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**HOLLY SPRINGS SCHOOL DISTRICT  
HOLLY SPRINGS, MISSISSIPPI**

**AUDITED  
FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2007.**

**Dicky H. Sparks, P.C.  
Certified Public Accountant**

HOLLY SPRINGS SCHOOL DISTRICT  
 HOLLY SPRINGS, MISSISSIPPI  
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**DICKY H. SPARKS, P.C.**  
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**INDEPENDENT AUDITORS' REPORT**

Members of the Board  
Holly Springs School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District, Holly Springs, Mississippi, as of and for the year ended June 30, 2007, which collectively comprise the Holly Springs School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Holly Springs School District's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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.

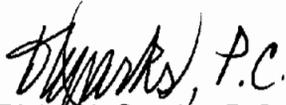
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Holly Springs School District, Holly Springs, Mississippi, as of June 30, 2007, and the respective changes in financial position where applicable, cash flows 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 a report dated June 27, 2008, on our consideration of the Holly Springs School District's internal control over financial reporting and on 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, and budgetary comparison information on pages 4 through 11 and 34 through 35, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consists principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Holly Springs School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements of the Holly Springs School District. The schedule of expenditures of federal awards 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.



Dicky H. Sparks, P.C.  
Certified Public Accountant  
June 27, 2008

***REQUIRED SUPPLEMENTARY INFORMATION***

**HOLLY SPRINGS SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

The discussion and analysis of Holly Springs School District's financial performance provides an overall narrative review of the School District's financial activities for the year ended June 30, 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 \$295,744, which represents 4.2% increase from fiscal year 2007. This increase can be primarily attributed to a decrease in long-term liabilities.
- General revenues account for \$11,362,300 in revenue, or 75.8% of all revenues. Program specific revenues in the form of charges for services and grants and contributions accounted for \$3,624,420 or 24.2% of total revenues.
- The District had \$14,690,976 in expenses; only \$3,624,420 of these expenses was offset by program specific charges for services, grants and contributions. General revenues of \$11,362,300 were adequate to provide for these programs.
- The only major fund, the General Fund had \$11,043,876 in revenues and \$10,489,632 in expenditures. The General Fund's fund balance decreased \$85,781 under the prior year. This decrease was primarily due to the purchase of two new school buses during the fiscal year.
- Capital assets, net of accumulated depreciation, decreased by \$65,508.
- Long-term debt decreased by \$399,574.

**OVERVIEW OF FINANCIAL STATEMENTS**

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

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

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

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

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

The government-wide financial statements can be found on pages 13 and 14 of this report.

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

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

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

governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are on pages 17 and 19, respectively, of this report.

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

The basic governmental fund financial statements can be found on pages 16-19 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the District. Fiduciary funds are not reflected in the government-wide financial statements because resources of those funds are not available to support the District's own programs. The accrual basis of accounting is used for fiduciary funds. The school district is responsible for ensuring that the assets reported in these funds are used for their intended purpose. The school district's fiduciary activities are presented in separate Statements of Fiduciary Net Assets on page 20.

**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. The notes to the financial statements can be found on pages 21 – 32 of this report.

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

The District adopts an annual operating budget for all governmental funds. A budgetary comparison statement has been provided for the General Fund. This required supplementary information can be found on pages 34 - 35 of this report.

Additionally, a schedule of expenditures of federal awards is required by OMB Cir. A-133 and a schedule of instructional, administrative and other expenditures for governmental funds can be found on pages 37 – 40, respectively, of 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 \$7,397,187 as of June 30, 2007.

By far the largest portion of the District's net assets (61.6%) reflects its investment in capital assets (e.g., land, buildings, building improvements, improvements other than buildings, mobile equipment, furniture and equipment, and construction in progress), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently these assets are not available for future spending.

The District's financial position is a product of several financial transactions including the net result of activities, the payment of debt, the acquisition 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, 2006 and 2007, respectively.

	Net Assets		Percentage
	June 30, 2007	June 30, 2006	Change
Current assets	\$ 3,428,460	\$ 3,372,459	1.7%
Capital assets, net	9,223,819	9,289,327	-0.7%
Total assets	<u>12,652,279</u>	<u>12,661,786</u>	-0.1%
Current liabilities	527,243	432,920	21.8%
Long-term debt outstanding	4,727,849	5,127,423	-7.8%
Total liabilities	<u>5,255,092</u>	<u>5,560,343</u>	-5.5%
Net assets:			
Invested in capital assets, net of related debt	4,558,819	4,219,327	8.0%
Restricted	329,458	285,317	15.5%
Unrestricted	<u>2,508,910</u>	<u>2,596,799</u>	-3.4%
Total net assets	\$ <u>7,397,187</u>	\$ <u>7,101,443</u>	4.2%

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

- The principal retirement of \$405,000 of long-term debt.
- The addition of \$280,898 in capital assets from the purchase of two school buses and construction in progress of two parking lot renovations.

**Changes in net assets.** The District's total revenues for the fiscal year ended June 30, 2007 were \$14,986,720. The total cost of all programs and services was \$14,690,976. The following table presents a summary of the changes in net assets for the fiscal years ending June 30, 2007 and 2006, respectively.

