2018 - 2022	4,835,000	2,321,753	7,156,753
2023 - 2027	<u>7,280,000</u>	<u>1,034,386</u>	<u>8,314,386</u>
Total	\$ <u>18,605,000</u>	<u>10,278,237</u>	<u>28,883,237</u>

This debt will be retired from the Debt Service Fund and the EEF Buildings and Buses Fund.

D. Obligations under capital leases.

The school district has entered into five lease agreements that qualify as capital leases for accounting purposes. Leased property under these leases is composed of:

1. Copiers
2. Digital key system
3. Duplicator

Each of the above leases contain bargain purchase options.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2008	\$ 92,885	3,570	96,455
2009	64,590	846	65,436
2010	1,077	36	1,113
Total	\$ <u>158,552</u>	<u>4,452</u>	<u>163,004</u>

The school district uses the straight-line method of amortization for the lease payments which is not in accordance with accounting principles generally accepted in the United States of America. However, the difference between the effective interest method and the straight-line method is not considered material.

This debt will be retired from the District Maintenance Fund.

E. Obligations under energy efficiency lease.

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

Year Ending June 30	Principal	Interest and Maintenance Charges	Total
2008	\$ 240,540	135,348	375,888
2009	250,315	125,573	375,888
2010	260,487	115,401	375,888
2011	271,072	104,815	375,887
2012	282,088	93,799	375,887
2013 - 2017	1,591,998	287,439	1,879,437
2018 - 2022	605,131	21,349	626,480
Total	\$ <u>3,501,631</u>	<u>883,724</u>	<u>4,385,355</u>

An energy efficiency lease agreement dated June 15, 2004, was executed by and between the district, the lessee, and Hancock Bank, the lessor.

The agreement authorized the borrowing of \$4,168,343 for the purchase of energy efficiency equipment, machinery, supplies building modifications and other energy saving items. Payments of the lease shall be made from the debt service fund and not exceed fifteen (15) years.

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

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

This debt will be retired from the District Maintenance Fund.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

F. Qualified zone academy bonds payable.

As more fully explained in Note 13, debt has been issued by the school district that qualifies as Qualified Zone Academy bonds. Debt currently outstanding is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Amount Issued</u>	<u>Amount Outstanding</u>
Series 2001	N/A	05-15-2001	05-15-2011	606,000	606,000
Series 2004-B	N/A	05-03-2004	05-03-2014	1,894,000	1,894,000
Total			\$	<u>2,500,000</u>	<u>2,500,000</u>

This debt will be retired from the QZAB 2001 Debt Retirement Fund and the QZAB 2004 Debt Retirement Fund.

G. Compensated absences payable.

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

(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 supplemental 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 ended June 30, 2007, was 11.30% of annual covered payroll. The contribution requirements of PERS members and employers are established and may be amended only by the State of Mississippi Legislature. The school district's contributions to PERS for the fiscal years ending June 30, 2007, 2006 and 2005 were \$5,974,289, \$5,575,669 and \$4,686,640, respectively, which equaled the required contributions for each year.

(8) Other Commitments.

Commitments under construction contracts are described in Note 5.

Commitments under re-roofing and renovation contracts amount to \$1,211,701.

Operating leases:

The school district has several operating leases for the following:

1. Copiers
2. Digital mailing machine

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

Lease expenditures for the year ended June 30, 2007, amounted to \$28,890. Future lease payments for these leases are as follows:

<u>Year Ending June 30, 2007</u>	<u>Amount</u>
2008	\$ 34,148
2009	13,612
2010	4,092
2011	4,092
2012	<u>4,092</u>
Total	<u>\$ 60,036</u>

(9) Sixteenth Section Lands.

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

<u>Year Ending June 30</u>	<u>Amount</u>
2008	\$ 1,286,489
2009	1,285,213
2010	1,224,848
2011	1,222,484
2012	1,235,667
2013 - 2017	6,856,140
2018 - 2022	8,397,741
2023 - 2027	10,341,514
2028 - 2032	12,711,439
Thereafter	<u>22,978,766</u>
Total	<u>\$ 67,540,301</u>

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

(10) Prior Period Adjustments/Exhibits.