	Change in Net Assets		Percentage Change
	June 30, 2007	June 30, 2006	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 197,674	\$ 263,192	-24.9%
Operating grants and contributions	3,426,746	3,246,261	5.6%
General revenues:			
Property taxes	2,634,704	2,487,179	5.9%
Grants and contributions not restricted	8,623,682	8,278,555	4.2%
Other	103,914	131,346	-20.9%
<b>Total revenues</b>	<b>14,986,720</b>	<b>14,406,533</b>	<b>4.0%</b>
<b>Expenses:</b>			
Instruction	8,157,397	8,373,730	-2.6%
Support services	5,341,451	4,878,108	9.5%
Non-instructional	956,046	1,025,508	-6.8%
Interest and other expense on long-term liabilities	236,082	255,367	-7.6%
<b>Total expenses</b>	<b>14,690,976</b>	<b>14,532,713</b>	<b>1.1%</b>
<b>Increase (Decrease) in net assets</b>	<b>295,744</b>	<b>(126,180)</b>	<b>-334.4%</b>
<b>Net Assets, July 1</b>	<b>7,101,443</b>	<b>7,201,404</b>	<b>-1.4%</b>
<b>Prior Period Adjustment</b>	<b>-0-</b>	<b>26,219</b>	<b>-100.0%</b>
<b>Net Assets, July 1 Restate</b>	<b>7,101,443</b>	<b>7,227,623</b>	<b>-1.7%</b>
<b>Net Assets, June 30</b>	<b>\$ 7,397,187</b>	<b>\$ 7,101,443</b>	<b>4.2%</b>

The following is a significant current year transaction that had an impact on the Statement of Activities.

- The District received a Literacy Through School Libraries grant of \$203,255 which significantly impacted the amounts reported in operating grants and contributions and in support services.

**Governmental activities.** The following table presents the cost of four major District functional activities: instruction, support services, non-instructional, and other expenses on long-term debt for fiscal years ending June 30, 2007 and 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.

	2007		2006	
	Total Expenses	Net (Expense) Revenue	Total Expenses	Net (Expense) Revenue
Instruction	\$ 8,157,397	\$ (6,582,971)	\$ 8,373,730	\$ (6,649,915)
Support services	5,341,451	(3,833,439)	4,878,108	(3,971,861)
Non-instructional	956,046	(414,064)	1,025,508	(146,117)
Interest and other expenses on long-term liabilities	236,082	(236,082)	255,367	(255,367)
<b>Total expenses</b>	<b>\$ 14,690,976</b>	<b>\$ (11,066,556)</b>	<b>\$ 14,532,713</b>	<b>\$ (11,023,260)</b>

- Net cost of governmental activities (\$11,066,556), was financed by general revenue, which is made up of primarily property taxes (\$2,634,704) and state revenue (\$8,623,682).
- Investment earnings accounted for \$80,799 of funding.

#### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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

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

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$2,972,748, a decrease of \$33,159 due primarily to capital asset purchases. \$2,381,951 or 80.1% 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 \$590,797 or 19.9% is reserved or designated to indicate that it is not available for spending because it has already been committed. The areas of commitment are as follows:

Advances	\$ 7,834
Capital projects	\$ 11,099
Unemployment benefits	\$ 39,311
Inventory	\$ 20,197
Prepaid items	\$ 172,980
Debt service	\$ 254,337
Special revenue	\$ 85,039
Total assets	\$ <u>590,797</u>

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 \$85,781 a result of capital asset purchases and transfer out to the Building Renovation fund. The fund balance of Other Governmental Funds showed an increase due primarily to the Building Renovations fund which was created by the Board of Trustees to accumulate funds for future building renovation needs.

**BUDGETARY HIGHLIGHTS**

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

- Budget amounts for revenue from state sources were increased for the actual amount of add-on programs from Mississippi Adequate Education. The original budgeted amounts were underestimated.
- Budget amounts for revenue from federal sources were increased for reimbursements from E-rate, Medicaid administration, student progress monitoring systems, and Best Friends grant.
- Budget amounts for instruction were decreased because the estimated salaries of new teachers were overestimated and purchases for anticipated teaching materials were funded by other funds.
- Budget amounts for support services were decreased due the overestimation of utilities, insurance, transportation repairs, and gasoline purchases.

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 supplementary information.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets.** As of June 30, 2007, the District's total capital assets were \$13,889,684, including land, school buildings, buses, other school vehicles and furniture and equipment. This amount represents an increase of \$280,898 from the previous year. Total accumulated depreciation as of June 30, 2007 was \$4,665,865 and total depreciation expense for the year was \$346,406, resulting in total net assets of \$9,223,819.

Capital Assets, Net of Depreciation

	<u>2007</u>	<u>2006</u>	<u>Percentage Change</u>
Land	\$ 65,155	\$ 65,155	0.0%
Buildings	7,567,537	7,753,367	-2.4%
Construction in progress	130,172	-0-	100.0%
Building improvements	707,456	742,406	-4.7%
Improvements other than buildings	61,808	64,898	-4.8%
Mobile equipment	555,243	515,370	7.7%
Furniture and equipment	136,448	148,131	-7.9%
Totals	<u>\$ 9,223,819</u>	<u>\$ 9,289,327</u>	-0.7%

Additional information of the District's capital assets can be found in Note 4 on page 28 of this report.

**Debt Administration.** At June 30, 2007, the District had \$4,727,849 in general obligation bonds and other long-term debt outstanding, of which \$420,000 is due within one year.