A summary of significant fund equity adjustments is as follows:

Exhibit B - Statement of Activities

<u>Explanations</u>	<u>Amount</u>
1. Error in recording prior year amounts.	\$ (270,848)
2. To correct capital asset and accumulated depreciation balances at fiscal year end.	275,329
3. To record debt from prior years.	<u>(21,876)</u>
Total \$	<u><u>(17,395)</u></u>

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

<u>Major Funds</u>	<u>Explanations</u>	<u>Amount</u>
Building Projects Fund	Error in recording prior year amounts	\$ (4,970)
Other governmental funds	Error in recording prior year amounts	<u>(265,878)</u>
Total \$		<u><u>(270,848)</u></u>

(11) 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.

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

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

(12) Prior Year Defeasance of Debt.

In prior years, the Harrison County School District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liability for the defeased bonds are not included in the district's financial statements. On June 30, 2007, \$14,540,000 of outstanding bonds (including prior years' refunding) is considered deceased.

(13) Qualified Zone Academy Bonds.

Series 2001

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

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

Series 2004-B

The school district, in agreement with Bell South Telecommunications, Inc., has entered into such an arrangement dated March 2, 2004. The agreement schedules Bell South Telecommunications, Inc., to provide a total of 1,448 hours to be made in equal amounts over a five year period ending June 30, 2008. This contribution has a present value of \$217,150. This agreement establishes a method of repayment for a qualified interest-free debt instrument. This agreement requires the school district to deposit funds annually into a sinking fund account on or before May 5 each year. The amount accumulated in the sinking fund account at the end of the ten year period will be sufficient to retire the debt. The following schedule reports the yearly deposits to be made to the sinking fund by the school district.

Year Ending <u>June 30</u>	<u>Amount</u>
2008	\$ 200,000
2009	<u>366,890</u>
Total	<u>\$ 566,890</u>

(14) Federal Grants.

The school district has received federal grants for specific purposes that are subject to audit by the grantor agencies. Entitlements to these resources are generally conditional upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowances resulting from the grantor audit may become a liability of the school district.

HARRISON COUNTY SCHOOL DISTRICT

Notes to Financial Statements
For the Year Ended June 30, 2007

(15) Insurance Loss Recoveries.

The Harrison County School District received \$25,911,717 in insurance loss recoveries related to Hurricane Katrina damage during the 2006-2007 fiscal year. In the government-wide Statement of Activities, the insurance loss recoveries were reported as Charges for Services and allocated among the expenditure functions based on uses of space in average school buildings as follows:

Insurance Loss Recoveries	Percentage	Expenditure Function
\$ 19,433,788	70%	Instruction
5,182,343	20%	Support services
<u>1,295,586</u>	<u>10%</u>	Non-instructional
<u>\$ 25,911,717</u>	<u>100%</u>	

(16) Subsequent events.

April 22, 2008 Contract with Samuel B. Day Construction, Inc. in amount of \$230,800 for asphalt parking lot at West Wortham Elementary and Middle School.

May 13, 2008 Contract with Roy Anderson Corp. in amount of \$11,987,800 for athletic facilities at D'Iberville Harrison High School and West Harrison High School.

May 19, 2008 Contract with Ray C. Weaver Mechanical Contractors in the amount of \$2,795,510 for air conditioning gymnasiums at 15 schools.

July 13, 2009 Contract with Compton Heating and Air in the amount of \$415,500 for HVAC replacement at Harrison County Child Development Center.