	Outstanding Debt		Percentage Change
	2007	2006	
General obligation bonds payable	\$ 2,080,000	\$ 2,225,000	-6.5%
Limited obligation bonds payable	2,475,000	2,630,000	-5.9%
Three mill notes payable	110,000	215,000	-48.8%
Compensated absences payable	62,849	57,423	9.4%
<b>Total</b>	<b>\$ 4,727,849</b>	<b>\$ 5,127,423</b>	<b>-7.8%</b>

The District maintains an AAA/Stable bond rating with Standard & Poor's.

Additional information of the District's long-term debt can be found in Note 5 on pages 29 -31 of this report.

**CURRENT ISSUES**

The Holly Springs 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 millage has increased 1.5 mills over the past three years. In addition, the District system of financial planning, budgeting and internal financial controls are well regarded. The District plans to continue its sound fiscal management to meet the challenges of the future.

Latest enrollment figures indicate that student enrollment in the District will decline by an insignificant number of students. The budget for the next fiscal year has taken into account this reduction in both funding and staffing needs.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**HOLLY SPRINGS SCHOOL DISTRICT**  
**STATEMENT OF NET ASSETS**  
 JUNE 30, 2007

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,727,220
Cash with fiscal agent	99,005
Due from other governments	397,825
Other receivables, net	8,592
Inventories and prepaid items	193,177
Restricted assets	2,641
Capital assets, non-depreciable:	
Land	65,155
Construction in progress	130,172
Capital assets, net of accumulated depreciation:	
Buildings	7,567,537
Building improvements	707,456
Improvements other than buildings	61,808
Mobile equipment	555,243
Furniture and equipment	136,448
<b>Total Assets</b>	<b>12,652,279</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	433,379
Unearned revenue	22,333
Interest payable on long-term liabilities	71,531
Long-term liabilities:	
Due within one year:	
Notes and bonds payable	
Total due within one year	420,000
Due after one year:	
Notes and bonds payable	
Total due after one year	4,245,000
Non-capital related liabilities	62,849
<b>Total Liabilities</b>	<b>5,255,092</b>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	4,558,819
Restricted net assets:	
Expendable:	
School-based activities	107,341
Debt service	182,806
Unemployment Benefits	39,311
Unrestricted	2,508,910
<b>Total Net Assets</b>	<b>\$ 7,397,187</b>

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

EXHIBIT B

HOLLY SPRINGS SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 8,157,397	\$ 125,385	\$ 1,449,041	\$ (6,582,971)
Support services	5,341,451	23,664	1,484,348	(3,833,439)
Non-instructional	956,046	48,625	493,357	(414,064)
Interest on long-term liabilities	236,082			(236,082)
Total governmental activities	\$ 14,690,976	\$ 197,674	\$ 3,426,746	\$ (11,066,556)
General revenues:				
Taxes:				
General purpose levies				\$ 2,324,348
Debt purpose levies				310,356
Unrestricted grants and contributions:				
State				8,481,428
Federal				142,254
Unrestricted investment earnings				80,799
Other				23,115
Total general revenues				11,362,300
Change in net assets				295,744
Total net assets - beginning of year				7,101,443
Total net assets - end of year				\$ 7,397,187

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

**FUND FINANCIAL STATEMENTS**

**HOLLY SPRINGS SCHOOL DISTRICT**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

	<u>Major Fund</u>	Other Governmental Funds	Total Governmental Funds
	General Fund		
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,499,484	329,382	\$ 2,828,866
Due from other governments	160,587	237,239	397,826
Other receivables, net	3,348	4,136	7,484
Due from other funds	117,914	19,222	137,136
Advance to other funds	7,834		7,834
Inventories and prepaid items	170,875	22,302	193,177
<b>Total Assets</b>	<u>2,960,042</u>	<u>612,281</u>	<u>3,572,323</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payables and accrued liabilities	373,758	57,210	430,968
Due to other funds	14,525	123,915	138,440
Advances from other funds		7,834	7,834
Unearned revenue		22,333	22,333
<b>Total Liabilities</b>	<u>388,283</u>	<u>211,292</u>	<u>599,575</u>
<b>Fund Balances:</b>			
Reserved for:			
Advances	7,834		7,834
Capital projects	11,099		11,099
Unemployment benefits		39,311	39,311
Inventory		20,197	20,197
Prepaid items	170,875	2,105	172,980
Debt service		254,337	254,337
Unreserved:			
Designated for, reported in:			
Special revenue funds		85,039	85,039
Undesignated, reported in:			
General fund	2,381,951		2,381,951
<b>Total Fund Balances</b>	<u>2,571,759</u>	<u>400,989</u>	<u>2,972,748</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 2,960,042</u>	<u>612,281</u>	<u>\$ 3,572,323</u>

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

**HOLLY SPRINGS SCHOOL DISTRICT**  
**RECONCILIATION OF BALANCE SHEET - GOVERNMENTAL FUNDS TO**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

Total Fund Balance - Governmental Funds \$ 2,972,748

Amounts reported for governmental activities and are not financial resources and therefore are not reported in the funds:

Capital Assets	13,889,684	
Less Accumulated Depreciation	<u>(4,665,865)</u>	9,223,819

Long-term liabilities and accrued interest payable are not due and payable in the current period and therefore are not reported in the funds:

Long-term liabilities	(4,727,849)	
Accrued interest payable	<u>(71,531)</u>	<u>(4,799,380)</u>

Total Net Assets - Governmental Activities \$ 7,397,187

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

**HOLLY SPRINGS SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Major Fund</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Other Governmental Funds</u>	
<b>REVENUES</b>			
Local Sources	\$ 2,559,678	376,972	\$ 2,936,650
State sources	8,236,549	653,441	8,889,990
Federal source	247,649	2,934,338	3,181,987
<b>Total Revenue</b>	<u>11,043,876</u>	<u>3,964,751</u>	<u>15,008,627</u>
<b>EXPENDITURES</b>			
Instruction	6,143,902	1,692,250	7,836,152
Support services	4,345,262	1,259,064	5,604,326
Non-instructional services	468	932,717	933,185
Debt Services			
Principal		405,000	405,000
Interest		237,606	237,606
Other		3,611	3,611
<b>Total Expenditures</b>	<u>10,489,632</u>	<u>4,530,248</u>	<u>15,019,880</u>
Excess (Deficiency) of revenues over expenditures	554,244	(565,497)	(11,253)
<b>OTHER FINANCING SOURCES (USES)</b>			
Operating Transfers In	44,632	681,339	725,971
Operating Transfers Out	(681,339)	(44,632)	(725,971)
Miscellaneous Other Uses	(3,318)	(18,589)	(21,907)
<b>Total Other Financing Sources</b>	<u>(640,025)</u>	<u>618,118</u>	<u>(21,907)</u>
<b>Net change in Fund Balance</b>	(85,781)	52,621	(33,160)
<b>Net Change in Fund Balances</b>			
<b>Fund Balance - Beginning</b>	2,654,222	361,983	3,016,205
Decrease in reserve for inventory		(10,297)	(10,297)
Residual equity transfers in (out)	3,318	(3,318)	
<b>Fund Balance - Ending</b>	<u>\$ 2,571,759</u>	<u>400,989</u>	<u>\$ 2,972,748</u>

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

**HOLLY SPRINGS SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,**  
**EXPENDITURES AND CHANGES IN FUND BALANCES TO STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	<u>Amount</u>
Net Change in Fund Balances - Governmental Funds	\$ (33,159)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation to allocate those expenditures over the depreciation expense amounted to \$346,406.	(65,508)
Payment of principal of long-term liabilities is reported as an expenditure in the governmental funds, but the payment reduces long-term liabilities in the Statement of Net Assets.	405,000
Governmental funds report interest on long-term debt when due, whereas the Statement of Activities recognizes it as it accrues, regardless of when the financial resources are available. Accrued interest at year end was \$71,531 which is a decrease from last year.	5,135
Governmental funds do not recognize transactions that are not normally paid with expendable available resources. The Statement of Activities reports expenses and liabilities regardless of when financial resources are available. Compensated absences increased to \$62,849.	(5,426)
Decreases in inventory are reported as an adjustment to fund balance in the governmental funds, but non-instructional expenditures are increased in the Statement of Activities.	(10,298)
Change in Net Assets of Governmental Activities	\$ 295,744

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

**HOLLY SPRINGS SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET ASSETS**  
JUNE 30, 2007

	<u>Agency Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 717,123
Due from other governments	
Other receivables	244
Due from other funds	<u>2,411</u>
<b>Total Assets</b>	<b><u>\$ 719,778</u></b>
<b>LIABILITIES</b>	
Accounts payable and accrued liabilities	\$ 678,260
Due to student clubs	40,411
Due to other funds	<u>1,107</u>
<b>Total Liabilities</b>	<b><u>\$ 719,778</u></b>

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

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 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 an "other stand-alone government." The school district is a related organization of, but not a component unit of, the city of Holly Springs since the governing authority of the city selects a majority of the school district's board but does not have financial accountability for the school district.

B. Basis of Presentation.

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

*Government-wide Financial Statements:*

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

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

*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.

**HOLLY SPRINGS 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 fund:

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.

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

Additionally, the school district reports the following fund types:

**GOVERNMENTAL FUNDS**

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

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

**FIDUCIARY FUND**

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.

**HOLLY SPRINGS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

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 maintained to account for commitments resulting from purchase orders, work orders, and contracts during the fiscal year. However, the school district attempts to liquidate all encumbrances at year-end. Encumbrances outstanding at year-end are/are not reported as reservations of fund balances since they do not constitute expenditures or liabilities.

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 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.

**HOLLY SPRINGS 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.

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

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

See Note 4 for details.

**J. Long-term Liabilities.**

Long-term liabilities are the unmatured principal of bonds, warrants, notes, or other forms of noncurrent or long-term general obligation indebtedness. Long-term liabilities are not limited to liabilities from debt issuances, but may also include liabilities on lease-purchase agreements and other commitments. In the government-wide Statement of Net Assets, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column. See Note 5 for details.

**K. Interfund Transactions and Balances.**

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

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

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

Interfund receivables and payables between funds within governmental activities are eliminated in the Statement of Net Assets. See Note 3 for details for interfund transactions, including receivables and payables at year-end.

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

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

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

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

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

M. Property Taxes.

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

N. Mississippi Adequate Education Program Revenues.

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

O. Compensated Absences.

Employees of the school district accumulate sick leave at a minimum amount as required by state law or at a greater amount provided by school district policy. 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, Cash with Fiscal Agents, and Investments.