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HARRISON COUNTY SCHOOL DISTRICT

REQUIRED SUPPLEMENTAL INFORMATION

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HARRISON COUNTY SCHOOL DISTRICT
 Budgetary Comparison Schedule
 General Fund
 For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original to Final	Final to Actual
Revenues:					
Local sources	\$ 19,996,012	20,918,485	21,583,280	922,473	664,795
State sources	51,788,263	49,378,077	49,348,930	(2,410,186)	(29,147)
Federal sources	640,000	1,066,093	1,066,093	426,093	
Total Revenues	<u>72,424,275</u>	<u>71,362,655</u>	<u>71,998,303</u>	<u>(1,061,620)</u>	<u>635,648</u>
Expenditures:					
Instruction	50,831,442	40,466,890	39,795,592	10,364,552	671,298
Support services	25,654,897	26,571,048	26,574,397	(916,151)	(3,349)
Noninstructional services	13,543	400,723	400,223	(387,180)	500
Facilities acquisition and construction		134,786	148,830	(134,786)	(14,044)
Debt service:					-0-
Principal			321,510		(321,510)
Interest			150,491		(150,491)
Total Expenditures	<u>76,499,882</u>	<u>67,573,447</u>	<u>67,391,043</u>	<u>8,926,435</u>	<u>182,404</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(4,075,607)</u>	<u>3,789,208</u>	<u>4,607,260</u>	<u>7,864,815</u>	<u>818,052</u>
Other Financing Sources (Uses):					
Sale of other property		9,281	9,281	9,281	
Operating transfers in	10,272,585	8,837,495	565,316	(1,435,090)	(8,272,179)
Operating transfers out	(10,788,744)	(13,778,916)	(5,506,737)	(2,990,172)	8,272,179
Total Other Financing Sources (Uses)	<u>(516,159)</u>	<u>(4,932,140)</u>	<u>(4,932,140)</u>	<u>(4,415,981)</u>	<u>-0-</u>
Net Change in Fund Balances	<u>(4,591,766)</u>	<u>(1,142,932)</u>	<u>(324,880)</u>	<u>3,448,834</u>	<u>818,052</u>
Fund Balances:					
July 1, 2006	7,912,350	8,232,381	8,234,709	320,031	2,328
Prior period adjustments		3,611		3,611	(3,611)
July 1, 2006, as restated	<u>7,912,350</u>	<u>8,235,992</u>	<u>8,234,709</u>	<u>323,642</u>	<u>(1,283)</u>
June 30, 2007	<u>\$ 3,320,584</u>	<u>7,093,060</u>	<u>7,909,829</u>	<u>3,772,476</u>	<u>816,769</u>

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

HARRISON COUNTY SCHOOL DISTRICT

Notes to the Required Supplemental Information
For the Year Ended June 30, 2007

Budgetary Comparison Schedule

(1) Basis of Presentation.

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

(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 consistent with accounting principles generally accepted in the United States of America.

SUPPLEMENTAL INFORMATION

HARRISON COUNTY SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2007

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	\$ 374,838
Child nutrition cluster:		
School breakfast program	10.553	860,402
National school lunch program	10.555	2,859,974
Summer food service program for children	10.559	162,911
Total child nutrition cluster		<u>3,883,287</u>
Total passed-through Mississippi Department of Education		<u>4,258,125</u>
Passed-through Harrison County:		
Schools and roads - grants to states	10.665	193,554
Total passed-through Harrison County		<u>193,554</u>
Total U.S. Department of Agriculture		<u>4,451,679</u>
<u>U.S. Department of Defense</u>		
Direct program:		
Reserve Officers' Training Corps	12.XXX	118,484
Total U.S. Department of Defense		<u>118,484</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	391,647
Total Federal Communications Commission		<u>391,647</u>
<u>U.S. Department of Education</u>		
Direct programs:		
Impact aid	84.041	42,485
Total		<u>42,485</u>
Passed-through Mississippi Department of Education:		
Title I grants to local educational agencies	84.010	3,781,249
Vocational education - basic grants to states	84.048	116,650
Safe and drug-free schools and communities - national programs	84.184	237,399
Safe and drug-free schools and communities - state grants	84.186	98,127
Education for homeless children and youth	84.196	35,605
State grants for innovative programs	84.298	28,710
Education technology state grants	84.318	64,223
English language acquisition grants	84.365	17,112
Improving teacher quality state grants	84.367	737,215
Grants for state assessments and related activities	84.369	66,846
Hurricane education recovery act	84.938	10,394,246
Total		<u>15,577,382</u>