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

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

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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.

**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 \$2,828,866 and \$717,123, respectively. The carrying amount of deposits reported in the government-wide financial statements was: cash and cash equivalents - \$2,727,220 and restricted assets - \$101,646.

*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 \$3,872,687 was exposed to custodial credit risk.

**Cash with Fiscal Agents.**

The carrying amount of school district's cash with fiscal agents held by financial institutions was \$99,005.

(3) **Interfund Transactions and Balances.**

The following is a summary of interfund transactions and balances:

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

	Due From	Due To
Governmental Funds:		
General Fund	\$ 117,914	\$ 14,525
Other governmental funds	19,222	123,915
Total	137,136	138,440
Fiduciary Funds	2,411	1,107
Total	\$ 139,547	\$ 139,547

**B. Advances To/From Other Funds.**

	Advances To	Advances From
Governmental Funds:		
General Fund	\$ 7,834	\$
Other governmental fund	-----	7,834
Total	\$ 7,834	\$ 7,834

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

**HOLLY SPRINGS SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

C. Transfers In/Out.

	Transfer In	Transfers Out
Governmental Funds:		
General Fund	\$ 44,632	\$ 681,339
Other governmental funds	681,339	44,632
Total	\$ 725,971	\$ 725,971

The principal purpose of Interfund transfers was to provide funds for daily operations. All interfund transfers were routine and consistent with the activities of the fund making the transfer,

(4) Capital Assets.

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

	Balance 7-1-2006	Additions	Retirements	Balance 6-30-2007
<u>Non-depreciable capital assets:</u>				
Land	\$ 65,155			\$ 65,155
Construction in progress		130,172		130,172
Total non-depreciable capital assets	65,155	130,172		195,327
<u>Depreciable capital assets:</u>				
Buildings	10,574,905			10,574,905
Building improvements	873,756			873,756
Improvements other				
Than buildings	77,259			77,259
Mobile equipment	1,377,676	127,000		1,504,676
Furniture and equipment	640,035	23,726		663,761
Total depreciable capital assets	13,543,631	150,726		13,694,357
<u>Less accumulated depreciation for:</u>				
Buildings	2,821,538	185,830		3,007,368
Building improvements	131,350	34,950		166,300
Improvements other				
Than buildings	12,361	3,090		15,451
Mobile equipment	862,306	87,127		949,433
Furniture and equipment	491,904	35,409		527,313
Total accumulated depreciation	4,319,459	346,406		4,665,865
Total depreciable capital assets, net	9,224,172	(195,680)		9,028,492
Governmental activities capital assets, net	\$ 9,289,327	(65,508)		\$ 9,223,819

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

Depreciation expense was charged to the following governmental functions:

	Amount
Instruction	\$ 320,015
Support services	14,938
Non-instructional	11,453
<b>Total Depreciation Expense</b>	<b>\$ 346,406</b>

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

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

	Remaining Commitment	Required Future Financing
Parking Lot Renovations	\$ 17,040	\$ 0
<b>Total</b>	<b>\$ 17,040</b>	<b>\$ 0</b>

(5) Long-term Liabilities.

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

	Balance 7-1-2006	Additions	Reductions	Balance 6-30-2007	Amounts due Within one Year
A. General obligation bonds payable	\$ 2,225,000		145,000	2,080,000	\$ 150,000
B. Limited obligation bonds payable	2,630,000		155,000	2,475,000	160,000
C. Three mill notes payable	215,000		105,000	110,000	110,000
D. Compensated absences payable	57,423	5,426		62,849	
<b>Total</b>	<b>\$ 5,127,423</b>	<b>5,426</b>	<b>405,000</b>	<b>4,727,849</b>	<b>\$ 420,000</b>

General obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
1998 general obligation bonds	4.5 – 5.25%	6/01/1998	6/01/2018	\$ 3,150,000	\$ 2,080,000
<b>Total</b>				<b>\$ 3,150,000</b>	<b>\$ 2,080,000</b>

**HOLLY SPRINGS 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	Total
2008	\$ 150,000	98,018	\$ 248,018
2009	155,000	90,142	245,142
2010	165,000	82,858	247,858
2011	170,000	75,020	245,020
2012	180,000	66,860	246,860
2013 - 2017	1,025,000	198,050	1,223,050
2018 - 2022	235,000	10,575	245,575
Total	\$ <u>2,080,000</u>	<u>621,523</u>	\$ <u>2,701,523</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 4% of property assessments as of October 1, 2006. This debt will be retired from the Debt Service General Obligation Bond Fund

B. Limited obligation bonds payable.

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

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
State aid capital improvement	4.5 – 6.0%	02/01/1998	02/01/2018	3,355,000	2,475,000
Total				\$ <u>3,355,000</u>	\$ <u>2,475,000</u>

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

Year Ending June 30	Principal	Interest	Total
2008	\$ 160,000	111,313	\$ 271,313
2009	170,000	101,518	271,518
2010	175,000	92,588	267,588
2011	180,000	84,600	264,600
2012	190,000	76,275	266,275
2013 - 2017	1,085,000	243,113	1,328,113
2018 - 2022	515,000	17,550	532,550
Total	\$ <u>2,475,000</u>	<u>726,957</u>	\$ <u>3,201,957</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

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

Accountability and Adequate Education Program Act, Sections 37-151-1 through 37-151-7, Miss. Code Ann. (1972). The state aid capital improvement bonds are not included in the computation of the debt limit percentage. This debt will be retired from the MAEP Bonds 1998 Debt Service Fund.

C. Three mill notes payable.

Debt currently outstanding is as follows:

Description	Interest Rate	Issue Date	Maturity Date	Amount Issued	Amount Outstanding
Limited tax notes 1998	4.71%	05/15/1998	05/15/2008	\$ 900,000	110,000
Total				\$ 900,000	110,000

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

Year Ending June 30	Principal	Interest	Total
2008	110,000	5,181	115,181
Total	\$ 110,000	5,181	115,181

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

E. 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.

(6) Defined Benefit Pension Plan.

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

**Funding Policy.** PERS members are required to contribute 7.25% of their annual covered salary, and the school district is required to contribute at an actuarially determined rate. The rate for fiscal year 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 \$926,937, \$853,410 and \$769,386, respectively, which equaled the required contributions for each year.

**HOLLY SPRINGS SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

(7) Other Commitments.

Commitments under construction contracts are described in Note 4.

(8) Risk Management.

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

Participation in Public Entity Risk Pool.

The school district is a member of the Mississippi Public Entity Workers' Compensation Trust (MPEWCT). The trust is a risk-sharing pool; such a pool is frequently referred to as a self-insurance pool. The trust 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 MPEWCT contributes quarterly to a fund held in trust. The funds in the trust account are used to pay any claim up to \$1,000,000. For a claim exceeding \$1,000,000, MPEWCT 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.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HOLLY SPRINGS SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE FOR GENERAL AND MAJOR FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

General Fund	Budgeted Amounts			Variances	
	Original	Final	Actual (GAAP Basis)	Original to Final	Final to Actual
<b>Revenue</b>					
Local sources	\$ 2,496,697	\$ 2,559,679	\$ 2,559,679	62,982	\$
Intermediate sources					
State sources	8,078,149	8,236,549	8,236,549	158,400	
Federal sources	99,168	247,650	247,650	148,482	
Sixteenth section sources					
<b>Total Revenue</b>	<u>10,674,014</u>	<u>11,043,878</u>	<u>11,043,878</u>	<u>369,864</u>	
<b>Expenditures</b>					
Instruction	6,427,316	6,143,904	6,143,904	283,412	
Support services	4,563,559	4,345,262	4,345,262	218,297	
Noninstructional services		468	468	(468)	
Sixteenth Section					
Facilities acquisition and					
Debt service					
Principal					
Interest					
Advance refunding escrow					
Other debt service					
<b>Total Expenditures</b>	<u>10,990,875</u>	<u>10,489,634</u>	<u>10,489,634</u>	<u>501,241</u>	
Excess (Deficiency) of revenues over expenditures	<u>(316,861)</u>	<u>554,244</u>	<u>554,244</u>	<u>871,105</u>	
<b>Other Financing Sources (Uses)</b>					
Proceeds of General obligation					
Proceeds of refunding bonds					
Proceeds of loans					
Inception of capital leases					
Insurance loss recoveries					
Sale of transportation equipment					
Sale of other property					
Operating transfers in	70,577	44,632	44,632	(25,945)	
Other financing sources					
Operating transfer out	(643,284)	(681,339)	(681,339)	(38,055)	
Payment to refunded bond					
Other financing uses		(3,318)	(3,318)	(3,318)	
<b>Total Other Financing Sources</b>	<u>(572,707)</u>	<u>(640,025)</u>	<u>(640,025)</u>	<u>(67,318)</u>	
Special items					
Extraordinary items					
<b>Net Change in Fund Balance</b>	<u>(889,568)</u>	<u>(85,781)</u>	<u>(85,781)</u>	<u>803,787</u>	
<b>Fund Balances</b>					
July 1, 2006	2,654,222	2,654,222	2,654,222		
Prior period adjustments					
July 1, 2006, as restated	<u>2,654,222</u>	<u>2,654,222</u>	<u>2,654,222</u>		
Increase (Decrease) in reserve for Residual equity transfer in (out)		3,318	3,318	3,318	
June 30, 2007	<u>\$ 1,764,654</u>	<u>2,571,759</u>	<u>2,571,759</u>	<u>807,105</u>	\$

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

**HOLLY SPRINGS SCHOOL DISTRICT**  
**NOTES TO REQUIRED SUPPLEMENTARY 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.

**SUPPLEMENTARY INFORMATION**

**HOLLY SPRINGS 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
<b>U.S. Department of Agriculture</b>		
Passed-through Mississippi Department of Education:		
Non-cash assistance:		
Food donation	10.550	\$ <u>14,663</u>
Child Nutrition Cluster:		
School breakfast program	10.553	208,595
National school lunch program	10.555	608,271
Summer food service program for children	10.559	<u>13,814</u>
Total child nutrition cluster		<u>830,680</u>
Total passed-through MDE		<u>845,343</u>
<b>Total U.S. Department of Agriculture</b>		<u>845,343</u>
<b>U.S. Department of Education</b>		
Direct program		
Twenty-first century community learning centers	84.287	118,937
Literacy through school libraries	84.364	<u>203,255</u>
Total direct from U.S. Department of Education		<u>322,192</u>
Passed-through Mississippi Department of Education:		
Special Education Cluster		
Special education - grants to states	84.027	520,535
Special education - preschool grants	84.173	<u>41,860</u>
Total		562,395
Title I grants to local educational agencies	84.010	881,546
Vocational education - basic grants to states	84.048	31,372
State grants for innovative programs	84.298	8,570
Safe and drug-free schools and communities - state grants	84.186	25,714
Education technology state grants	84.318	18,084
Rural education	84.358	3,259
Improving teacher quality - state grants	84.367	239,001
Grants for state assessments and related activities	84.369	11,066
Hurricane education recovery	84.938	37,570
Total passed-through Mississippi Department of Education		<u>1,818,577</u>
<b>Total U.S. Department of Education</b>		<u>2,140,769</u>