Federal Grantor/ Pass-through Grantor/ Program Title	Catalog of Federal Domestic Assistance Number	Federal Expenditures
Special education cluster:		
Special education - grants to states	84.027	3,280,730
Special education - preschool grants	84.173	106,224
Total special education cluster		<u>3,386,954</u>
Total passed-through Mississippi Department of Education		<u>18,964,336</u>
Passed-through University of Southern Mississippi:		
Special education - state personnel development	84.323	456
Total passed-through University of Southern Mississippi		<u>456</u>
Total U.S. Department of Education		<u>19,007,277</u>
<u>U.S. Department of Health and Human Services</u>		
Passed-through Mississippi Department of Education:		
Medical assistance program	93.778	122,242
Total U.S. Department of Health and Human Services		<u>122,242</u>
<u>U.S. Department of Homeland Security</u>		
Passed-through Mississippi Emergency Management Agency:		
Disaster grants - public assistance (Presidentially declared disasters)	97.036	1,545,708
Total U.S. Department of Homeland Security		<u>1,545,708</u>
<u>Corporation for National and Community Service</u>		
Passed-through the Mississippi Department of Education		
Learn and serve America - school and community based programs	94.004	17,659
Total Corporation for National and Community Service		<u>17,659</u>
<u>Social Security Administration</u>		
Passed-through the Mississippi Department of Education:		
Social Security - work incentives planning and assistance program	96.008	85,260
Total Social Security Administration		<u>85,260</u>
Total for All Federal Awards		<u>\$ 25,739,956</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.

HARRISON COUNTY SCHOOL DISTRICT
 Schedule of Instructional, Administrative and Other Expenditures - Governmental Funds
 For the Year Ended June 30, 2007

<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	\$ 70,307,238	54,006,013	1,944,134	4,765,586	9,591,505
Other	45,518,977	8,207,491	449,728	159,860	36,701,898
Total	\$ <u>115,826,215</u>	<u>62,213,504</u>	<u>2,393,862</u>	<u>4,925,446</u>	<u>46,293,403</u>
Total number of students*	<u>11,960</u>				
Cost per student	\$ <u>9,684</u>	<u>5,202</u>	<u>200</u>	<u>412</u>	<u>3,870</u>

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.

* Includes the number of students reported on the ADA report submission for month 9, which is the final submission for the fiscal year.

HARRISON COUNTY SCHOOL DISTRICT

REPORTS ON INTERNAL CONTROLS AND COMPLIANCE

HARRISON COUNTY SCHOOL DISTRICT

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

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

Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Harrison County School District as of and for the year ended June 30, 2007, which collectively comprise Harrison County School District's basic financial statements and have issued our report thereon dated September 23, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the school district's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in the internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Findings 07-1, 07-2, 07-3, 07-4, 07-5, and 07-6 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Findings 07-1, 07-2 and 07-3 to be material weaknesses.

Compliance and Other Matters

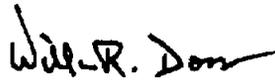
As part of obtaining reasonable assurance about whether the school district's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests did not disclose any instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of the school district in a separate letter dated September 23, 2009, which is included in this report.

Harrison County School District's responses to the findings identified in our audit are described in the accompanying Auditee's Corrective Action Plan. We did not audit Harrison County School District's responses and, accordingly, we express no opinion on them.

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.



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

September 23, 2009



STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

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

Superintendent and School Board
Harrison County School District

Compliance

We have audited the compliance of the Harrison County School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The school district's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the school district's management. Our responsibility is to express an opinion on the school district's compliance based on our audit.

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

In our opinion, Harrison County School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Harrison County School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the school district's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the school district's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

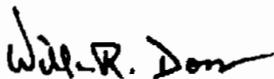
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the school board and management, others within the entity, 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.



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

September 23, 2009

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

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STATE OF MISSISSIPPI
OFFICE OF THE STATE AUDITOR
STACEY E. PICKERING
STATE AUDITOR

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

Superintendent and School Board
Harrison County School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Harrison County School District as of and for the year ended June 30, 2007, which collectively comprise Harrison County School District's basic financial statements and have issued our report thereon dated September 23, 2009. 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)(a), 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 \$138,472 of classroom supply funds carried over from previous years.

Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

The results of our procedures performed to test compliance with the requirements of Section 37-9-18(3)(b), Miss. Code Ann. (1972), disclosed no instances of noncompliance related to incorrect or inappropriate functional level expenditure coding.

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 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. Sixteenth Section Leases Are not Cancelled After Payments Are 60 Days in Default

Finding

Section 29-3-57, Miss. Code Ann. (1972), states, "... It shall be the duty of the superintendent of education to collect promptly all rentals due and all principal and interest due upon loans and investments of sixteenth section funds. Upon a sixty (60) day default in payment of any rental according to the terms of such lease, the lease shall be declared terminated unless the board of education finds extenuating circumstances were present, and the board shall inaugurate the proper legal proceedings to terminate such lease..."

During our test of sixteenth section expendable revenue, we noted ten lease payments were more than 60 days late.

Management has been tracking down lease holders rather than having the leases cancelled and finding a new lessee for the sixteenth section property.

Due to management not cancelling leases that are more than 60 days in default, the district is not in compliance with Section 29-3-57, Miss. Code Ann. (1972).

Recommendation

We recommend management comply with Section 29-3-57, Miss. Code Ann. (1972), by cancelling all leases that are 60 days in default.

School District's Response

We now have a person full time responsible for the 16th Section duties and will make every attempt to comply with the applicable law.

2. Re-employed Retirees Were Paid More than Half of the Salary for Positions

Finding

Section 25-11-127(4)(a), Miss. Code Ann. (1972), states, "... The provisions of this section shall not be construed to prohibit any retiree, regardless of age, from being employed and drawing a retirement allowance either: (a) For a period of time not to exceed one-half (½) of the normal working days for the position in any fiscal year during which the retiree will receive no more than one-half (½) of the salary in effect for the position at the time of employment, or ..."

During our testing of re-employed retirees, we noted the following instances of noncompliance:

1. An employee earned \$1,604 in salary more than the state allowed per Form 4B
2. An employee earned \$158 in salary more than the state allowed per Form 4B
3. An employee earned \$1,563 in salary more than the state allowed per Form 4B

Due to management's inadequate internal controls regarding the salaries of re-employed retirees, the district is not in compliance with Section 25-11-127(4)(a), Miss. Code Ann. (1972).

Inadequate internal controls surrounding salaries of re-employed retirees resulted in the district not being in compliance with Section 25-11-127(4)(a), Miss. Code Ann. (1972).

Recommendation

We recommend in the future the district implement policies and procedures to ensure the district complies with Section 25-11-127(4)(a) concerning the salary limitations of its re-employed retired employees.

School District's Response

This district has amended internal controls to safeguard the district from overlooking the requirements involved in re-employing retirees.

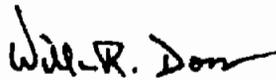
The Office of the State Auditor or a public accounting firm will review, on the subsequent year's audit engagement, the findings in this report to insure that corrective action has been taken.

The Harrison County School District's responses to the findings included in this report was not audited and, accordingly, we express no opinion on it.

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.



STACEY E. PICKERING
State Auditor



WILLIAM R. DOSS, CPA
Director, Financial and Compliance Audit Division

September 23, 2009

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HARRISON COUNTY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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HARRISON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section I: 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 identified? | Yes |
| b. | Significant deficiency 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 identified? | No |
| b. | Significant deficiency identified that are not considered to be material weaknesses? | No |
| 6. | Any audit finding(s) reported as required by Section __.510(a) of Circular A-133? | No |
| 7. | Federal programs identified as major programs: | |
| a. | Special Education Cluster
CFDA # 84.027
CFDA # 84.173 | |
| b. | Title I grants to local educational agencies
CFDA # 84.010 | |
| c. | Disaster grants - public assistance (Presidentially declared disasters)
CFDA # 97.036 | |
| 8. | The dollar threshold used to distinguish between type A and type B programs: | \$772,199 |
| 9. | Auditee qualified as a low-risk auditee? | Yes |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section __.315(b) of OMB Circular A-133? | No |

HARRISON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Section 2: Financial Statement Findings

Significant Deficiencies Considered to Be Material Weaknesses

07-1. Controls over Financial Statement Reporting Should Be Strengthened

Finding

Management is responsible for establishing adequate internal controls to ensure that all items are reported correctly on the school district's financial statements.