**HOLLY SPRINGS 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
<b>U.S. Department of Health and Human Services</b>		
Passed-through Mississippi Department of Education:		
Community based abstinence education	93.010	7,827
Medical assistance program	93.778	<u>48,560</u>
Total passed-through MDE		<u>56,387</u>
<b>Total U.S. Department of Health and Human Services</b>		<u>56,387</u>
<b>Federal Communications Commission</b>		
Administered through the Universal Service Administration Company		
The schools and libraries program of the universal service func	32.XXX	<u>47,153</u>
<b>Total Federal Communications Commission</b>		<u>47,153</u>
<b>U.S. Department of Defense</b>		
Direct program:		
Reserve officers' training corps	12.XXX	<u>45,794</u>
<b>Total U.S. Department of Defense</b>		<u>45,794</u>
<b>Total for All Federal Awards</b>		<u>\$ 3,135,446</u>
<b>TVA in-lieu of taxes</b>		<u>46,541</u>
<b>Total reported federal revenues</b>		<u>\$ 3,181,987</u>

**HOLLY SPRINGS SCHOOL DISTRICT**  
**NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 1: BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Holly Springs School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the presentation of, the financial statements.

**NOTE 2: NON-CASH ASSISTANCE**

The Holly Springs School District is the recipient of certain non-cash assistance in the form of donated commodities received from the U.S. Department of Agriculture. Revenues and expenditures are recorded for the value of commodities received. In addition, the Holly Springs School District may receive certain other non-cash assistance from the State of Mississippi.

**NOTE 3: OTHER**

The expenditure amounts include transfers out. The pass-through entities did not assign identifying numbers to the school district.

**Holly Springs School District**  
**SCHEDULE OF INSTRUCTIONAL, ADMINISTRATIVE, AND OTHER EXPENDITURES - GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 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	\$ 11,154,183	8,455,110	530,749	814,431	\$ 1,353,893
Other	\$ 3,865,697	1,112,584	162,215	19,270	\$ 2,571,628
Total	<u>\$ 15,019,880</u>	<u>9,567,694</u>	<u>692,964</u>	<u>833,701</u>	<u>\$ 3,925,521</u>
Total number of students	1,602				
Cost per student	<u>\$ 9,376</u>	<u>5,972</u>	<u>433</u>	<u>520</u>	<u>\$ 2,450</u>

**Instruction** - includes the activities dealing directly with the interaction between teachers and students. Included here are the activities of teachers, teachers aides or classroom assistants of any type. (all the 1000, 2100, & 2200 function 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 functions: Support Services - School Administration (2400s).

**Other** - Includes all expenditure functions not included in Instruction and Administrative

***ADDITIONAL INFORMATION***

**DICKY H. SPARKS, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**

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

The Board  
Holly Springs School District  
Holly Springs, Mississippi

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Holly Springs School District, Holly Springs, Mississippi, as of and for the year ended June 30, 2007, which collectively comprise the Holly Springs School District, Holly Springs, Mississippi's basic financial statements and have issued our report thereon, dated June 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the entity's ability to initiate, record, process, or report financial data reliability 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.

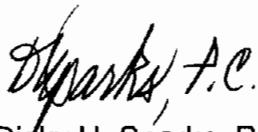
A *material weakness* is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

#### Compliance and Other Matters

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

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.



Dicky H. Sparks, P.C.  
Certified Public Accountant  
June 27, 2008

**DICKY H. SPARKS, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**

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**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

The Board  
Holly Springs School District  
Holly Springs, Mississippi 38635

**Compliance**

We have audited the compliance of the Holly Springs School District, Holly Springs, Mississippi, with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. The Holly Springs School District's major federal programs are identified in the summary of auditors' 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 Holly Springs School District's management. Our responsibility is to express an opinion on Holly Springs 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 Holly Springs 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 Holly Springs School District's compliance with those requirements.

In our opinion, Holly Springs School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2.

In our opinion, Holly Springs School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are described in the accompanying schedule of findings and questioned costs as items 2007-1 and 2007-2.

### **Internal Control over Compliance**

The management of the Holly Springs School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Holly Springs 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 Holly Springs 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 combination of control deficiencies, that adversely affect 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. We considered the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as findings, 2007-1 and 2007-2 to be significant deficiencies.

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. We did not consider any of the deficiencies described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses.

Holly Springs School District's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Holly Springs School District's responses and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, 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.

  
Dicky H. Sparks, P.C.  
Certified Public Accountant  
June 27, 2008

**DICKY H. SPARKS, P.C.**  
**CERTIFIED PUBLIC ACCOUNTANT**

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

Superintendent and School Board  
Holly Springs School District

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Holly Springs School District as of and for the year ended June 30, 2007, which collectively comprise Holly Springs School District's basic financial statements and have issued our report thereon dated June 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Section 37-9-18(3)(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 \$15,862 of classroom supply funds carried over from previous years.

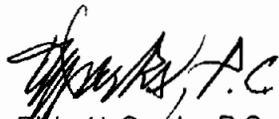
Section 37-9-18(3)(b), Miss. Code Ann. (1972), states in part, "the auditor shall test to insure correct and appropriate coding at the function level. The audit must include a report showing the correct and appropriate functional level expenditure codes in expenditures by the school district."

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 in appropriate functional level expenditure coding.

As required by the state legal compliance audit program prescribed 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 to test compliance with certain other state laws and regulations and our audit of the financial statements did not disclose any instances of noncompliance with other state laws and regulations.

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.



Dicky H. Sparks, P.C.  
Certified Public Accountant  
June 28, 2007

**HOLLY SPRINGS SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Section 1: Summary of Auditors' Results**

Financial Statements:

- |    |  |               |
|----|--|---------------|
| 1. | Type of auditors' report issued on the financial statements:                                   | Unqualified   |
| 2. | Material noncompliance relating to the financial statements:                                   | No            |
| 3. | Internal control over financial reporting:   |               |
|    | a. Material weakness(es) identified:   | No            |
|    | b. Significant deficiency(ies) identified that are not considered to be material weakness(es)? | None Reported |

Federal Awards:

- |     |   |             |
|-----|---|-------------|
| 4.  | Type of auditors' report issued on compliance for major Federal programs:   | Unqualified |
| 5.  | Internal control over major programs:   |             |
|     | a. Material weakness(es) identified?  | No          |
|     | b. Significant deficiency(ies) identified that are not considered to be material weakness(es)?  | Yes         |
| 6.  | Any audit finding(s) reported as required by Section ____ .510(a) of Circular A-133?  | Yes         |
| 7.  | Federal Programs identified as major programs:  |             |
|     | a. Child Nutrition Cluster  |             |
|     | CFDA# 10.553      School Breakfast Program  |             |
|     | CFDA# 10.555      National School Lunch Program   |             |
|     | CFDA# 10.559      Summer Food Service Program for Children  |             |
|     | b. Title I Grants to Local Educational Agencies   |             |
|     | CFDA# 10.559  |             |
| 8.  | The dollar threshold used to distinguish between type A and type B Programs:  | \$300,000   |
| 9.  | Auditee qualified as a low risk auditee?  | No          |
| 10. | Prior fiscal year audit finding(s) and questioned cost relative to federal awards which would require the auditee to prepare a summary schedule of prior audit findings as discussed in Section ____ .315(b) of OMB Circular A-133? | Yes         |

**HOLLY SPRINGS SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Section 2: Financial Statement Findings:**

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

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

**U.S. Department of Agriculture  
Passed-through Mississippi Department of Education**

2007-1. School Breakfast Program, CFDA # 10.553, National School Lunch Program, CFDA # 10.555, and Summer Food Service Program for Children, CFDA# 10.559.

Significant deficiency – not considered a material weakness.

Condition: The school district does not have an adequate segregation of duties among the accounting functions of the child nutrition program.

Compliance Requirement: Reporting and special tests and provisions.

Criteria: Internal control should be in place to ensure a segregation of duties among the accounting functions.

Effect: The lack of segregation of duties could result in misappropriation of funds that would not be timely discovered.

Recommendation: The school district should have a segregation of duties among the accounting functions; however, we recognize that the expense of acquiring the additional employees might be prohibitive. Management should periodically review accounting functions to compensate for the lack of segregation of duties.

2007-2. School Breakfast Program, CFDA # 10.553, National School Lunch Program, CFDA # 10.555, and Summer Food Service Program for Children, CFDA# 10.559.

Significant deficiency – not considered a material weakness.

Condition: The absence of management oversight with regards to controls surrounding food costs.

Compliance Requirement: Reporting and special tests and provisions.

Criteria: Management should review the child nutrition program policies and procedures for food purchases.

Effect: The lack of oversight or review from management could result in misappropriation of funds that would not be timely discovered.

Recommendation: Management should periodically review accounting functions to compensate for the lack of segregation of duties.



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

**AUDITEE'S CORRECTIVE ACTION PLAN**

As required by Section \_\_.315(b) of OMB Circular A-133, the Holly Springs School District has prepared and hereby submits the following corrective action plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended June 30, 2007:

<b><u>Finding</u></b>	<b><u>Corrective Action Plan Details</u></b>
2007-1.	<p>a. Name of Contact Person Responsible for Corrective Action Frederick Prowell, Food Service Director</p> <p>b. Corrective Action Planned The food service director will develop and institute an adequate internal control system which assures segregation of accounting duties.</p> <p>c. Anticipated Completion Date We anticipate the internal control system to be operating by August 1, 2008.</p>
2007-2.	<p>a. Name of Contact Person Responsible for Corrective Action Frederick Prowell, Food Service Director</p> <p>b. Corrective Action Planned The food service director will receive additional training to enhance his ability to monitor and manage the food service operations.</p> <p>c. Anticipated Completion Date This training will be an on-going process with intensive in-house training to begin immediately.</p>

Sincerely yours,

Beverly S. Thompson, CPA  
Business Manager

Irene Walton  
Superintendent