During our audit, the following audit adjustments were proposed to management and made to the financial statements to properly report the transactions:

1. An audit adjustment in the amount of \$9,446,965 to reclassify federal revenue to insurance loss recoveries.
2. An audit adjustment in the amount of \$3,918,808 to properly record accrued payroll in the funds that supported the expenditure, as the cash was not deposited into the payroll clearing bank account (fiduciary fund) as of June 30, 2007.

These adjustments were required due to inadequate controls surrounding the compiling of financial reports.

Inadequate controls surrounding financial reporting could result in misstatement of accounts on the district's financial statements.

Recommendation

We recommend that the district strengthen controls over financial report preparation to ensure that financial statement accounts are properly stated.

07-2. Claims Payable Amounts Should Be Recorded on the District's Financial Statements

Finding

Management is responsible for ensuring that the financial statements of the district properly report the financial position of the district.

During our testing of claims payable, we noted the district did not record \$3,256,649 in expenditures for the current audit year. Audit adjustments were proposed to management and made to properly reflect these transactions in the financial statements.

Due to the weakness in internal controls concerning claims payable, management did not properly record expenditures in the correct audit year.

Lack of proper internal controls related to claims payable could result in the district's expenditures and claims payable being understated and overall financial position of the district being overstated.

Recommendation

We recommend that the district implement controls to ensure that all claims payable transactions occurring within fiscal year are properly recorded in the financial statements of the district.

HARRISON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

07-3. Accrued Receivables Should Be Recorded on the District's Financial Statements

Finding

Management is responsible for ensuring that the financial statements of the district properly report the financial position of the district.

During the testing of ad valorem and gaming revenue, we noted that receivables were not recorded for the month of June 2007 for ad valorem tax receipts and gaming revenue in the amount of \$729,702. Audit adjustments were proposed to management and made to properly reflect these transactions in the financial statements.

Inadequate internal controls related to receivables, could result in misstatement of the district's revenues.

Recommendation

We recommend that the district implement controls to ensure that all receivables occurring within the fiscal year are properly recorded in the financial statements of the district.

HARRISON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

Significant Deficiencies Not Considered to Be Material Weaknesses

07-4. Controls Surrounding Segregation of Duties Should Be Strengthened

Finding

Management is responsible for establishing a proper internal control system to ensure proper financial accountability and safeguarding of assets.

During our tests of internal controls, we noted that the same individual performed the following functions in the cash receipts/revenue functions which indicated a lack of segregation of duties:

1. Received cash
2. Coded receipts by fund and function
3. Transported deposits to the banking institutions

These weaknesses are the result of inadequate segregation of duties between staff members in the business office.

Without proper segregation of duties, the district increases the risk that unauthorized or inappropriate transactions could be processed and the district would not detect this condition on a timely basis.

Recommendation

We recommend the revise its system of cash receipts/revenue functions whereby duties would be divided to the greatest possible extent.

07-5. Safeguards Should Be Used Concerning the District's Tax Identification Number

Finding

Management is responsible for establishing a proper internal control system to ensure strong financial accountability and safeguarding of assets. A critical aspect of financial management is the maintenance of accurate accounting records, which includes ensuring that all school related activities are properly recorded on the financial statements of the school district.

One organization, Saucier Elementary School PTA , opened bank accounts using the school district's federal tax identification number without permission from the school district. The school can choose to maintain this type of account in a fiduciary capacity; however, there was no indication that the school district was accepting responsibility for these funds. These accounts were not reported in the district's accounting records or financial statements.

Proper controls were not in place to detect the existence of unauthorized bank accounts.

Without proper controls being in place to account for all bank accounts, the district increases the risk that cash collected from students that should be recorded as activity fund revenue could be diverted to outside organizations of individuals.

Recommendation

We recommend that management implement controls to periodically check with local banking institutions to ensure that no unauthorized accounts have been opened using the district's employer identification number or in the district's name.

HARRISON COUNTY SCHOOL DISTRICT

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2007

07-6. Liability for Compensated Absences Should Include the District's Share of FICA and PERS

Finding

Management is responsible for ensuring that the financial statements of the district properly report the district's liabilities.

During our test of compensated absences, we noted the district did not include the employer's share of FICA and PERS in the total for compensated absences in the amount of \$144,244. An adjustment was proposed to management and made to properly report the liability.

The cause for this weakness could not be determined by the auditor.

Not recording the district's proper liability for FICA and PERS in the compensated absences calculation could result in misstatement of the district's liabilities.

Recommendation

We recommend that management report its share of FICA and PERS in the total of compensated absences to correctly report the district's liability.

Section 3: Federal Award Findings and Questioned Costs

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

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HARRISON COUNTY SCHOOL DISTRICT

AUDITEE'S CORRECTIVE ACTION PLAN

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Harrison County School District

11072 Highway 49
Gulfport, MS 39503
228-539-6500

Henry A. Arledge
Superintendent

E. Mitchell King
Assistant Superintendent

September 23, 2009

Financial & Compliance Audit Division

As required by Section __.315(c) of OMB Circular A-133, the Harrison 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, 2007:

<u>Finding</u>	<u>Corrective Action Plan Details</u>
07-1	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Elma Wilbanks, Business Manager, 228-539-6510</p> <p>b. Corrective Action Planned: The district will strengthen controls over financial reporting to ensure that financial statement accounts are properly stated.</p> <p>c. Anticipated Completion Date: The district expects to accomplish this with subsequent audits.</p>
07-2	<p>a. Name(s) of Contact Person(s) Responsible for Corrective Action: Elma Wilbanks, Business Manager, 228-539-6510</p> <p>b. Corrective Action Planned: The district will record the claims payable for construction contracts as of the date the work was done and properly include these transactions in the appropriate fiscal year of the district.</p> <p>c. Anticipated Completion Date: The district expects to accomplish this with all subsequent years.</p>

Harrison County School District

11072 Highway 49
Gulfport, MS 39503
228-539-6500

Henry A. Arledge
Superintendent

E. Mitchell King
Assistant Superintendent

- 07-3
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Elma Wilbanks; Business Manager, 228-539-6510
 - b. Corrective Action Planned:
The district will implement controls to ensure that all receivables occurring within the fiscal year are properly recorded in the financial statements of the district.
 - c. Anticipated Completion Date:
The district expects to accomplish this with all subsequent years.
- 07-4
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Elma Wilbanks, Business Manager, 228-539-6510
 - b. Corrective Action Planned:
We concur with your findings and will revise our system of cash receipts/revenue functions so that duties will be divided to the greatest possible extent.
 - c. Anticipated Completion Date:
The district has begun recording checks received before they are passed on for deposit and entry into the books and records and will seek to further segregate these functions.
- 07-5
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Mitchell King, Assistant Superintendent and Elma Wilbanks, Business Manager
 - b. Corrective Action Planned:
The district will contact all banks annually for a list of accounts using our tax identification number and advise them to remove clubs and organizations to using our tax identification number.
 - c. Anticipated Completion Date:
The district expects to continue this pattern.

Harrison County School District

11072 Highway 49
Gulfport, MS 39503
228-539-6500

Henry A. Arledge
Superintendent

E. Mitchell King
Assistant Superintendent

- 07-6
- a. Name(s) of Contact Person(s) Responsible for Corrective Action:
Elma Wilbanks, Business Manager, 228-539-6510
 - b. Corrective Action Planned:
The district will include in all adjustments involving payroll the appropriate fringe benefits.
 - c. Anticipated Completion Date:
The district expects to accomplish this with all subsequent years.

Sincerely yours,



Henry Arledge
Superintendent
Harrison County School District

